The Hunt for Growth Across Asset Management

Are you ready to rise?
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Introduction

As asset managers seek to capitalize on improving market performance and emerging customer demands for new services, they recognize that operational excellence represents a significant opportunity to unlock growth amid the continuing pressures of cost, regulation and intensifying competition.

However, new research from FIS suggests that while asset managers are optimistic about the outlook for their businesses, they are acutely aware of the need to reposition their operational capabilities in order to drive value. Many asset managers are concerned that these capabilities are not strong enough to underpin their growth ambitions.

Closing these gaps will be critical as asset managers continue in the “hunt for growth.” Our research is based on a survey of 1,042 senior-level decision-makers from across the financial services industry (see About the research), including more than 230 respondents from asset management firms – spanning active and passive specialists, retail and institutional firms, hedge funds, private equity managers, and both large traditional asset managers and boutiques. It reveals key insights about where asset managers must now focus their search for operational excellence.

What are the Readiness Leaders doing differently, and how can others follow their lead?

We assess and score their capabilities across six key operational pillars for growth, as well as factoring in their outsourcing strategy:1

- Automation
- Data management
- Emerging technology
- Digital innovation
- Customer experience
- Talent

The research includes the FIS Readiness Index, which rates asset managers’ performance on each of these key growth enablers. Its message is clear: those asset managers that are closest to achieving operational excellence are reaping the rewards, growing more rapidly than their rivals.
Headline findings

1. Asset managers are the most positive of all buy-side players about growth prospects, but only a minority feel they are operationally-equipped to support growth ambitions.

More than half (57 percent) of the asset managers in our survey are confident about achieving their growth targets over the next 12 months, while only one-fifth are pessimistic.

However, for many managers, this optimism is tempered by anxiety about their ability to execute their ambitions. Almost half (47 percent) of asset managers say their technology capabilities are not strong enough to fully support their growth plans. And the same number say this about their operations function.

2. Asset managers are prioritizing better investment performance, improved operating margins and customer acquisition in their hunt for growth.

Half (51 percent) of asset managers say that improving investment performance is one of their top three growth objectives for the year ahead, the most cited response. However, of almost equal concern is the drive for improved operating margins, reported by 49 percent. In addition, 45 percent rate new customer acquisition among their top growth objectives.

To achieve these varied objectives, managers will need to adapt their approach to technology, processes and talent, which we dissect in the FIS Readiness Index. And they will undertake further targeted outsourcing too. Over the next 12 months, 29 percent intend to outsource more elements of their middle-office operations, while 22 percent expect to do the same with elements of investment risk management.

Figure 1. Readiness for growth

Our current technology capability is not strong enough to fully support my organization’s growth plans

- Strongly disagree 4%
- Disagree 16%
- Neither agree nor disagree 32%
- Agree 39%
- Strongly agree 9%

Our current operations function is not strong enough to fully support my organization’s growth plans

- Strongly disagree 4%
- Disagree 22%
- Neither agree nor disagree 28%
- Agree 38%
- Strongly agree 9%
3. Asset managers are planning to create new offerings to drive growth, but decision-makers must navigate political and regulatory uncertainty.

Asset managers are identifying clear routes to growth: for example, 36 percent plan to increase their offering of outcome-oriented multi-asset solutions (i.e., managed to deliver a specific target objective such as target return, target income or target risk), 27 percent will do so for liquid alternative strategies, and 26 percent for environmental, social and governance (ESG) investing strategies. Managers also project significant flow increases into emerging market equities and fixed income assets, as well as real estate, over the next three years.

Nevertheless, considerable uncertainty lies ahead. Almost a third (30 percent) of asset managers say the political outlook is one of their top three macro-threats, while 31 percent cite Brexit specifically as a threat to growth. Managers seeking to take decisions about their distribution models will be challenged by question marks surrounding the distribution of U.K.-registered and EU-registered funds. Asset managers need legal certainty on such issues, but they know that the agility to respond to such potential change will be more important than ever.

4. Many asset managers are investigating emerging technologies such as artificial intelligence and blockchain to enhance organizational agility.

While only 17 percent of asset managers have undertaken any live implementation of artificial intelligence (AI) or machine learning technology in their business today, 44 percent are currently developing or piloting solutions that will help to strengthen areas such as performance analytics, risk management and automation of operations. In addition, the same number say they are researching blockchain solutions for applications in areas such as clearing and settlement, collateral management and reconciliation.

