EBOOK

Managing Operational Risk

Delivering Collaboration, Accountability, and Transparency in the Investment Lifecycle

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phundex

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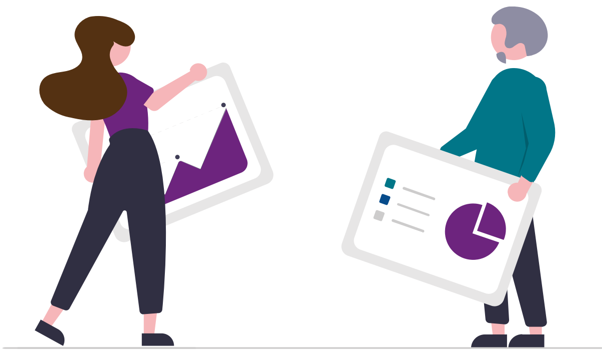


Introduction

One of the most substantial risks that participants in the investment lifecycle can face – including issuers, advisors, administrators, and investors – is operational risk.

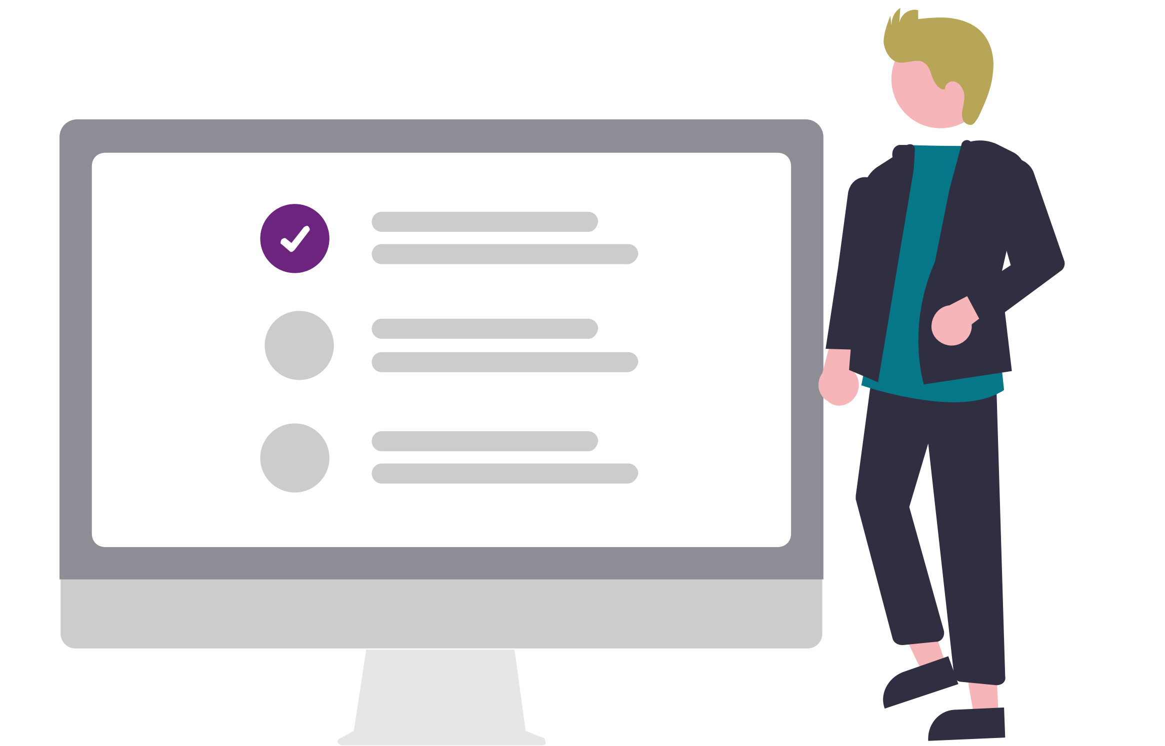
The classic definition of operational risk was written by the Basel Committee on Banking Supervision, an international committee of senior banking regulators. It says operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk.

