

AP7 sets the standard for the future of asset management



Secure straight-through processing with TradeseC and IBM Collaboration Solutions

Overview

Business challenge

To support the pension plans of millions of Swedish citizens, AP7 harnesses the expertise of local fund managers around the world. The company wanted to find a way to standardise and control its interaction with these external portfolio managers.

Solution

AP7 worked with IBM® Business Partner TradeChannel to develop TradeseC, an application built on IBM Collaboration platforms that enables secure communications and rule-based transaction processing with a minimum of manual effort.

AP7 is a Swedish pensions company, responsible for managing premium pension assets on behalf of Swedish savers. The company employs 18 people and holds more than 100 billion SEK (US \$15 billion) in assets under management.

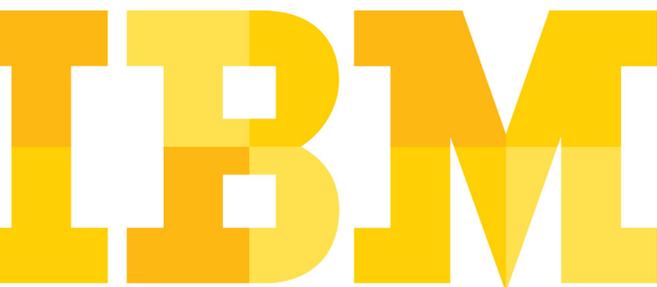
In 2000, a major national pension reform signalled a move away from traditional defined benefit pensions (DBP) in favour of a defined contribution pension (DCP) model which is better suited to the economic challenges of an aging population. Today, 2.5 percent of every Swede's salary is automatically allocated to a DCP, and each citizen can choose between over 700 pension funds to manage their contributions.

If a citizen chooses not to nominate one of these private pension funds, their contributions will be managed by AP7. In 2000, so many Swedes selected this option that, by the close of business on day one of AP7's operation, it already had 1.5 billion SEK in assets. Over subsequent years, the company has maintained its position, gaining approximately 35 percent of all contributions, and thus building a substantial portfolio of assets under management.

The challenges of outsourced fund management

“When we started the company, we had to make a choice between managing all the assets ourselves, or outsourcing to specialist fund management organisations around the world,” says Svante Linder, Chief Operating Officer of AP7. “We felt that the local knowledge and specialist expertise of these organisations would deliver better performance, so we decided to outsource 90 percent of this work to external portfolio managers.

“However, working with external portfolio managers creates its own challenges. In a traditional model, the local asset managers are given a power of attorney to act on your behalf. They work independently, making trades with local brokers and sending the documentation to



Business Benefits

- Reduces manual workload, allowing AP7 to maintain lean staffing levels and keep costs low.
 - Introduces business rules that enhance AP7's control over external portfolio managers' transactions.
 - Increases transparency, giving AP7 an instant overview of current assets and exposure.
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a local custodian. You might not actually get the information about a given trade until the next day – by which time, if there are any problems, it's too late. So although you bear the responsibility for managing the funds, you don't have much control over individual trades.”

AP7 decided to take a new approach to fund management, and realised that this would require a new approach to IT.

“We were of the opinion that the traditional way of working wasn't the best way, either for us or for our customers,” says Svante Linder. “We were looking for an IT solution which would standardise and formalise our interactions with our external portfolio managers, allowing us to take greater control while also reducing the need for manual processing.”

A fresh approach to transaction processing

A company called TradeChannel, an IBM Business Partner, was specially formed for the task of creating a solution that would support this new way of working. In collaboration with AP7, the TradeChannel technical team developed TradeseC, an application based on IBM Collaboration platforms, which provides a secure, standardised communications platform for use by AP7's external portfolio managers around the world.

“The biggest difference with using TradeseC is that we're no longer on the sidelines,” says Svante Linder. “When one of our portfolio managers is making a trade, TradeseC automatically assesses it against a set of predefined rules – governing, for example, how much the manager is allowed to trade and whether they have been approved to work with a given broker. If the trade passes these checks, it can proceed; if not, we are alerted and can make a judgement on whether it should go ahead. As a result, it gives us much greater visibility and control over the transactions that are made in our name.”

AP7 believes that the TradeseC system has significant implications for the future direction of IT in the pensions sector.

“Many pension management companies in Europe are still relying on faxes and emails, which need to be checked and entered into their systems manually,” explains Svante Linder. “By contrast, TradeseC provides a standardised and automated process that streamlines communications. This not only improves control, it also helps to increase straight-through processing (STP) rates by minimising the need for manual intervention.”

Solution Components

Software

- IBM® Collaboration Solution
- TradeChannel™ TradeseC

IBM Business Partner

- TradeChannel AB
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“TradeseC has been instrumental in providing the information we need to make better, faster decisions. Without it, we would need twice as many people to handle the current workload.”

— Svante Linder, Chief Operating Officer, AP7

Benefits

AP7’s decision to adopt an integrated IT system means that the company now enjoys the benefits of improved transparency, lower costs and immediate access to information.

“We now have an STP rate of around 99 percent, which means that we only need to deal manually with one trade in every hundred,” says Svante Linder. “To put that in perspective, if we were using the same traditional system as our competitors, we would probably only be able to achieve an STP of 90 to 91 percent – which equates to a great deal more paperwork and administrative effort.”

With such a high STP rate, AP7 can maintain lean staffing levels: the whole organisation can be managed by just 18 full-time staff.

He comments: “Aside from the benefits in terms of efficiency, the most important advantage for AP7 is the ability to control our responsibilities. With a few clicks in the interface, I can view an instant overview of all trades and understand our current position. It’s really important to stay on top of this information – for example, when Lehman Brothers went bankrupt in 2008, we were instantly able to understand our exposure and reassure our investors.

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Looking to the future

AP7 has had such success with the solution that it is now looking to extend the capabilities of TradeseC.

“We have asked TradeChannel to investigate the possibility of automating the reporting of corporate activities such as dividend announcements or share issues,” concludes Svante Linder. “Overall, we are very happy with the TradeseC solution, and with the service provided by TradeChannel. Even though they have grown as a business and we are no longer their only client, we maintain a close working relationship, and look forward to continue working with them to enhance the capabilities of our IT systems.”

About TradeChannel

TradeChannel AB is a software company with extensive experience and in-depth industry know-how. TradeChannel assists the financial community in the management and integration of external managed mandates. Amongst its clients are major pension and mutual funds, insurance companies and banks.



For more information

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164 92 Stockholm
Sverige

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