

# The Scrip Issue

## FIT TO BUST

*Consolidation in the custody industry is all very well - as long as the remaining players can handle the volumes. And another trend may offer an incentive to the niche players to stay in business just a little bit longer.*

Simon Thomas, of industry consultants Thomas Murray Ltd., shares McCaughey's view. 'Custodians need to ask themselves how many individual clients they can support,' he says. Thomas is currently sitting on a large pile of RFPs for his clients, and advised both the Pru and Barings, so he is well qualified to speak on the subject. Thomas

*Suddenly  
every fund  
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and  
insurance  
company  
is  
fair  
game*

and McCaughey are both referring to client accounting as much as relationship management: if a custodian takes on segregated funds and agrees to provide individual portfolio reporting, the strain on systems and staff is that much greater than if reporting is consolidated. This, Thomas believes, is one of the areas where custodians should be focusing their attention. 'Fund administration is tomorrow's game,' he

maintains. 'But there is still an enormous amount of work to be done by the custodians and, to do it effectively, they need to make significant investments.' Some custodians, he feels, will not be up to the task: 'If you haven't got the business already,' he says, 'the cost justification is going to prove very difficult, especially with current fee levels at rock bottom.'

Perversely, the industry consolidation has arrived at precisely the time when many fund

managers are taking a serious look at the economics of handling custody in-house. There is no longer an automatic assumption that custody is a core part of the service they offer to institutional investors. This shift in thinking has been driven, at least in part, by two key factors. Firstly, CREST appears to offer a great opportunity to dump low-value UK custody into the laps of the custodians; very few fund managers want to be bothered with the costs of establishing their own CREST operations when the custodians are doing it all at very attractive prices.

Secondly, no-one is too enamoured with the prospect of further regulation, and SIB's consultative paper on custody seems to herald that as a distinct possibility. Why be regulated, the managers ask, when you can avoid that burden by giving your assets to a custodian?