This definition should raise red flags. Within the investment lifecycle, a wide range of essential inputs need to be processed by individuals each day – and getting this right is the basis of strategic success. For example, the due diligence process has complex and confidential interdependencies, with mistakes costing time and money. Making informed decisions usually involves receiving materials from many different subject matter experts (SMEs) within a specific time frame. Failing to coordinate this assessment process – so that the correct SMEs are contacted, their analyses are received, and follow up questions are addressed – can lead to poor decision-making and lost opportunities. This is a classic case of operational risk in action – with potential people and process breakdowns – and their consequences.

This white paper will explore five key sources of operational risk for the key participants in the investment lifecycle – issuers, advisors, administrators, and investors. It will also discuss how the Phundex technology platform can help reduce operational risk through enhancing collaboration, accountability, and transparency.

Operational risk in the investment lifecycle

Operational risk may seem like a technical term, but the reality is that it can emerge from the simplest of human mistakes. A missing file, an overlooked email, or an incomplete process can quickly develop from an annoyance to a significant event that can lead to financial loss, cause compliance failure, and ensure that the organisation cannot meet its strategic goals. There are five key sources of operational risk across the investment lifecycle.



Five Key Areas of Operational Risk

1

Implications of Manual Processes: Manual Processes reduce collaboration & can lead to mistakes and omissions

2

Issues arising from poor data governance Poor data governance around investment processes can create data confidentiality and transparency issues

3

The complexity of regulatory obligations: The complexity of regulatory obligations, particularly cross-border- makes compliance challenging across the whole investment lifecycle

4

Lack of coordination leads to gaps: Coordination across multiple stakeholders - often in different jurisdictions and time zones - can lead to collaboration and accountability gaps

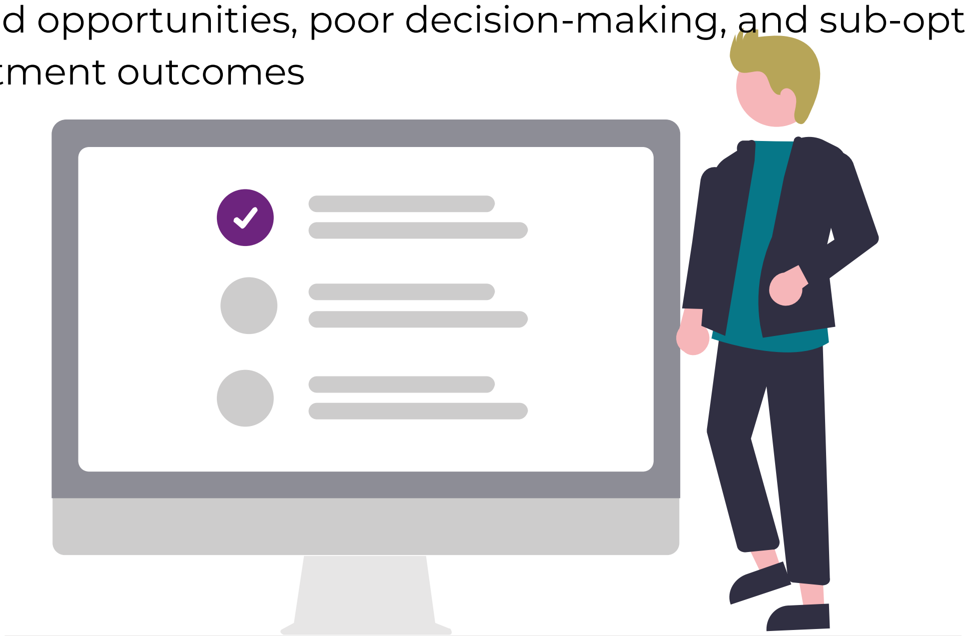
5

Lack of Transparency leads to accountability failures: Contractual relationships with third parties can lack transparency and lead to accountability failures if they are not managed properly

