



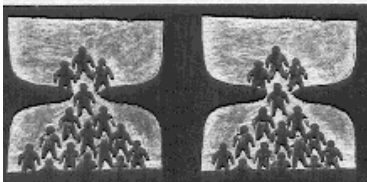
No pain, no gain?



Never mind the quality, feel the width! Is it time to develop a slimline "off the shelf" RFP? By Neil Stevenson

Custodial arrangements are under review. In the UK, the imminent introduction of the Crest system is prompting market participants to consider outsourcing their arrangements for share settlement. What has characterised this active market is the hail of requests for

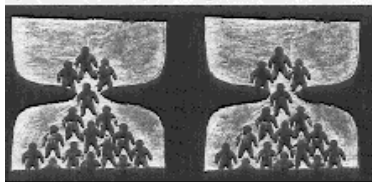
While not wanting to bite the hand that feeds, custodians are expressing an element of frustration at the sheer amount of time and effort required to complete what is, after all, merely the first step in the process of selecting a custodian. The burden is heavy not only



on the seller of custody, but also on the buyer, which has to analyse each response. "The whole process is incredibly painful, but probably necessary," says Tony Solway, a director of Henderson Administration.

As an information gathering exercise, the RFP is designed to provide clients with the "basic service details," says Ross Whitehill, vice president at Morgan Stanley. Typically, this will include information on the history of the organisation, an assessment of credit quality, the number of people assigned to

the product, the level of resources dedicated to global custody and, more generally, the value of the client's business to the custodian. As far as custodians are concerned, there are certainly some benefits to be derived from this process. The questions can act as a guide to custodians: if they are thinking of developing their products, they can see from the RFPs what customers are asking for. Often, the service parameters are open to negotiation. As Whitehill explains: "More and more people are asking 'Do you do this? And if you do not, would you be prepared to do it?'" Couched in these terms, "the RFP is not just acting as a filter, but can be used as a product development guide," he claims.



Alone, the RFP responses do not constitute sufficient grounds for the buyer to choose. "The difficulty with the whole RFP process is that it is a bit like interviewing people for jobs," says Solway. "No matter how many times you read a CV or how long you spend thinking up questions and interviewing, there is still a great deal about that individual that you do not know." There is also a tendency among respondents to appear over-eager to please rather than inform. Simon Murray, a director of custody consultants Thomas Murray, points out

A recurring theme in the RFP debate is the fact that no matter how an RFP is answered, there will still be other factors that have a role in the choice of a custodian. Whitehill points out that his company has won business on the basis of an RFP, where its service was not considered a perfect match with the client: "Someone else was offering something that I felt was a little ahead of what we were offering, but we still won the business – and we won it on relationship grounds, because the client knew that if they were going to be dealing with us, they would be dealing with people with whom they had a good relationship," he explains. However, he points out that, correspondingly, it can be frustrating when business is lost to a competitor with an inferior service but better relationship.

Whitehill summarises his position: "Choosing a custodian is a very subjective business. It is not objective. There are some very objective tests which must be carried out, but in the end it really comes down to a simple question: 'Do I want to do business with these people?'" The clients agree: "There is no substitute for working together," says Solway. "The RFP, no matter how detailed, is a poor substitute for knowing how the service will actually work on the day. I think the critical factors are 'Does everybody want this relationship to work? Can we get problems sorted out?'" ■

