
CASHFAC

Cash Platform

for Asset Managers, Wealth
Managers and Transfer Agents

CASHFAC SECTOR LITERATURE



About Cashfac

Cashfac (www.cashfac.com) is a global leader in cash management solutions. Our cash management and banking platform is the world's most deployed virtual accounts solution, used by organisations across the global financial services sector from large banks and asset managers to smaller eMoney and payment institutions.

Our products help these financial institutions improve productivity and provide greater visibility, automation, and control over their critical cash management operations, and in particular help to deliver compliance with Client Money (CASS) regulations. Our platform is designed to be the cash and accounting hub sitting at the centre of your operational and administration systems (back office), bringing them all together to create a complete control regime which is fully integrated with your bank's records, virtually eliminating the need for reconciliation.

This brochure details how Cashfac helps asset and wealth managers significantly and rapidly improve their operational efficiency and augment the service offered to their clients, while also improving client money compliance, risk monitoring and accounting without requiring a wholesale replacement of legacy systems.

Background

Relative to other aspects of the financial services industry, asset and wealth management seems to be performing well through the COVID-19 pandemic. Institutions that have invested in the "cloud" are able to allow their staff to work remotely, securely, and effectively. However, the fall in the markets and continued uncertainty has kept the pressure on the industry to bear down on costs.

According to Boston Consulting Group's global estimates, the sector entered the COVID-19 pandemic in a worse position than at the start of the financial crash of 2008. Wealth managers' cost-to-income ratio stood at 63% in 2007 but rose to 73% after the crisis in 2009. By 2018, it had reached 77%.

There are also challenges from investment managers who are now targeting wealthy clients directly, with several of the larger firms trying to double-job as wealth managers as well as fund managers. However, most of us will still probably want an independent advisor of some sort to help us make

our crucial long-term investment decisions and help us pick the best funds, though increasingly that advice may be delivered by a robo-advisor. Millennials also present challenges to the industry by making smaller, sometimes even micro, investments more frequently, requiring the industry to sharpen its processing efficiency.

As technology, administration and regulatory burdens have increased, advisors have, in many cases, outsourced their administration to platform providers. Platform providers have for the last few years been engaged in hugely expensive re-platforming projects themselves, which have often been expensive failures - costing tens of millions of pounds and delivering little beyond vastly increased levels of customer complaints.

Whether advisors maintain their own systems or outsource them to platform providers, they cannot outsource responsibility for delivering good services or ensuring that their operations are run in a compliant manner.

Facing the Biggest Challenges

The challenges for both platform providers and advisors who maintain their own operations, are, firstly, scale; if their assets under administration are not big enough and if they do not have systems that can efficiently process the volumes generated from these assets, how can they compete in a lower margin environment? Secondly, to gain that scale they need to offer not just a compliant service but one that is functionally rich and competitively priced.

The challenge for asset managers is in many ways like that of wealth managers. Again, for the most part, asset/fund managers will outsource their transfer agency (client and sales administration) and other administration functions to global third-party providers.

The challenges asset managers face from increased regulation in many cases acts as a significant distraction from its more commercial challenges to drive performance improvement and compete in the global marketplace. These asset/fund managers remain on the hook with the regulators for service and regulatory failures of third parties. They remain reliant on those third parties to deliver the innovation that they will need to meet their compliance obligations effectively and efficiently.

Transfer agents often struggle to update their services due to the limitations of their existing systems. Many of these legacy systems do a core processing job extremely well. However, the demand for additional functionality, improved efficiency, higher levels of compliance, and robust accounting and risk monitoring can often force a firm to consider investing in a re-platforming project. As with wealth management, the risks of ripping out and replacing these core systems can be extensive.

Now is the time for asset and wealth managers to invest for the future, to ensure that they can maintain the highest levels of compliance and risk oversight in the most operationally efficient manner while allowing for more flexible working arrangements for staff struggling with the new normal.

Key Cash Management Challenges for Asset and Wealth Managers

Improving Operational Efficiency

The deterioration of operational cost-to-revenue ratios continues to present challenges to the industry. New entrants to the market, unincumbered by legacy products and technology, are better able to avail of new initiatives to improve operational efficiency.

