

Case Study

Fidelity Investments

Automating Remittance in a Mutual Fund

MUTUAL FUND

The Business

Most high-volume remittance processing operations have a lot in common. Envelopes containing checks come in and must be sorted, opened, extracted, scanned, routed, accounts credited and checks deposited. The machines that automate these tasks are impressive. The data operators that perform the requisite manual keying are skilled, and the exceptions are often the biggest obstacle.

As a large mutual fund company in the United States, Fidelity Investments (FWP) provides financial services for its 21 million shareholders. In addition to funds management, Fidelity offers human resources administration and employee benefits services to retirement, pension, health and welfare, payroll, and stock plans.

Time is of the Essence

Time is critical in any remittance operation, as invariably the goal is to get payments to the bank as quickly as possible. For FWP, processing takes an even greater urgency due to the additional oversight of the Securities and Exchange Commission (SEC). Mutual fund companies are mandated to execute trades at the closing price on the day that orders are received. This means that any payment contributions must be processed at that day's quote. Should a remittance be delayed, any fluctuation in the fund's price becomes a liability to the firm.

Under the SEC's Rule 22c-1 of the Investment Company Act (known as the 'forwarding pricing' rule), funds, underwriters and dealers must sell and redeem fund shares at a price based on the current net asset (NAV) next computed after receipt of an order to buy or redeem. The rule also requires that funds calculate their NAV at least once a day. Most funds, including Fidelity's, calculate NAV when the major U.S. stock exchanges close at 4:00 p.m. Eastern Time.

Under Rule 22c-1, an investor who submits an order before 4:00 p.m. pricing time must receive that day's price, and an investor who submits after the pricing time must receive the next day's price.

"They don't care how we receive it," said Roddell McCullough, Fidelity's senior director, remittance processing. "They only care that once Fidelity takes possession of it we're held to the forward pricing rule; we have to get it processed by 4 o'clock."

The Problem

Documents sent to the wrong department is a big issue for a company the size of Fidelity. In addition to its mutual fund business, the company handles payroll services, benefits payment processing, and broker/dealer work.

"We try to rely on the customer to use the right envelope," McCullough said. "But they'll think if they've got a 401K and also have a retail account, they can put both transactions in the same envelope. At some point we'll have to separate those. Customers think, 'Fidelity is Fidelity,'" he said. "They'll stuff as much possible in that envelope and maximize their 37 cents."

Each operator may sort 700 items per hour with automated manual extraction. The operators have to be able to identify many different items. Not only those of Fidelity, but its business partners as well.

"The operators have to know their exceptions," McCullough stressed. "Not only remittance items, but many other form types. This is the most manually intensive part of the process."

While many traditional remittance operations handle large volumes of low-dollar transactions, the financial services industry can see transactions of huge value.

"We're seeing about 25,000 check per day, which may not seem like much, but we process transactions valued at over \$2 billion monthly," McCullough said. "Believe it or not, sometimes we'll get multi-million dollar checks in here with no deposit instructions."

It's All About the Data

In order to address these anomalies, the remittance operation is tied to the company's mainframe to facilitate cross-reference account information. Using whatever clues that accompany a deposit,

the firm can correctly match account information in real-time, and create missing deposit clips, or other transaction documents. By processing on the mainframe, the item comes back with a deposit clip with the amount, scan line, and transaction code complete.

Despite the many safeguards in place to ensure same-day posting, the company must sometimes post items after the 4 p.m. cut-off. "We have a process so that if a check comes in today, and we don't get it processed until tomorrow, they'll get today's price, and all of this is tracked for accounting," said McCullough.

To key operators, the process works similarly to many 2-pass remittance operations. In fact, for the past 4 years, Fidelity has been using an "off-the-shelf" remittance processing software system from J&B Software. The system - TMS Image™ - has been tailored to Fidelity's requirements with specific functions useful to a mutual fund company.

A noteworthy customization, which J&B and Fidelity developed, is the ability to momentarily leave the processing in order to validate transaction data. In addition to capturing scan line, check amount, etcetera, the software can momentarily suspend a transaction and send information to the mainframe, which contains the most current edits, then return to the operator for review and validation.

FWP places heavy emphasis on document prep prior to scanning. Three separate document prep areas handle various transaction types.

"We have an institutional prep, an advisor prep and a retail prep when getting ready for scanning," explained Gregg Prebles, senior director of operations. "Our goal is to get an image and get it into the hands of the experts."

Those experts might be located locally, or anywhere from Rhode Island or Massachusetts to Texas. Once centrally scanned, the work can be sent anywhere throughout the country.