
Cash Platform

for Wealth Managers in Asia Pacific

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 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 those within the wealth management industry - specifically advisors, product and platform providers, administrators and asset managers - to 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, the wealth management industry 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%.

However, the industry is not without challenges for advisors, product and platform providers, administrators and asset managers, with consumer preferences and technology changing the industry landscape and service delivery expectations. All the while regulatory scrutiny continues to increase.

While consumers largely still want an independent advisor of some sort to help make crucial long-term investment decisions and help pick the best funds, increasingly that advice may be delivered digitally or by a robo-advisor. Changing demographics in particular have seen a separation in consumer preferences, with the under 35 market seeking greater digital access and enablement for changing their investments, thus requiring the industry to change its product delivery and improve processing efficiency.

As technology, administration and regulatory burdens have increased, advisors have, in many cases, outsourced their administration to platform providers. This has seen the emergence of a number of specialty platform providers who are challenging the incumbent wealth managers' platforms, creating an increasingly competitive environment with higher expectations of service and speed while concurrently putting downward pressure on margins.

Whether advisors maintain their own systems or outsource them to platform providers, they cannot outsource responsibility for delivering good service 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 in place 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 all participants, but particularly advisors and product providers, are increasing regulations which require significant resources to meet, limiting their capacity to innovate to address commercial challenges and drive performance improvement.

Advisors, platforms and product managers can outsource their client, sales and other administration functions to third-party providers to reduce the regulatory and operational burden. However, the advisors, platforms and product providers remain on the hook with the regulators for service and regulatory failures of third parties.

Administrators, whether 'in-house' or third-party, 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 has commonly resulted in administrators 'bolting on' multiple systems that run in parallel without communicating with each other or the core banking platforms. This introduces significant operational inefficiency and, critically to an administrator's stakeholders and counter parties, risk.

Now is the time for advisors, product and platform providers, administrators and asset 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 the Wealth Management Industry

Improving Operational Efficiency

The deterioration of operational cost-to-revenue ratios continues to present challenges to the industry. New entrants to the market, unencumbered 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.

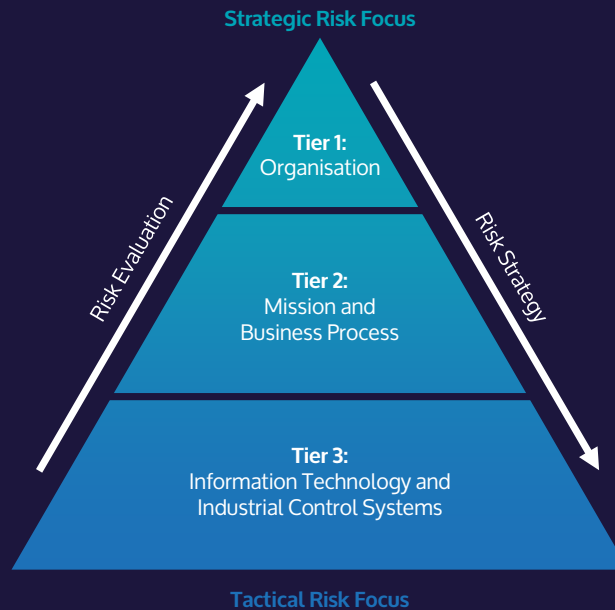
Maximising Returns on Cash-Effective Treasury Management

With record 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.

Improving Governance and Risk Management

Cloud-based technology solutions have provided the industry the flexibility to allow its staff to work remotely, 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.



NIST's Risk Management 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 managers need to ensure they have considered this impact and update their approach to their client money management controls.