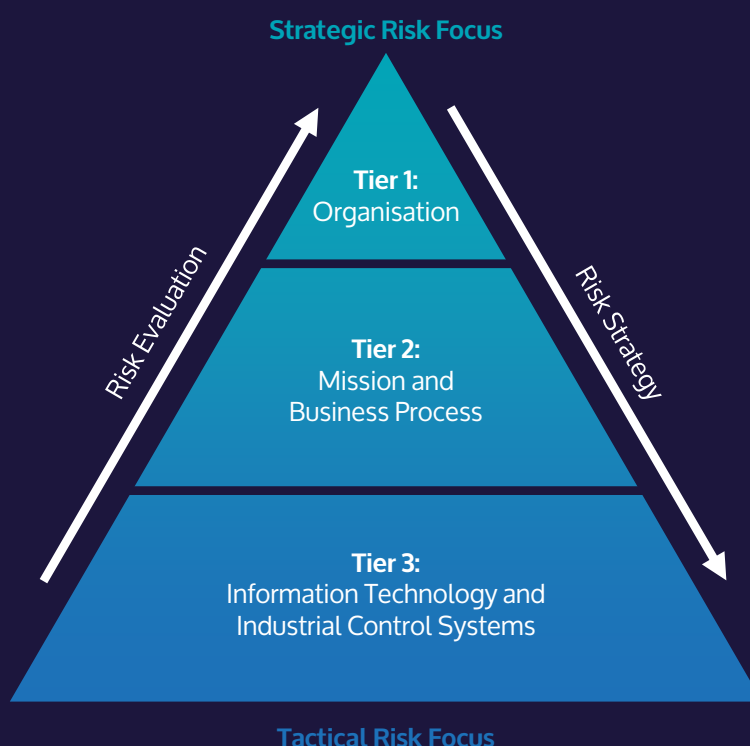
Delivering Better Customer Service

Combined with the necessity of improved efficiency is the requirement to improve customer service. Customers are now expecting a better and faster service with all the implications that has for brand maintenance and reputational risk.

Improving Governance and Risk Management

Cloud-based technology solutions have provided the industry the flexibility to allow its staff to work remotely. This has gotten the industry through the first wave of COVID-19 and helped “keep the lights on”.

However, if this is the “new normal” it is not enough to take practices and controls which worked in an office environment and implement them into a remote setting. When reconsidering your organisation’s controls, it is important to use proper process and take a holistic, multi-tiered, organisational view of risk. This will assist senior managers in determining how to manage risk effectively and efficiently and in the most cost-effective manner across the entire organisation. This evaluation takes place at three levels: the organisational level, or tier 1; the mission and business process level, or tier 2; and the system level, or tier 3. Risks and regulatory requirements need to be mapped to the risk management controls across the framework.



With the unavoidable changes to tiers 1 and 2 forced on your organisation, tier 3 information technology systems can “pick up the slack” and new solutions can be put in place to allow adequate and independent controls across all lines of risk defence- operational management, risk management and compliance functions, and internal audit.

The COVID-19 pandemic has certainly increased the rate of change in the industry. The need for robust governance and risk management defence has never been more important than it is now. Wealth and asset managers need to ensure they have considered this impact and update their approach to their client money management controls.

Requirements of Client Money (CASS) Regulations

The UK’s client money regulations (CASS) are arguably the most stringent in the world. The regulations are onerous, and both the regulator and now also the client money firm’s auditors have a zero-tolerance approach to failure.

