

## Sound advice

**WITHIN SIX YEARS, CONSULTING FIRM THOMAS MURRAY HAS ESTABLISHED A REMARKABLE REPUTATION IN GLOBAL CUSTODY AND BUSINESS HAS NEVER BEEN BETTER**

Founded in the early 1990s, Thomas Murray rapidly established itself as one of the most trusted consultants in the market, providing institutional consultancy services, ratings, network management support and information services to the securities services industry. It is an unassuming operation, light years from the soft music and palm-lined receptions of the giant accounting and consulting firms which compete with it for business. From its office in Piccadilly, the company has built the expertise and market recognition many rivals would die for.

The company was established in 1994 to exploit an identified niche demand for a consulting practice which could offer tailored services and advice in the then largely unknown world of global custody. The Thomas Murray team attracted some clients from previous jobs and quickly set about building the business without fuss or major publicity. The company published selective "industry sourcebooks" in its early years while building a primary global research information platform, which now underpins its activities.

Business growth, largely funded by earnings since establishment, has been startling, as Simon Thomas, CEO, explains: "The focus initially was on the institutional consultancy side where we had worked traditionally for the buyers of custodial services such as the large asset managers. On that side of the business we have built a large portfolio of clients. We have been responsible for realigning well over \$1 trillion worth of assets with custodian banks. The focus moved from working with investment managers to encompass much larger investing institutions including large European insurance companies such as AXA. More recently we have deepened our business to take on more pension fund related work. We assisted pension funds responsible for the management of up to \$250 billion of assets in 2000."



**Simon Thomas**  
CEO Thomas Murray

While Thomas Murray serves a huge range of clients, one of the greatest challenges the company faced was to bring its unique approach and services to smaller funds in an economic way. It had watched the emergence of e-commerce keenly and saw the potential to deliver services electronically to clients at an extremely low cost. According to Thomas: "About 18 months ago we decided to investigate e-commerce engines and how we could use them to bring our expertise in an effective way to the broader fund market. The average fund is not going to be able to entertain traditional hand-holding consultancy fees on a mandate review. They are more comfortable with paying the

fees equivalent to a few days consultancy for expertise and support. Put plainly, many funds cannot justify spending much more than that". With the regulatory environment changing fast and forcing investment groups to analyse and monitor custodians, Thomas Murray saw great potential in providing an electronic source of support for funds. It has now built an e-commerce transaction engine called CustodianSelect, which is currently being tested by the UK-based ICI pension fund and will be rolled out to the market in the near future.

According to Thomas: "The system will allow clients easy access to our know-how and methodology at a fraction of the conventional consulting cost. We believe this really is the way to go and we will launch the service fully later this year." The key components of the system include a health check, which allows funds to key into the system free of charge and determine whether their existing custody arrangements are everything they should be. The system also contains a review section, which allows users to go into more fund specific detail, analysing their own arrangements. This should allow funds to gauge if their current custody arrangements are competitive from a range of viewpoints. Funds can also use the system to build their own request for proposal (RFP) requirements and submit them electronically to banks that might be invited to bid for the business. Commenting on the system, Thomas added: "All the information from the investing institution will be held in a special zone, allowing the review institution to use the data for self assessment. They can even employ their own consultants to do that assessment. We believe this system will allow both small and large funds to access our research material and methodology." Thomas Murray Investor Services, the division responsible for CustodianSelect, is headed up by respected industry expert and former SWIFT director James Economides.

Geographically, the company is now represented in New York, Washington and Hong Kong but has plans for further international growth. Its business to date has mainly focussed on the UK and continental Europe, a market reach the company is keen to widen. According to Thomas: "We are looking at global opportunities and we will be appointing associates and franchisees around the world. We encourage local market experts to approach us with a view to exploring whether a good fit exists. Developments in e-commerce have now allowed us to be confident we can manage that process successfully. On the consulting side we have been Euro-centric to date, essentially drawing business from the UK and Europe."

While the company supports asset managers, pension funds and other institutions seeking advice on custodians, it has a separate company advising custodians on their international networks on the wholesale side. This involves helping banks to evaluate overseas securities agents or sub-custodians in 90 markets. The current client list reads like a 'Who's who' of global custody, including 60% of the top 15 by assets under custody.

Commenting on the business Thomas says: "We work with international banks which provide global custody services and

which run overseas networks. We will help them analyse local market risks, analyse the local market sub-custodians and depositories and provide them, in a cost-effective way, with very structured reports which allow them to decide whether to select or deselect overseas agents." It is not surprising that there really is a global need for this type of service. Once you look below the biggest global banking players, you often find organisations with limited or small network teams. Getting the right information about local facilities overseas can be quite a challenge and quite expensive.

On the wholesale side of the business, the company works in conjunction with a large number of custodians and other groups to provide a collective response to commercial and new regulatory pressures. Thomas Murray gained serious public attention in 1999, when it announced a ground-breaking industry alliance with rating agency Standard & Poor's. A rare company press release outlined the launch of a global depository review and risk evaluation service to the global securities services and investment industry. Led and managed by Thomas Murray, the company worked for over 12 months to develop and devise the methodology to provide depository assessments. Explaining the programme Thomas says: "We are analysing every operational equity and fixed income depository in the world. This programme is being run with the support of many of the major banks including Citibank, State Street, ABN Amro, BNP Paribas, Mellon, SE Banken and the Bank of New York. These companies are working with us to provide and validate the information available about depositories.

"Specifically, we are assessing depository risks that institutional investors are exposed to during local market settlement and safekeeping, through that process. We produce detailed reports from this information that are available to anyone and are entirely run on a market neutral basis. It is the first time such detailed information about capital market infrastructural organisations, such as depositories, has been broadly available from a single source. We believe this is in line with recommendations of international regulators.

Thomas Murray remains a private company, though it recently opened up 24 percent of its equity to strategic outside investors. Small, with a staff of only 28, the company does not wish to be a volume player. It believes that through its products and information databases it will meet client needs.

Thomas believes several emerging trends will drive new clients towards Thomas Murray. He feels the widely reported consolidation of global custodians has reached its limit and may actually be reversing. "If you look at global custodians, there has been a move at the top end to consolidate, but I think that that trend is reversing. There are a number of major European banks that are deeply committed to this business. I think the European providers are going to offer stiff competition to the major US players. We welcome that scenario and I believe it is important that the market does not over consolidate. Thomas Murray is also keeping a close watch on the development of depositories, where Thomas predicts problems ahead. The role depositories wish to play is also very interesting going forward,

**with some seeking to provide asset servicing support. Where depositories do get involved in these areas with limited capital, potentially they risk incurring significant losses if things go wrong. I don't think that the implications of moving beyond settlement, clearing and safekeeping have been particularly well thought through."**