Requirements of Financial Services Regulators and Regulations

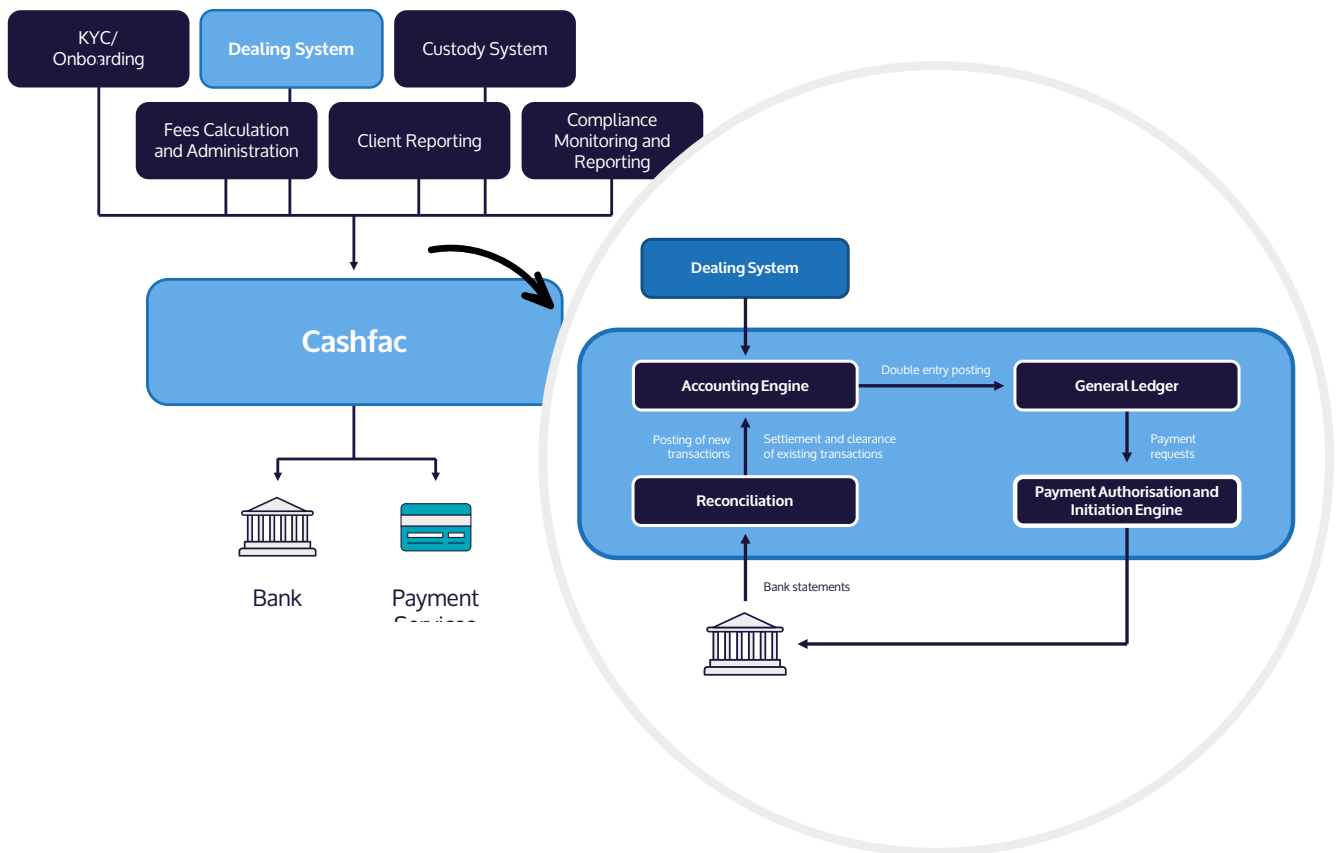
Regulatory framework for financial services in this region arguably make it one of the more complex regulatory environments in the world. The regulations are material in their requirements, and following the Hayne Royal Commission, it can be expected both the regulators and now also the client money firm's auditors will have a zero-tolerance approach to failure.

To upgrade existing platforms or administration 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 administrators 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.

How Can Cashfac Help?

Cashfac offers a paradigm shift in the approach to cash management in the financial services 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

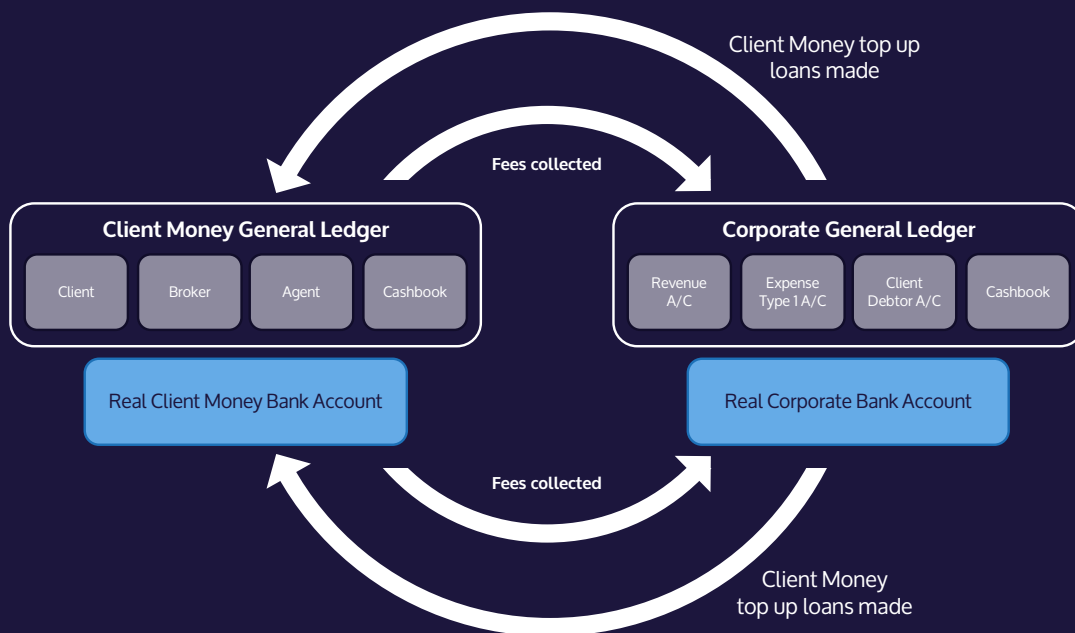
10 Solutions Delivered by Cashfac’s Cash Platform