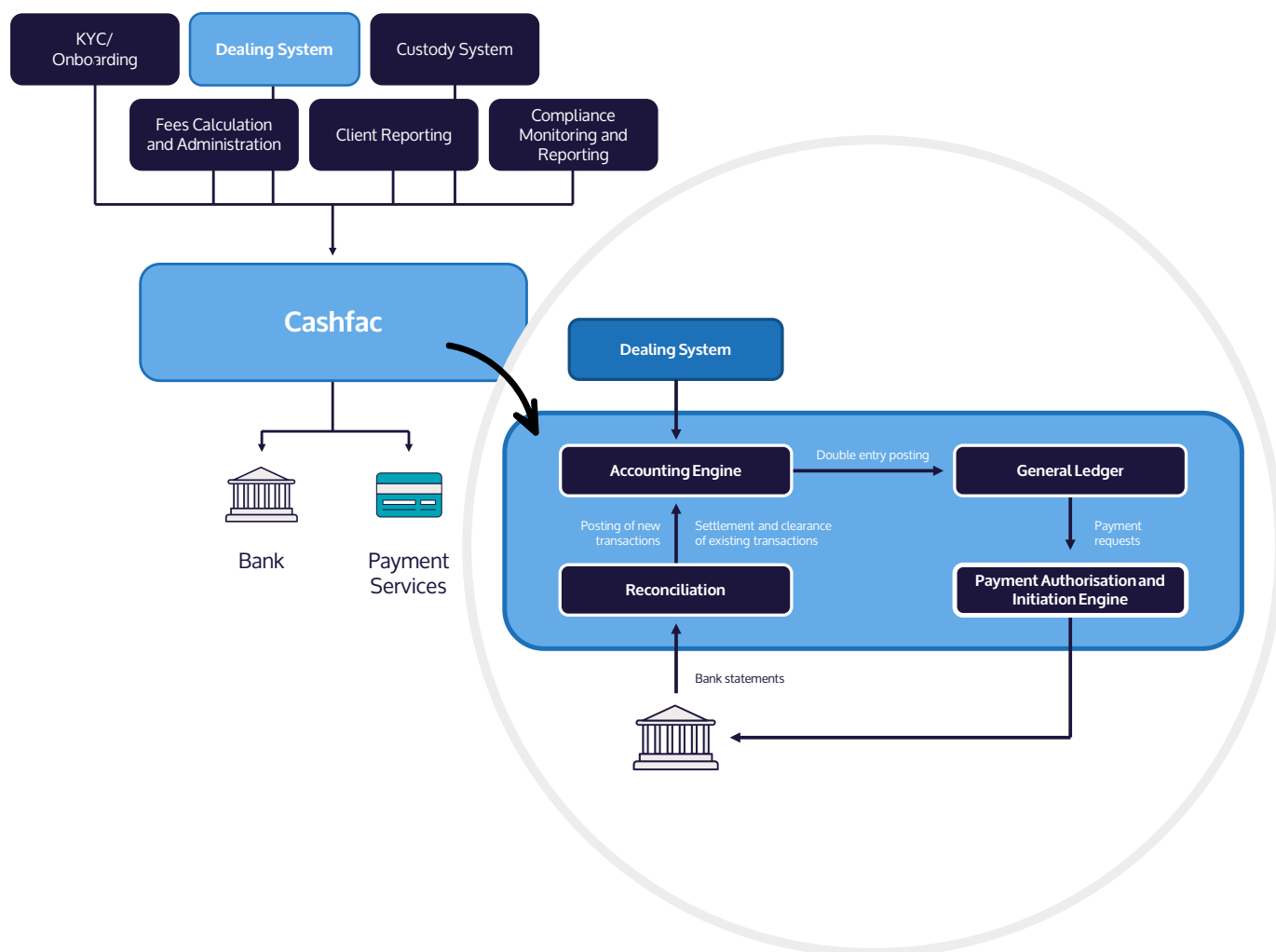
To upgrade existing platforms or transfer agency systems to deliver the 100% compliance standard required by these regulations is extremely challenging. Existing systems may be hard to re-develop. It may also prove difficult to get the development resources capable of mastering the regulation and designing an automated solution. Very often transfer agents and platform providers will struggle to develop effective automation of the client money regulatory requirements that is truly scalable. While firms by this stage might be achieving minimum levels of compliance, they may also need to consider upgrading their client money protection processes to best-practice standard, particularly in the areas of intraday reconciliation and multi-bank diversification. Client money protection is often only being achieved with a high level of manual intervention, meaning that the solution is costly, does not scale and lacks the robustness required for a process that must be completed daily under threat of severe regulatory sanctions.

Maximising Returns on Cash-Effective Treasury Management

In the days of historically low interest rates from the banks, wealth managers must work twice as hard to deliver a return on its clients’ and firms’ money. During periods of uncertainty, investors will often flee to the security of cash. Therefore, wealth managers need to be able to deliver products for the investment of cash, compliant with or even integrated with their client money compliance regime, otherwise they risk losing funds to other financial institutions.

How Can Cashfac Help?

Cashfac offers a paradigm shift in the approach to cash management in the asset and wealth management sectors. Our cash and banking platform is designed to be your firm's cash control hub at the centre of its back-office systems stack. It blends data from your other systems and from your bank accounts to create a proper accounting record for all aspects of your cash operations. It controls your bank accounts using this accounting record and operates bank accounts and accounting records in perfect synchronicity, mitigating the need for reconciliation, although of course Cashfac offers fully automatic reconciliation as well.