Implications of Manual Processes

1 Manual Processes reduce collaboration leading to mistakes and omissions

Although the days of paper and filing cabinets are long gone, many participants in the investment lifecycle still manage their processes in ways that are simply electronic versions of their old, paper-based methods. Emails chasing project requirements can be hard to track and manage, while documents and spreadsheets are “filed” on shared drives or in cloud folders. As a result, operational risks remain or are even made worse. Correspondence is overlooked or goes missing. Documents are misplaced, left on someone’s laptop when they leave the business or lack version control. Spreadsheets are not properly tracked. The outcome is the same – operational risk manifests itself. Time and resources need to be spent to put the situation right, and in time-sensitive situations, this can lead to missed opportunities, poor decision-making, and sub-optimal investment outcomes

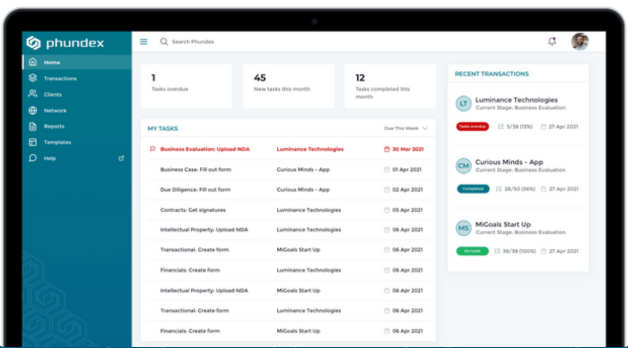


Issues from poor data governance

2 Poor data governance can create confidentiality and transparency issues

Today, data governance is of growing importance for firms of all kinds, and this trend is being supported by financial services regulators. Data governance means knowing how data was created, who created it, where it is stored, who owns it, how it's being used, what restrictions there may be on its use, and other essential points. Restrictions can apply to sensitive or confidential documents, or documents with personal data. Across a single investment lifecycle, there can be thousands of documents – and these documents contain data.

Many issuers, advisors, administrators, and investors do not have proper data governance processes around the documents they have. For example, they may keep documents in a wide range of different locations, and no accountability for them or transparency around who owns them. Permissions may not be adequate, so that individuals can access materials that they should not be able to. Or conversely, individuals cannot get into documents that they need to do their jobs, wasting time and resources. This can create significant operational risk, particularly in legal and regulatory areas.



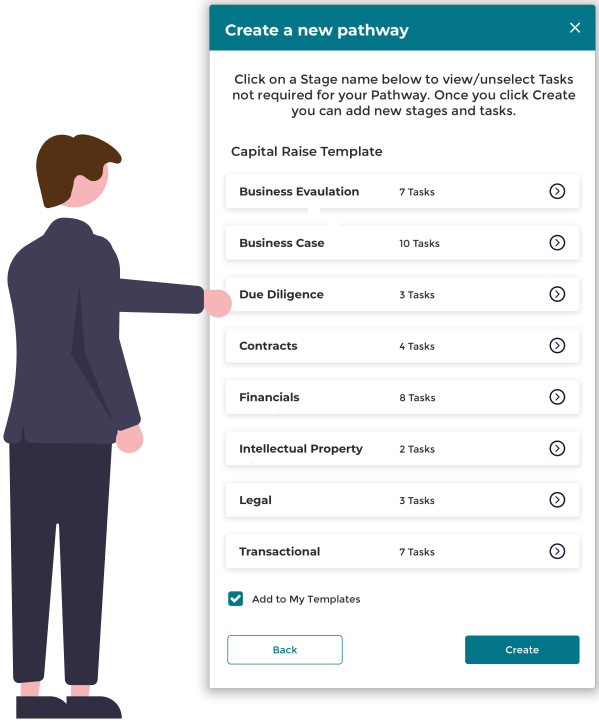
Regulatory obligations

3 The complexity of regulatory obligations makes compliance challenging

Over the past few years, the pace of regulatory change has been accelerating. Today, issuers, advisors, administrators, and investors must meet a growing volume of compliance obligations across the investment lifecycle. Adding to the complexity is that these obligations can often differ in important ways between jurisdictions.