1| Full Comprehensive 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 comprehensive 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.

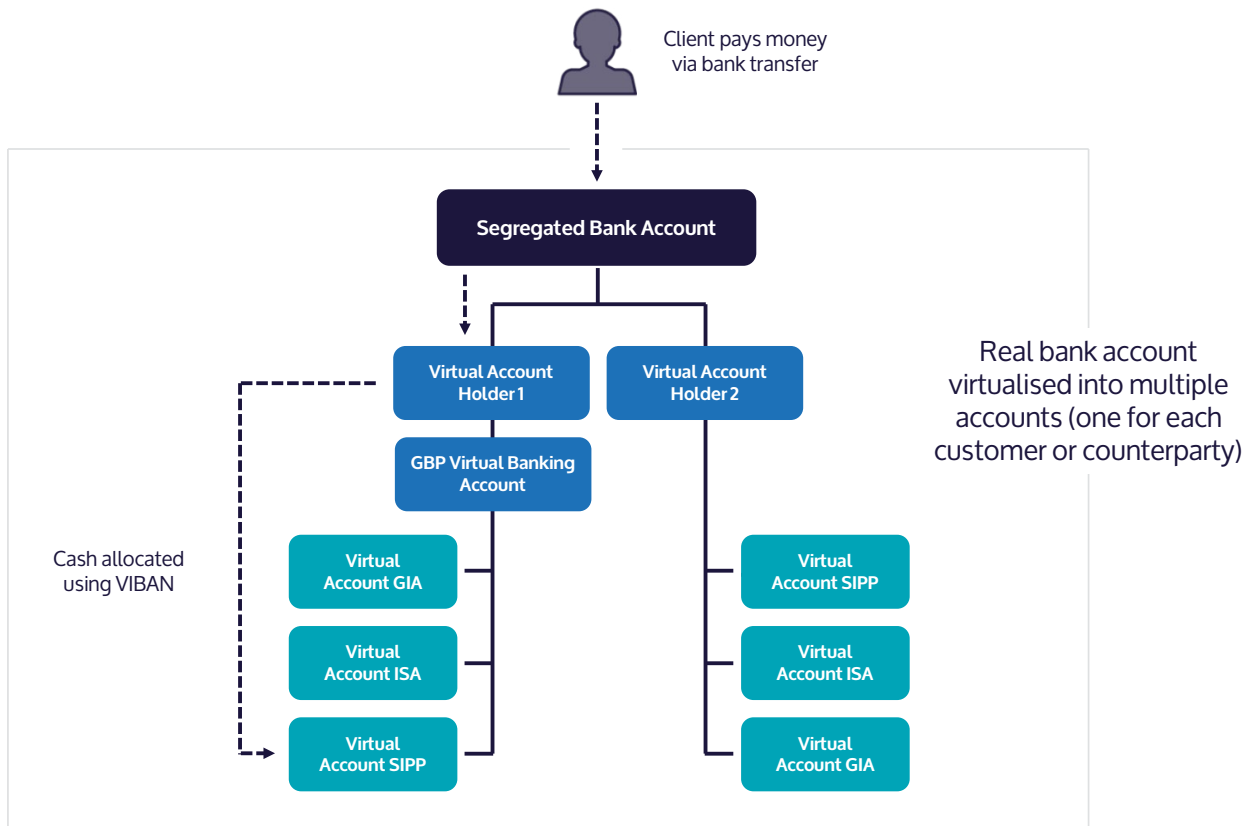
3 | Externally Addressable Client Ledger Accounts

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 administrator 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.