Back Office Supported by the Cashfac Cash Hub

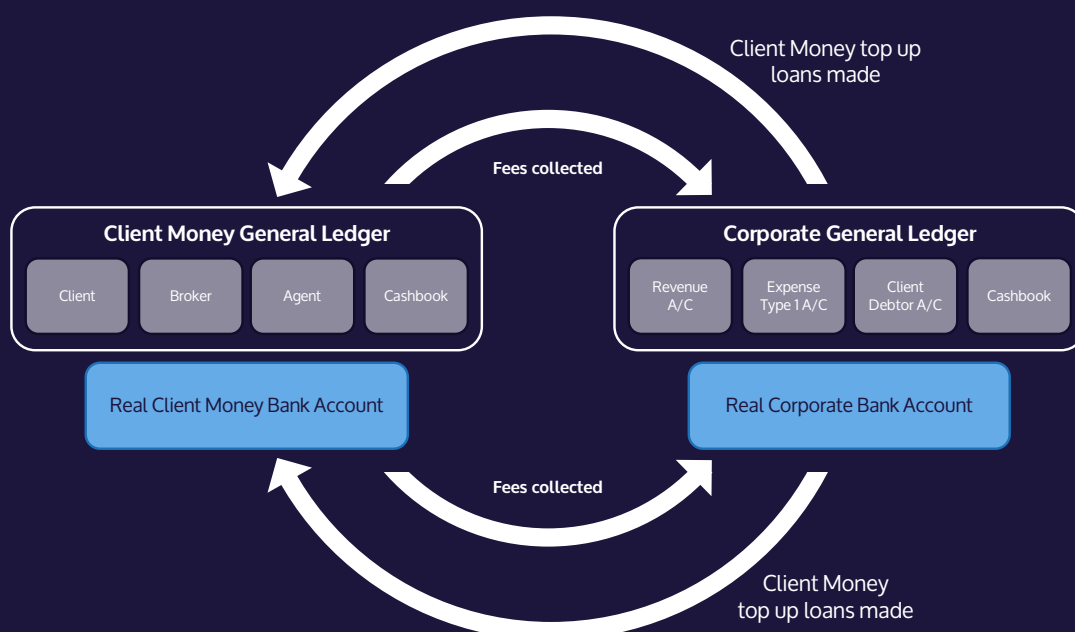
10 Solutions Delivered by Cashfac's Cash Platform

1| Full "Thick" General Ledger Accounting

Cashfac offers a fully functional accounting engine to deliver double entry accounting for your cash operations for both client and related firm money activities such as the collection of fees, settlement of trades or client money top-ups. This accounting engine takes transaction feeds from other systems for deals, distributions, fees and so on. It maps them to preconfigured posting templates to generate multiple transactions to fully account for these items through the settlement and clearance cycles.

Cash transactions from bank statements are also mapped through the accounting engine and posted in double entry. The transactions are then posted to Cashfac's "thick" general ledger, one that has a full general ledger account for each client, agent, and counterparty rather than having sub-ledgers for these types of accounts.

The solution gives a complete general ledger for client money bank accounts and a separate one for their related firm money bank accounts, operating them in tandem to deliver a complete "closed-loop" control regime for client money. Within these ledgers, the solution allows you to set up complex multi-tier relationships between accounts to fully record your cash activities and automate your cash transactions.



Simplified Diagram of Dual Client Money and Firm Money General Ledgers Operated in Tandem by Cashfac

2 | Dual-Ledger Client Accounts

The client, counterparty, and agent accounts on our solution are dual-ledger-accounts. They have an accruals/future-dated ledger and a cash ledger. The cash ledger represents the client's share of the actual cash position in the pooled bank account. The cash ledger and real bank accounts are kept perfectly in sync with each other by the solution.