Regulatory reporting, producing materials for a regulatory exam, or other compliance requirements can be challenging if critical documents or audited versions are unavailable. Moreover, remembering to chase the accountable individuals manually for compliance requirements – and having individuals remember to complete them – is fraught with the potential for process breakdown.

This can lead to various operational risks, such as missed deadlines, an inability to support a process narrative for a regulator, or even outright compliance failures. Also, managing regulatory change manually can be very difficult, as often existing processes need to be more transparent, so making adjustments can be time and resource intensive.



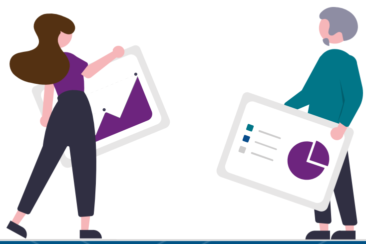
Lack of coordination leads to gaps

4 Poor communication with multiple stakeholders leads to collaboration and accountability gaps

There can be a lot of spinning plates at key points in the investment lifecycle, with multiple stakeholders and complex processes to follow. For an organisation to meet its strategic goals, effective collaboration is essential.

Chasing for documents, signatures to contracts, SME input and other necessary elements of the investment lifecycle can be a thankless task, particularly if it is across different time zones and a variety of locations around the globe. Having the team spending time chasing for materials or for the completion of other investment lifecycle activities is a waste of resources – these team members could be devoting that time and attention to activities that are far more value-generating for the organisation.

Improving the ability of team members to collaborate – and by making accountability more transparent – by automating basic tasks such as reminders, and being able to assign responsibilities to individuals makes teamwork more transparent, and insures that individuals own what they are responsible for delivering. This greatly reduces the kinds of operational risks that can emerge when tasks are not completed on time, or individuals don't deliver on their responsibilities.



Lack of transparency leads to accountability failures

5 Contractual relationships with third parties require careful management

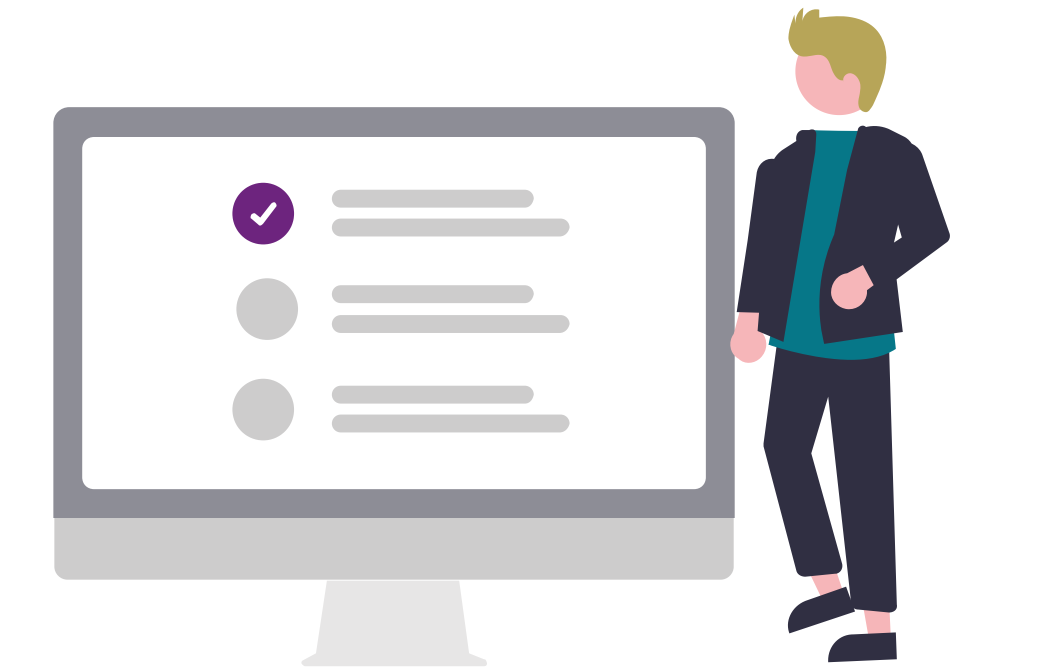
In today's networked, collaborative world, many elements of the investment lifecycle may not be carried out within the organisation. They may be outsourced to third parties specialists in undertaking certain tasks or completing specific processes. Managing these third parties within the investment lifecycle ecosystem can be very challenging if manual processes are relied on. Often, important documents such as contracts, third-party policies, due diligence records, and other essential items can be spread out over shared drives and personal laptops. Organisations also often rely on email to communicate with third parties about their responsibilities and tasks, which is not a very transparent and effective way to manage accountability in these relationships. This can lead to various operational risks, including misunderstandings, mistakes and potentially even compliance gaps.