5. Asset managers that have progressed furthest toward achieving operational excellence are growing faster than their peers.

We assessed the top 20 percent of financial institutions, defined as those with the strongest overall performance across our six operational pillars for growth (with the highest aggregated score on our Readiness Index) – 41 percent of which are buy-side firms – to understand the impact of implementing this operational model on growth. We found that these leading institutions outstripped their peers on revenue growth and in growing their assets under management last year. Our detailed results suggest these Readiness Leaders are better equipped to out-compete their rivals in the hunt for growth.

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2 BUY SIDE GROUPING INCLUDES: ASSET MANAGERS (53 PERCENT); FUND ADMINISTRATORS (33 PERCENT); AND PENSION FUNDS (14 PERCENT)
The FIS Readiness Index

The FIS Readiness Index shows how buy-side firms rate today against six key operational pillars for growth, indicating where capability gaps remain as they prepare their operating models to support growth.
Six operational principles are critical levers of growth in the years ahead:

**Automation:**
The level of process automation across the transaction lifecycle; AI in combination with exception-based workflow is the highest parameter.

**Data management:**
Data management capability, including integration of data across the organization, predictive analytics and visualization.

**Emerging technology:**
Maturity of emerging technology adoption across mobile, AI and distributed ledger solutions.

**Digital innovation:**
Level of activity directed at strengthening digital innovation, and propensity of organizational culture for innovation.

**Customer experience:**
Performance across customer service metrics, including customization of products and services, mobile delivery, responsiveness and transparency.

**Talent:**
Level of workforce competencies in data analytics, software development, digital distribution and digital transformation.
The Readiness Leaderboard

We studied the buy-side firms within the overall Readiness Leaders group, defined as those with the strongest overall performance across our six operational pillars for growth (those with the highest aggregated score on the FIS Readiness Index), to assess the link between implementing this operating model and achieving growth.

Our analysis reveals that the top buy-side respondents (Buy-side Readiness Leaders) are performing significantly better than other institutions, on average, on both revenue growth and increasing assets under management.

Of the leaders, 38 percent have grown global revenue by 5 percent or more over the last 12 months, versus only 20 percent of other institutions. And 47 percent of leaders have grown assets under management by 5 percent or more in the last 12 months, versus just 23 percent of other institutions.

<table>
<thead>
<tr>
<th>All industries</th>
<th>Buy-side Readiness Leaders</th>
<th>All buy side</th>
</tr>
</thead>
<tbody>
<tr>
<td>OVERALL SCORE</td>
<td>6.1</td>
<td>7.9</td>
</tr>
<tr>
<td>Automation</td>
<td>5.5</td>
<td>7.2</td>
</tr>
<tr>
<td>Data management</td>
<td>6.5</td>
<td>8.4</td>
</tr>
<tr>
<td>Emerging technology</td>
<td>5.7</td>
<td>7.9</td>
</tr>
<tr>
<td>Digital innovation</td>
<td>5.5</td>
<td>6.9</td>
</tr>
<tr>
<td>Customer experience</td>
<td>7.4</td>
<td>8.8</td>
</tr>
<tr>
<td>Talent</td>
<td>6.2</td>
<td>8.3</td>
</tr>
</tbody>
</table>

Asset managers score relatively strongly with respect to their data management capability, which, at 6.5, outscores all areas other than customer experience (7.4). The integration of systems and unification of data that has been required to respond to risk reporting and customer reporting needs over the last few years may go some way toward explaining this. However, as managers seek to increase the customization of solutions for investors and offer more diversified multi-asset solutions, they will need to improve their ability not only to access unified, real-time data but to enable portfolio managers across the business to readily customize data for their needs.

The approach to accelerating digital innovation (5.3) and level of adoption of emerging technologies (5.5) are other key areas earmarked for improvement by the FIS Readiness Index. The implementation of machine learning and some forms of AI is likely to be the quickest wins for asset managers since they will rapidly add value in areas such as investment analytics and process automation – and accelerate managers’ path to achieving their growth objectives.