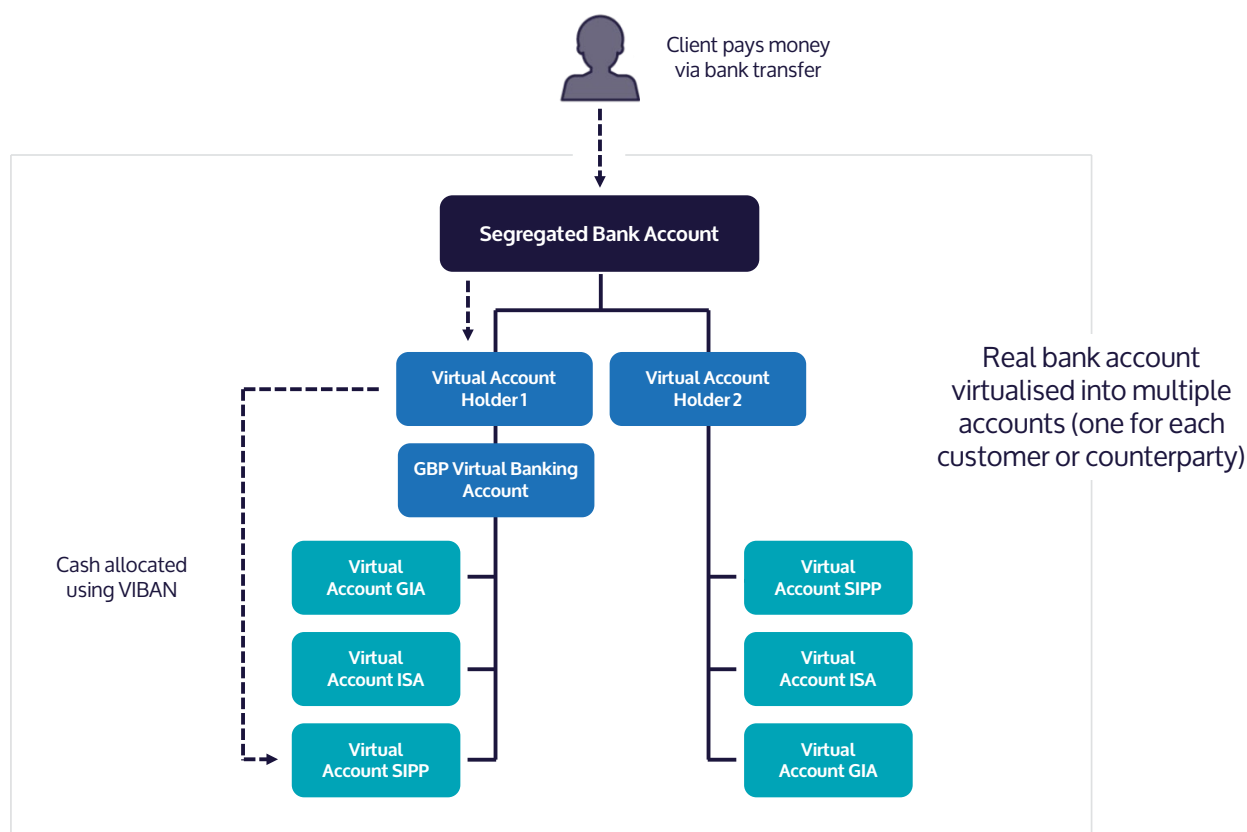
The accruals ledger reflects cash transactions initiated but not yet cleared or settled, such as trades dealt but not settled or payments initiated from the account but not yet cleared. The solution, driven by the posting of the actual cash movement on the bank account, settles trades and clears transactions from the accruals ledger to the cash ledger.

3 | Externally Addressable Client Ledger Accounts

The Cashfac client, counterparty and agent accounts can be made externally addressable through the banking system. This means that when clients are, for example, making a Faster Payment to their wealth manager, they can lodge the money directly to their ledger account with the wealth manager or transfer agent where it can then, if required, be used to settle trades, fees etc.

Cashfac ledger accounts are called virtual accounts to reflect that they are hybrids - half bank account and half general ledger account.

The accounts are made externally addressable by giving them their own virtual IBAN, account number or other unique reference. For IBANs, your bank associates the virtual IBAN with your firm's main client money pooled bank account and lodges the funds there as normal. For the other reference types, the client can simply add them to the narrative on the transaction. The solution then uses the virtual IBAN, other reference or account number to allocate the cash to the client's virtual account. The use of this functionality gives guaranteed compliance with client money protection requirements for designation and segregation of clients' funds, as well as fully automated, scalable, and fast processing to deliver the best possible customer service and de-risk the process.



Cash Allocation Using Externally Addressable Accounts

4 | Intra-Day Reconciliation

Our solution operates as a real-time platform. It is possible to get bank statements from most banks throughout the day. Indeed, some banks can deliver statements every 15 minutes which means that the solution can deliver automatic reconciliation, allocation, settlement, and clearance of cash transactions on a near real-time basis.