In short, issuers, advisors, administrators, and investors can encounter different types of operational risk across the whole of the investment lifecycle. Much of this risk can erupt from a straightforward challenge – a failure of collaborative transparency. A contract going missing, a compliance requirement not met, crucial due diligence materials not delivered on time – these issues become risks when they impact the organisation's ability to meet its strategic goals. Next, this white paper will explore how these risks can be managed or eliminated.

Reducing the potential for operational risk

Operational risk within the investment lifecycle can be significantly mitigated by transforming the end-to-end investment process through digital pathways. By replacing manual approaches to document, process and communications management that merely replicate out-of-date paper-based activities with a truly digital approach, organisations can reduce costs, improve efficiency, and ensure they meet their strategic goals.

Today, issuers, advisors, administrators, and investors should be operating within a digital ecosystem that centralises document management, automates processes and supports newer, more collaborative approaches to communication. Moreover, this digital ecosystem should underpin the entire investment lifecycle.

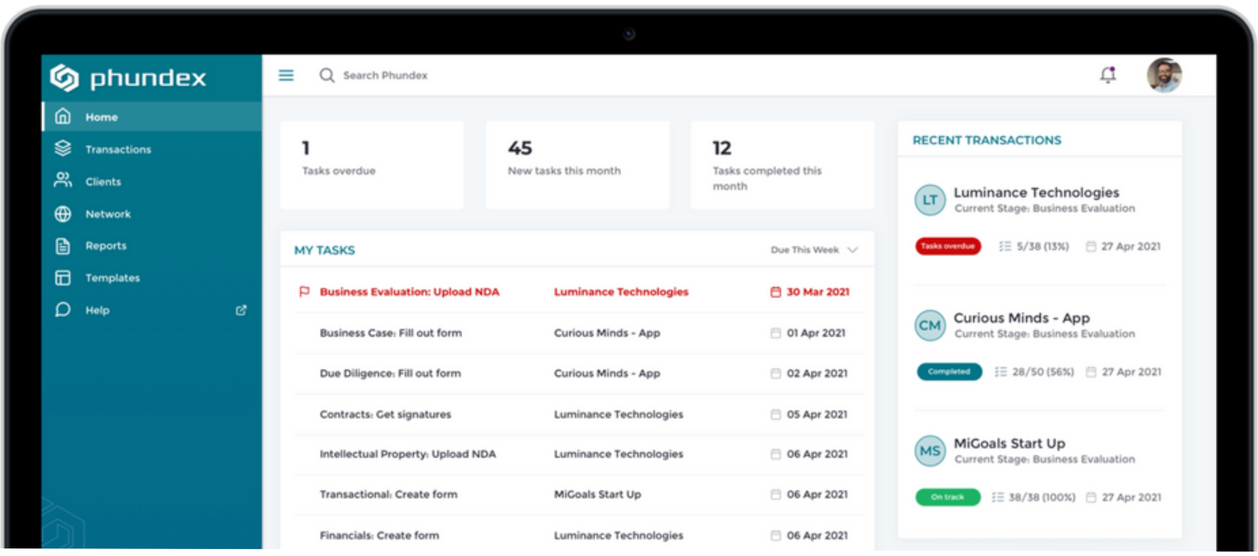


The Phundex platform

Phundex is a digital investment pathway between issuers, advisors, administrators, and investors and those with capital needs.

