Third-Party Monitoring Matters

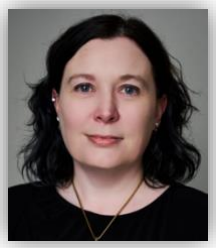
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Strong oversight is essential to operational resilience, not something to revisit only when problems arise

Selecting the right service provider is only the first step. Even well-chosen or reputable providers can experience service deterioration, staff turnover, control failures, technology issues, ownership changes or shifts in strategic focus that affect the quality of support over time. For institutional investors and asset managers, this matters because fund administrators, custodians and other key third parties often sit close to, or entirely control, core processes and control points.

For that reason, firms should treat third-party monitoring as a core component of operational risk management, not an administrative follow-up to the original appointment. In many jurisdictions, regulated firms also retain responsibility for key outsourced functions and are expected to maintain appropriate oversight of the providers performing them. Ongoing oversight therefore helps firms meet both their governance and regulatory responsibilities, while ensuring that service quality remains aligned with expectations, emerging issues are identified early and accountability is maintained as the relationship evolves.

In our experience, however, third-party monitoring is not always given the same level of attention as initial selection and the absence of a formal approach is a common risk we observe during due diligence. Formal service reviews may be inconsistent,



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> "Effective third-party monitoring is about more than reviewing service levels; it is about identifying emerging risks early, maintaining clear accountability and ensuring the provider continues to support the client's operating model as it evolves."

escalation routes may be unclear and issues may be discussed but not tracked to resolution. A robust monitoring framework should be established at the time of appointment, and must create clear expectations, support effective challenge and provide evidence that provider performance is being actively overseen.

This thought piece builds on the first part of the series on third-party selection (Read Here). If the first discipline is choosing the right provider, the second is ensuring that provider continues to deliver in a way that supports governance, control and resilience over time.

Why Third-Party Monitoring Deserves Greater Attention

Third-party monitoring is important as operational risk does not stand still after appointment. Providers' teams change, operating models evolve, volumes increase, systems are upgraded and service pressures emerge. At the same time, clients' own operating models, investment mandates and requirements can also change over time.

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A relationship that appears strong on day one can therefore become less well aligned if service quality and ongoing fit are not assessed in a structured and consistent way.

It is clear in institutional due diligence exercises where firms rely too heavily on informal monitoring and feedback, or where they only react when a significant issue has already materialised. Delays in reporting, rising error rates, unresolved breaks, poor responsiveness, recurring manual workarounds or weakening oversight can all point to a service model that is under strain. Without formal monitoring, those signals are easier to miss and harder to evidence.

For allocators and managers alike, effective oversight of providers is therefore about more than relationship management. It is about understanding whether a third party continues to operate in a way that supports the control environment and the wider operating model.

Monitoring Should Be Structured, Not Ad Hoc

A common weakness is that provider oversight becomes too reliant on day-to-day interaction. Informal contact is important, but it is not a substitute for a structured monitoring framework. Strong working relationships can sometimes create a false sense of comfort if underlying performance, control or capacity issues are not being assessed systematically.

A more effective approach is to establish a formal governance structure around the relationship from the outset. That should include documented service expectations, defined meeting forums, agreed performance measures, clear escalation routes and formal issue tracking. The aim is to create a framework that allows firms to assess both current performance and emerging risk in a disciplined way.

The Role of SLAs, KPIs and KRIs

A robust monitoring framework should usually begin with a clear Service Level Agreement ("SLA") or equivalent service framework. This should do more than describe broad responsibilities, it should set out measurable expectations around timeliness, accuracy, responsiveness, escalation and delivery standards, so that provider performance can be assessed against something concrete.

Key Performance Indicators ("KPIs") then help firms measure whether the provider is delivering as expected. Depending on the service, this may include reporting timeliness, NAV delivery



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"Strong provider relationships require more than regular contact; they need structured oversight, meaningful performance measures and clear escalation so that issues are challenged early and resolved before they become more significant operational risks."

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response times, break resolution, exception volumes, cash processing accuracy, onboarding performance or other service metrics relevant to the operating model. The objective is not to create metrics for their own sake, but to establish a practical basis for monitoring service quality over time.

Key Risk Indicators ("KRIs") are equally important because they help identify pressure points before they become service failures. These may include staff turnover in core service teams, recurring manual interventions, rising incident volumes, overdue reconciliations, unresolved audit points, repeated control breaches or deteriorating turnaround times. Used properly, KRIs allow firms to move from reactive oversight to earlier risk identification.

Taken together, SLAs, KPIs and KRIs provide the foundation for more objective provider oversight. They help move discussions away from general impressions and towards measurable performance, emerging risk and accountable follow-up.