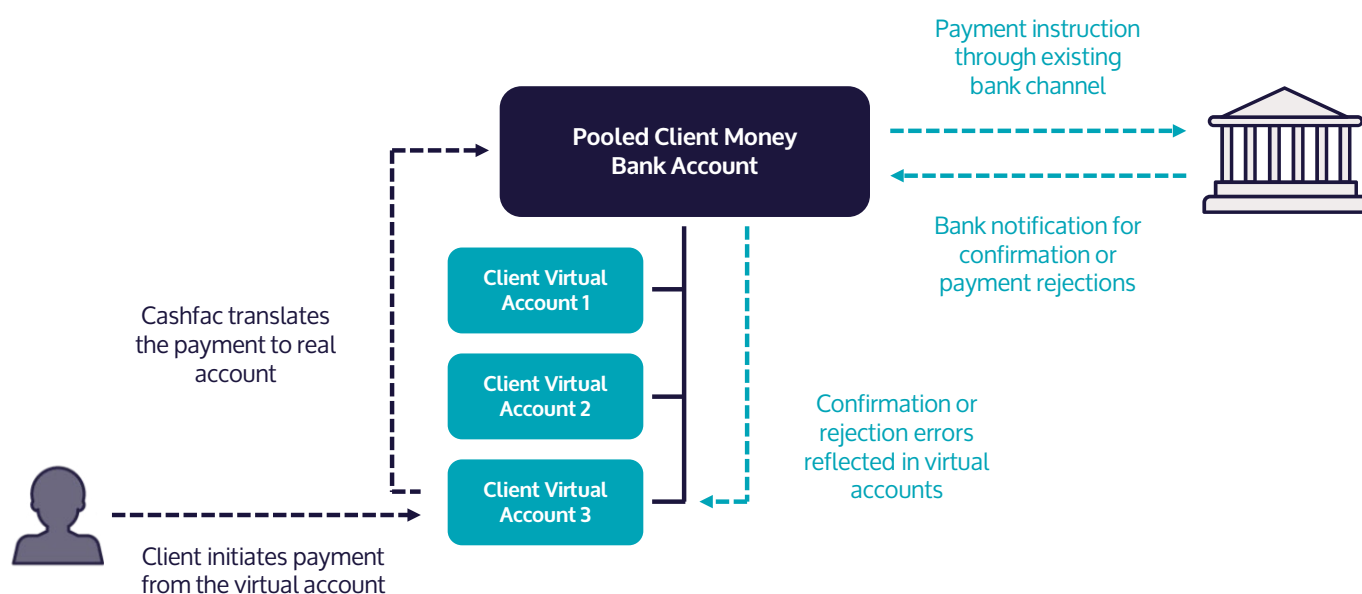
Achieving a complete reconciliation process, including breaks resolution, on a near real-time basis is not just done by automatic tick back of transactions, it requires the solution to be integrated with the accounting record, preventing all but genuine reconciliation breaks.

5 | Fully Functional Bank-Active Virtual Accounts

Cashfac's virtual accounts are fully functioning, bank-active virtual accounts. A virtual account can be configured to pay interest at a pre-defined rate or allocate the client's fair share of the interest earned on the pooled account.

The client can be granted online access to the virtual account to see balances and, if required, initiate payments from the virtual account subject to final authorisation by the wealth manager. This allows the wealth manager to offer a banking service to clients.

When a payment is initiated from the virtual account it is posted to the accruals ledger to reflect that the cash is committed. The payment is then routed through the real pooled client money bank account. When it clears that account, the solution clears the payment from the accruals ledger to the cash ledger. This means that the sum of the virtual accounts' cash balances always stays in sync with the balance on the real bank account. In this way the solution eliminates potential "time difference" breaks on the external bank reconciliation.



Payments Processing on Cashfac

6 | Credit Control

The solution's dual-ledger accounts allow wealth managers and transfer agents to offer full credit control, preventing overdrafts by stopping payments that would otherwise let the client's account become overdrawn.

7 | Pooled Accounts and Liquidity Management to Deliver Treasury

Cashfac's virtual bank account functionality allows the pooling of bank accounts of the same ownership, giving the firm's treasury function the ability to consolidate its cash positions in one easy-to-understand record.

The accruals ledger on client accounts allow wealth managers to predict future liquidity calls more accurately and therefore enables them to put funds on longer term deposit to improve returns on uninvested cash.

8 | Multi-Bank Account Management

The solution is a multi-bank solution and can operate pooled bank accounts from different deposit takers simultaneously. This gives diversification of funds with automatic intraday rebalancing, redundancy in the event of one of the banks having an outage, and easier access to multi-currency services.

9 | Multi-Currency

The solution is also a multi-currency solution and can set up virtual accounts connected to bank accounts in different currencies. Almost as important, it can group these multi-currency virtual accounts, for any client or product, for reporting, and for control and trading purposes.

The solution can connect to a transfer agent's FX dealing systems, take the FX trades, post and settle them across its ledgers to provide multi-currency client sweeping.