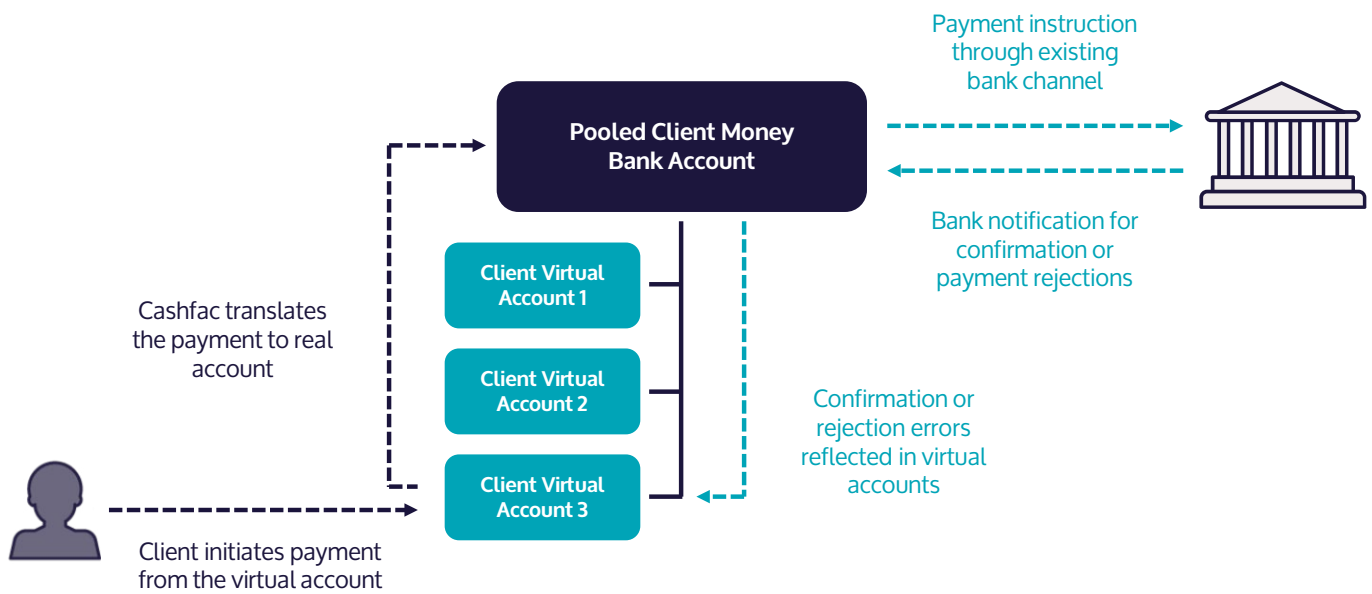
Achieving a complete reconciliation process, including breaks resolution, on a near real-time basis is not just done by automatic tick back of transactions, it requires the solution to be integrated with the accounting record, preventing all but genuine reconciliation breaks.

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 administrators 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.

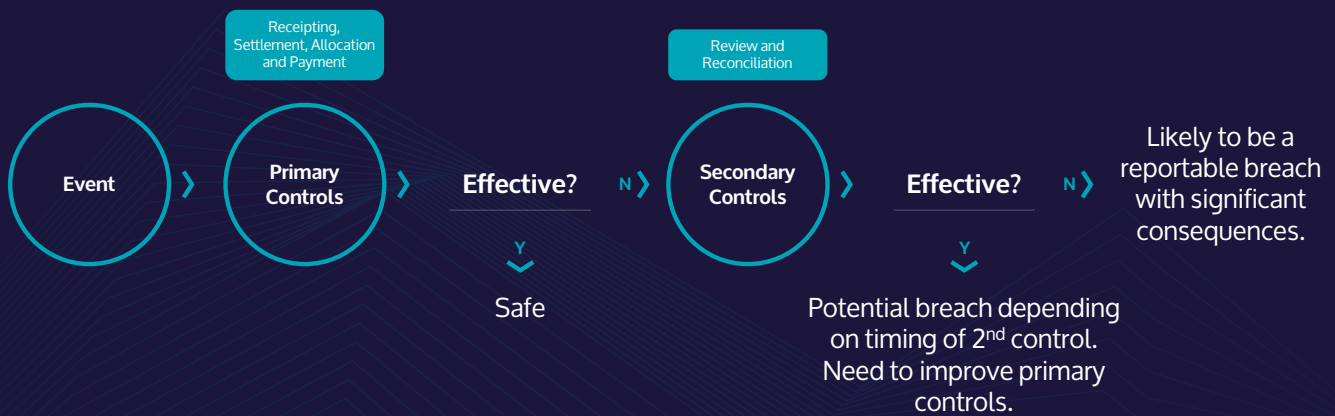
9 | Multi-Currency

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 platform or administrator’s FX dealing systems, take the FX trades, post and settle them across its ledgers to provide multi-currency client sweeping.