The Importance of Periodic Service Reviews

Periodic service reviews should sit at the heart of third-party monitoring. In many cases, these will take place quarterly, although the right frequency will depend on the criticality of the provider, the complexity of the structure and the nature of the service being delivered.

Quarterly service reviews create an opportunity to step back from day-to-day activity and assess the relationship more holistically. They should cover performance against SLA and KPI measures, review KRIs and incident trends, assess any control or servicing issues, discuss upcoming business changes and revisit whether the provider remains well aligned with the client's requirements.

These reviews should be properly documented and supported by consistent reporting. They are most effective when they combine performance data with informed challenge, rather than becoming routine status updates. The objective should be to understand not only what has happened, but what may be changing beneath the surface.

Periodic service reviews should also be complemented by deeper due diligence, at least annually, and where appropriate conducted onsite. This provides an opportunity to assess the provider's control environment, governance, staffing, technology and broader operating model in greater depth, and to validate whether the service continues to meet expectations in practice.

Executive Meetings and Day-to-Day Governance

Formal oversight should typically operate across more than one level. Day-to-day meetings remain important because they allow operational issues to be addressed quickly, support working-level coordination and help resolve immediate servicing matters as they arise. These interactions are often

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where early warning signs first appear.

However, operational meetings alone are not enough. Periodic executive or senior governance meetings also play an important role. These create a forum for discussing broader relationship health, strategic developments, capacity, technology change, control themes, regulatory developments and any persistent issues that require senior attention.

The distinction matters.

Day-to-day governance helps manage the service as it is being delivered. Executive governance helps assess whether the relationship remains fit for purpose and whether more structural action may be needed. Both are necessary, and both should feed into a joined-up oversight framework.

Clear Escalation Matters

A monitoring framework is only effective if issues can be escalated clearly and promptly. One of the most common weaknesses in provider oversight is uncertainty around when an issue becomes material, who owns escalation and how unresolved matters are carried into a more senior forum.

Firms should therefore define escalation routes in advance. That includes setting expectations for what types of issues should be escalated, how quickly they should be raised, which stakeholders should be involved and how resolution will be monitored. Escalation should not be seen as a sign that the relationship is failing. In a well-governed model, it is part of how the relationship is managed responsibly.

This is particularly important where providers support core control processes or where unresolved issues may affect investors, auditors, regulators or fund operations more broadly. In those situations, speed, clarity and documentation matter.

What We Commonly See in the Market

Firms often place too much reliance on relationship strength rather than evidence of performance. Good relationships matter, but they should not replace formal oversight.

Service reviews can become too operational and backward-looking. Meetings may focus heavily on recent activity without examining broader trends, emerging risks or whether the provider's model is evolving in a way that still meets the client's needs.

Metrics are not always designed well. Some firms collect large volumes of data but focus on measures that do not say much about control quality or service resilience. Others have too few metrics to identify meaningful change.

Issues are not always tracked in a disciplined way. Matters may be discussed and acknowledged, but without formal ownership, deadlines or escalation, they can remain unresolved for too long.

Firms do not always reassess the provider relationship periodically at a more strategic level. Monitoring should not only ask whether the service is acceptable today, but also whether the provider remains the right long-term fit for the structure, growth and model.

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Monitoring Is About More Than Performance

While service performance is central, effective monitoring should also consider wider indicators of risk. These can include changes in key personnel, provider restructurings, acquisitions, platform migrations, control incidents, regulatory developments, audit outcomes, cyber events or shifts in outsourced support arrangements.

These factors may not immediately affect day-to-day service, but they can materially change the risk profile of the relationship. A provider that continues to meet headline service metrics may still warrant closer attention if there are signs of control strain, strategic change or increased operational complexity behind the scenes.

For that reason, third-party monitoring should combine quantitative measures with qualitative judgement. Metrics are essential, but they should sit within a broader framework of challenge, governance and risk awareness.

Why This Matters for Both Allocators and Managers

For allocators, robust monitoring of service providers matters because weak third-party oversight can undermine confidence in otherwise attractive investments. Where a manager relies heavily on administrators, custodians or other key providers, the quality of ongoing oversight can be an important indicator of institutional maturity and operational discipline.

For managers, effective monitoring matters because provider relationships directly influence reporting quality, control effectiveness, audit readiness, investor confidence and operational scalability. A provider that was appropriate at launch may require closer challenge as volumes grow, structures become more complex or investor expectations evolve.

Firms will sometimes re-run RFPs to test the market and compare service offerings, but these exercises can be time-consuming, disruptive and costly. They can also place disproportionate emphasis on fees rather than the quality and fit of the existing relationship. In many cases, a better outcome can come from working in partnership with the incumbent provider through structured monitoring, clear performance measures and regular challenge, using that framework to drive improvements before concluding that a full re-selection exercise is necessary.

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