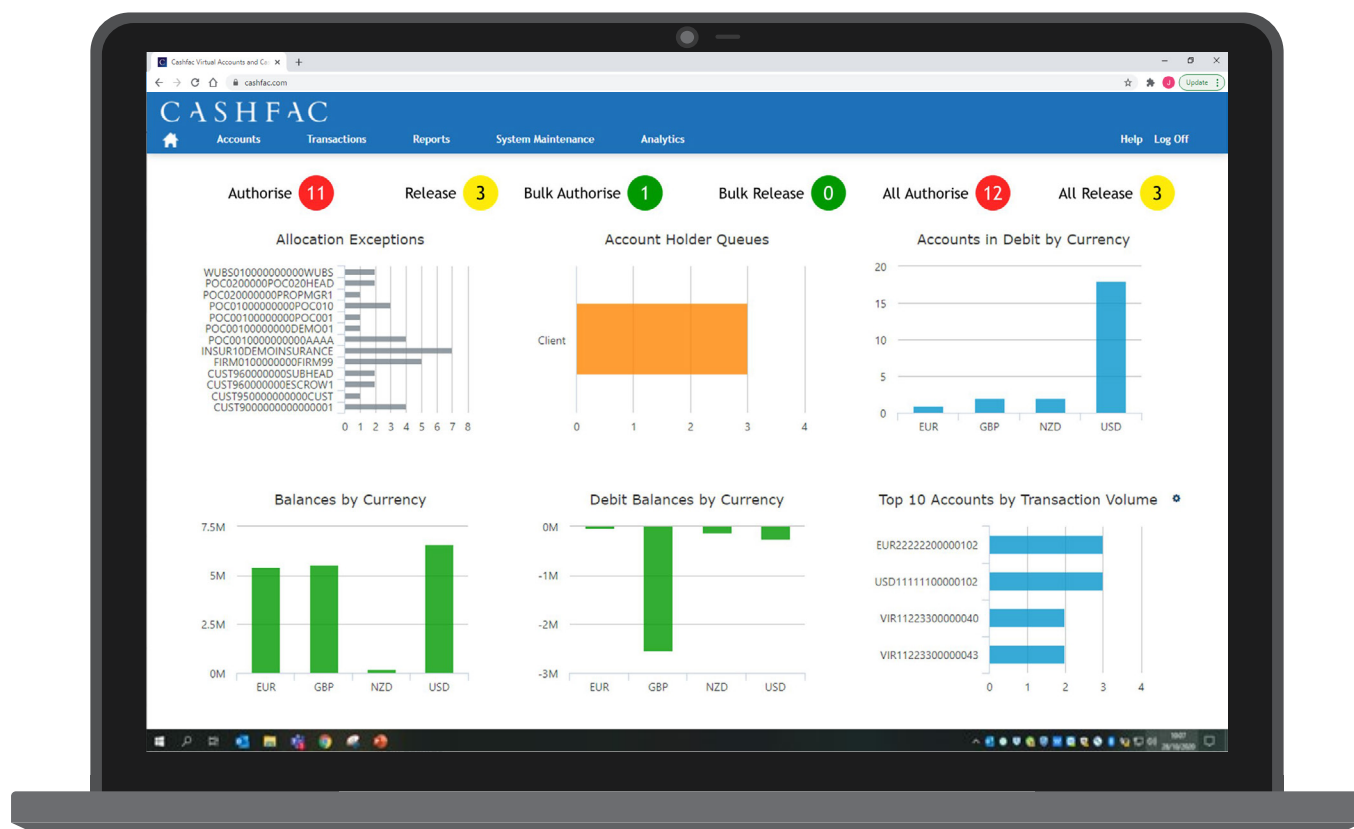
10 | Client Money Compliance

Coupled with the previous nine points, our solution gives wealth managers and transfer agents the tools that they need to actively control firm and client cash to industry best practice standard. This allows them to vastly increase the efficiency of their operations and increase customer service. Almost as a by-product of this active control regime, Cashfac gives a complete solution to meet the requirements of CASS 7 and CASS 9.



Cashfac Approach to Controlling Client Money

Our approach puts a strong emphasis on delivering effective primary controls - accounting, authorisation, allocation, and credit control to deliver CASS compliance. However, it also delivers the secondary controls through automatic reconciliation tools and review through real-time online dashboards and compliance reporting, including the internal and external reconciliation.