- House data and documents in a central platform with full permissioning capabilities, version control and audit trail
- Streamline and simplify transactions and processes with configurable pathways, capturing each step
- Supports task management with robust built-in workflow capabilities, including automated alerts
- Delivers team management, so that team members can be assigned their specific responsibilities
- Provides personalised dashboards so each team member can understand what they need to deliver

These features substantially reduce operational risk by creating an ecosystem that truly supports the complex collaboration that is needed across the investment lifecycle.



The Phundex platform

By digitising manual processes through Phundex, organisations can:

- Reduce mistakes and omissions by automating transaction and process management for individual projects through digital pathways

- Improve data governance around documents by storing them in a project's data room, with the right permissions to support confidentiality, transparent version control and an audit trail

- Support regulatory obligations by ensuring materials required for compliance are kept in a single location, and that compliance processes are completed through an automated digital pathway. Digital pathways – which capture processes – make regulatory change easier, too.

- Collaborate better across geographies and time zones by making responsibilities clear within an individual's dashboard, and by assigning tasks, and automating alerts and follow-ups.

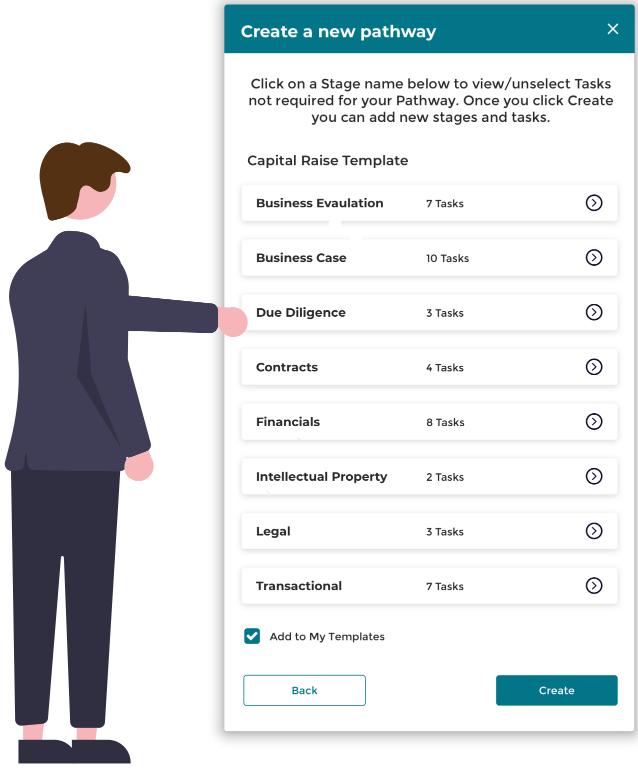
- Manage contractual relationships transparency and effectively. Integrate third parties more effectively into the team by providing them with their own dashboard, alerts, and tasks. House all third party materials, such as contracts, in a single location.

In summary, by adopting Phundex, issuers, advisors, administrators, and investors are able to reduce operational risk by improving collaboration, accountability, and transparency. At the same time, these organisations can enhance data governance, document security and compliance.

Conclusion

Enterprise risk management can seem like a daunting task. By breaking it down into individual steps, the business can work through the process to identify and assess potential risks and their likelihood and impact. Creating a management plan to control and mitigate these risks becomes easier. The key is to monitor the use of the controls and ensure adherence to the risk framework to reduce the potential impacts of any risks arising.

Phundex can enable issuers, advisors, administrators, and investors to digitally transform investment lifecycle processes through the creation of data rooms, digital pathways, and individual dashboards. These reduce operational risk by greatly enhancing collaboration, accountability, and transparency. This means teams have more time to focus on the activities that really generate value for the organisation, and can concentrate on achieving their goals.



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