

A proven track record of analysis

Richard Greensted - 26 Feb 2001

■ **Over the past 10 years consultants have played an increasingly influential role**

■ Grizzled custodians still wince at the memory of the mid-90s custody review conducted by the [United Nations](#), which was a near-perfect example of how to alienate both existing and potential providers through a powerful mixture of incompetence and mismanagement.

Despite this, no custodian wanted to speak on the record about the affair, fearful of the possible repercussions if they were seen to be complaining about what was clearly a deeply flawed and highly amateur process.

Fortunately for the custodians, such incidents are few and far between, with the vast majority of reviews passing off in relative peace and with few fireworks. Whether the custodians like it or not, much of the credit for this has to go to the specialist consultants who, over the past 10 years, have assumed an extremely influential role in the evaluation and selection process.

The reason for the consultants' primacy is fairly obvious. [Robert Kay](#), who runs [Global Securities Consulting Services \(GSCS\)](#), says: 'It isn't the business of a pension fund to know everything about custody. They will know about their existing custodians, but they won't have any other in-house expertise, so it makes sense to hire a consultant.'

But it hasn't always been easy to find a good consultant. Aware of the rich pickings on offer, some firms piled into the market with little or no relevant expertise. In one infamous example, a US state carpenters' pension fund moved its custody from [State Street](#) to [The Bank of New York](#) and back within 18 months, advised on both moves by the same consultant.

That is less likely to happen today, even though there are still some cowboys operating on both sides of the [Atlantic](#). In the UK, the long march to respectability was given significant impetus by the establishment of [Thomas Murray](#) in 1994.



'It isn't the business of a pension fund to know everything about custody'

**Robert Kay,
Global
Securities
Consulting
Services**



further with their new operation. Last year, Thomas Murray handled custody reviews for portfolios with a combined asset value in excess of \$200bn (€214bn).

One of the chief complaints of the custodians is that consultants tend to generate huge requests for proposals (RFPs) containing arcane questions that appear to have little or no relevance to the client's needs. [Ross Whitehill](#), chief operating officer of Thomas Murray, is a staunch defender of the RFP.

'The size of the RFP is up to the client. Many of our clients ask for more, not fewer, questions. We recently produced an RFP with 350 questions and the client added another 200. But it is important to understand that we use RFP responses to construct service level agreements and the contract, so we need that level of detail,' he says.

Robert Kay of [GSCS](#) is less than convinced by this argument. 'If you have established a legitimate and appropriate RFP process, there is no incentive to change or shorten it. You're going to leverage that process as much as you can,' he says.

Kay himself tends to work on a different basis, developing an in-depth analysis of client needs before moving straight to a shortlist, rather than creating a longlist and whittling down the contenders. 'If it's a big or complex mandate, there really isn't much point going through a protracted RFP process, as only a few custodians will be able to handle the business. You might just as well call the true contenders straight away,' he explains.

[Carl Hitchman](#), head of European custody consulting at [William M Mercer](#), thinks there is a middle ground. 'We ask for an annual update of information from all the custodians. This means that we already hold that data when a review comes up, allowing us to concentrate much more on precisely what the client is looking for. The main purpose of the RFP is then to get a fee quote, as well as client-specific data,' he says.

Hitchman says that although [Mercer](#) uses a structured rating process, there is substantial flexibility in the way it runs the reviews. 'We will always pick up the phone to ask whether a custodian is interested in a piece of business and, wherever possible, we will disclose the client's name, because that can affect the custodian's decision. In any case, the custodians are often aware that a review is under way because they've already been talking to our client,' he says.

Thomas Murray's Whitehill agrees with this. 'Custodians bid differently from mandate to mandate, and we don't make assumptions about a custodian's appetite for any particular piece of business. Custodians may well be prepared to upgrade their service or offer a special deal if they want the mandate badly



enough and we need to find that out,' he says.

Whitehill admits that custodians do not especially enjoy the Thomas Murray process of evaluation. After it has reviewed the client's current arrangements, compared them with best practice and come up with a thorough understanding of future requirements, Thomas Murray will construct an RFP and put together a longlist, to which the client can add or subtract providers.

For those custodians that survive the initial analysis and reach the shortlist, the worst is yet to come - what Thomas Murray refers to as the Star Chamber.

'We get the custodian in to make its presentation and to answer detailed questions. At this stage, we will normally involve lawyers, as we're discussing things that will be included in the service level agreement and the contract. That sometimes makes custodians uncomfortable, but it's all part of the sales process,' he says.

Inevitably there is a degree of creative tension between the custodians and the consultants, although everyone is too polite to say so.

But there is no doubt that the better consultants have raised the standards of review and evaluation, and that many of the custodians' misgivings about the RFP process are actually a product of client, rather than consultant, demands.

Kay of GSCS says: 'Many clients expect and demand a big RFP. They have to be seen as having gone through the process.'