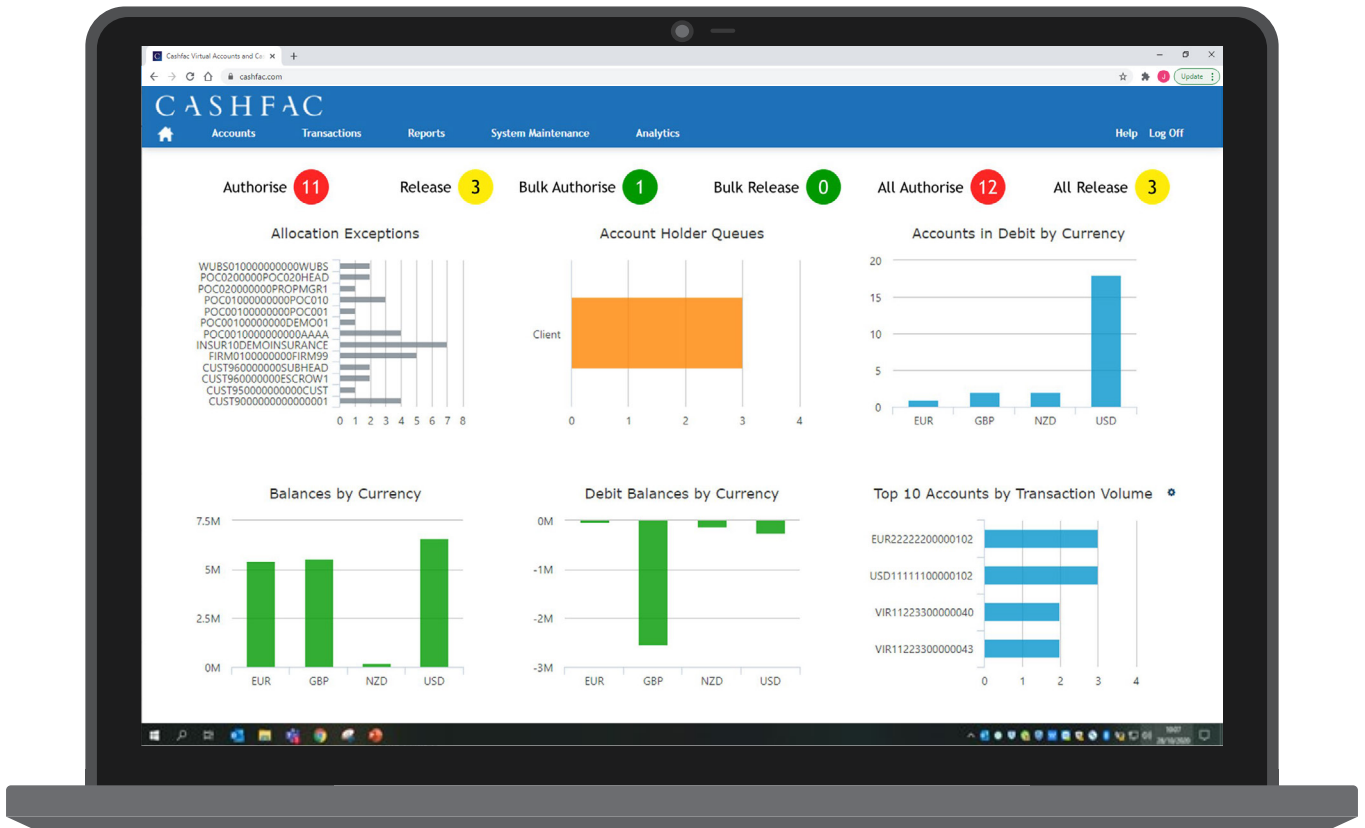
10 | Client Money Compliance

Coupled with the previous nine points, our solution gives advisors, platforms and administrators 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 client money regulatory requirements.



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 client money regulatory 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 provide for reconciliation, compliance and audit requirements like client money reporting.

Conclusion

Advisors, platforms and administrators can significantly and rapidly augment the service offered to their 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 advisors, product and platform providers, administrators and asset managers 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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