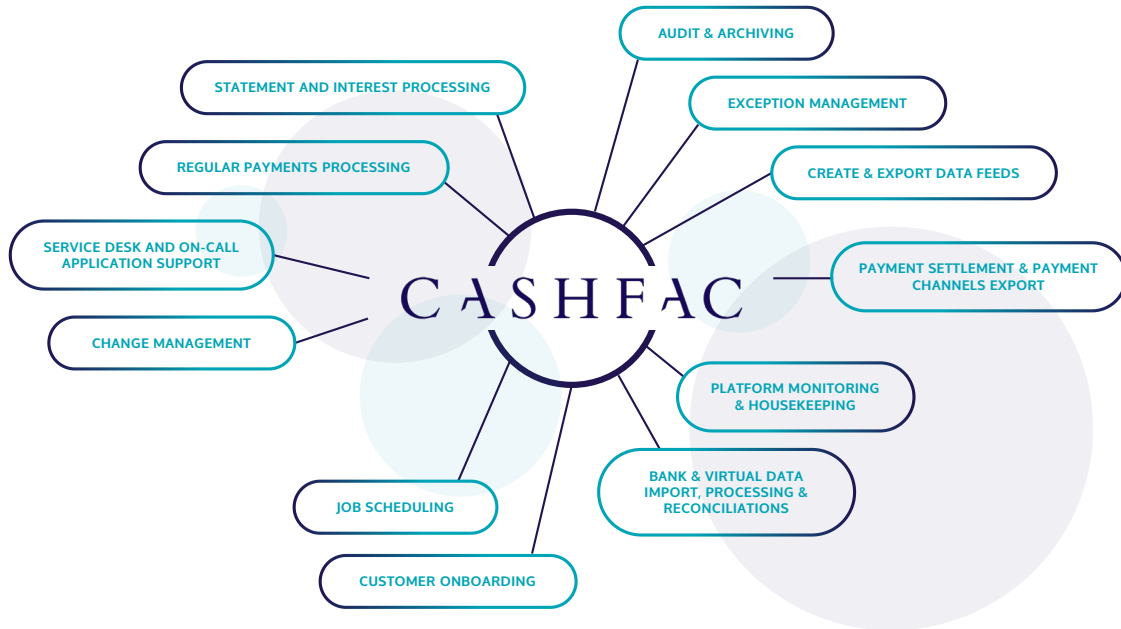


Sample Realtime CASS Oversight Dashboard

This reporting can be used to complete the Client Money and Asset Return (CMAR). The reconciliations can be persisted to deliver the Resolution Pack with the system also able to store procedures, organisation charts and so on.

Managed Services

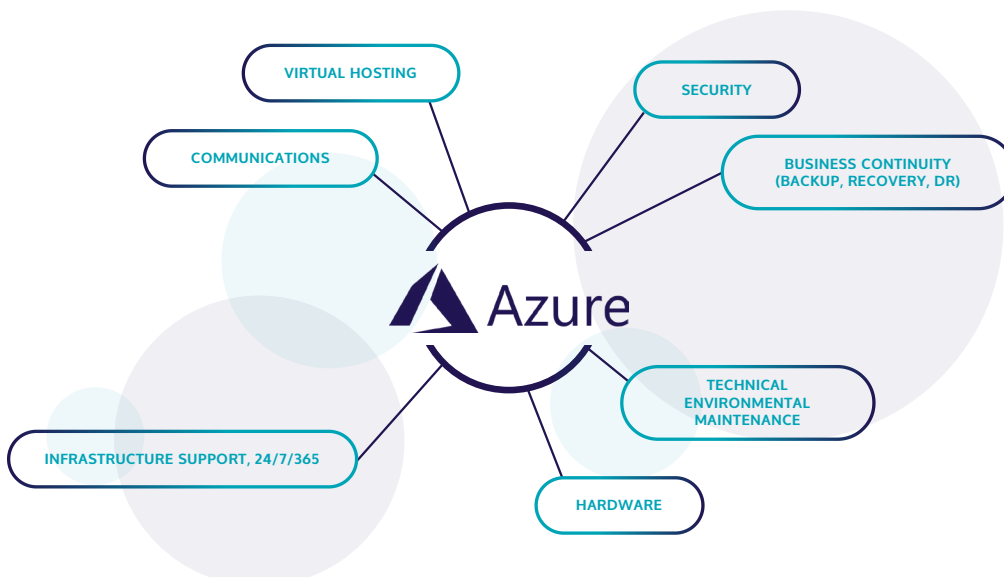
Cashfac Managed Service offers a single point of contact for all support issues, removing the need for employing dedicated customer staff to operate the virtual banking platform and thereby minimising change management and specialist training.



Hosted Services

Cashfac hosts the service via Microsoft Azure infrastructure and manages the entire release and upgrade process, including platform testing before release, and will assist you with your own testing.

Our deep knowledge of our product and a detailed understanding of the features that have been enhanced in each release, combined with proximity to the development team, ensure this process is executed with accuracy, knowledge and expediency.



Conclusion

Asset or wealth managers can significantly and rapidly augment the service offered to its clients. It can quickly improve client money compliance, cash process efficiencies, risk monitoring and accounting without requiring a wholesale replacement of its legacy systems.

Our cloud-based solution is used by many of the biggest global financial institutions in the world to process high volumes of accounts and transactions while meeting ISO27001 standards for security and resilience. Our solution is also used by many smaller companies that have found Cashfac to be a cost-effective proposition which also gives them cover for their projected growth plans.

Finally, Cashfac does not only offer the technology for the solution, our team of business consultants work with the asset and wealth management firms and their advisors to devise the correct process design, systems configuration and build of the solution to deliver the right result for each firm. With our many years' experience in devising systems solutions for regulated institutions, our team will work with you to deliver a total solution to your firm's compliance and operational challenges.

For product information, to request a demonstration or to speak to us about your business needs, please contact us at www.cashfac.com/contact



CASHFAC

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