Blockchain development is also progressing, with use cases now being discussed within the industry around areas such as bilateral derivatives processing (particularly credit default swaps), private equity data flows between general and limited partners, and transfer agency. But given the large number of stakeholders that need to be involved – including regulators – in the development of blockchain solutions, such projects may turn out to be longer-term initiatives.
Figure 2. Percentage growth in revenue in the last 12 months (average)

Buy-side Readiness Leaders: +3.7%

Industry (excluding Leaders): +1.6%

Figure 3. Percentage growth in AUM in the last 12 months (average)

Buy-side Readiness Leaders: +4.2%

Industry (excluding Leaders): +2.0%
Accelerating growth readiness: Rise to meet the future faster

What are the key operational principles of the FIS Readiness Index, where do asset managers need to prioritize to help drive future growth, and how are leading asset managers adapting their strategies?
Nearly half (44 percent) of asset managers say that IT spending needs to be focused most on strengthening the middle-office infrastructure over the next 12 months to drive growth, versus 32 percent that believe the front office should dominate IT spending and 20 percent that cite the back office.

Asset managers hope to make the biggest strides in automation in the middle office over the next three years. For instance, while only 29 percent say compliance activity is highly automated today, 56 percent anticipate that this will be the case in three years’ time. And while 32 percent say they have significant automation of their investment book of record (IBOR), this will rise to 44 percent in three years’ time.
A reduction in operating costs is the biggest driver of IT spending for asset managers, with 36 percent ranking this among the top three benefits their technology spend must deliver. However, strengthening cybersecurity (35 percent) and helping to drive new revenues (31 percent) are also top of mind.

Greater automation will be crucial in delivering all of these gains. Driving further simplification and automation in areas such as the trading book, compliance, customer reporting and collateral management will bring down costs, improve the speed of processing and enable managers to access more real-time pricing and valuation information.

James Tan, chief operating officer at Lion Global Investors, says there are important steps to be taken in automating compliance activity. “The whole process of anti-money laundering and know your customer must be automated to the point where it’s not such a hurdle for investors to cross just to buy a fund. It’s an area we’re looking at closely.”

One private equity executive, who wished to remain anonymous, says their firm is automating more of its compliance activity, but shifting regulatory goal posts represent a challenge to deeper automation.

“We’ve been refining and reviewing our processes more than once a year, sometimes with substantial changes in the processes just to reflect new regulations and new processes that need to be put in place,” this executive says. “This can make it more challenging for us to automate, because it doesn’t make sense to do so in areas where we’re not 100 percent sure about how they will work in the future.”

In our survey, fewer than one in 10 asset managers have achieved full automation that incorporates robotics technology for most of the activities we examined. This creates significant opportunities for those that can reach these levels fastest over the next few years. Initially, passive managers may be able to incorporate these technologies more quickly because of the nature of indexed funds.

Figure 4. Current automation versus future automation
“The whole process of anti-money laundering and know your customer must be automated to the point where it’s not such a hurdle for investors to cross just to buy a fund.”

James Tan, Lion Global Investors

“With the more predictable data that comes from tracking an index, these funds will generate a narrower range of exceptions that are repeated more frequently than an actively managed fund with a broad assortment of complex assets. In other words, you tend to encounter and repeat the same exception over and over, which enables the robot to learn more quickly how to spot and automate those patterned exceptions,” says Tony Warren, executive vice president, head of strategy and solutions management at FIS. “Active managers will catch up, and they may see that subsets of their funds can be automated while part of the fund still needs monitoring – but even partial automation can significantly reduce overhead and push down costs.”

Back office

<table>
<thead>
<tr>
<th></th>
<th>Current</th>
<th>Next 3 – 5 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fund accounting (ABOR/NAV)</td>
<td>46%</td>
<td>46%</td>
</tr>
<tr>
<td>Reconciliation</td>
<td>46%</td>
<td>46%</td>
</tr>
<tr>
<td>Corporate actions</td>
<td>40%</td>
<td>42%</td>
</tr>
<tr>
<td>Customer and regulatory reporting</td>
<td>42%</td>
<td>56%</td>
</tr>
<tr>
<td>Transfer agency/investor accounting</td>
<td>35%</td>
<td>56%</td>
</tr>
</tbody>
</table>
Many asset managers see their ability to manage and exploit data as a potential competitive differentiator in the years ahead – 61 percent see big data and analytics as a key skill set they will need in order to achieve their growth objectives.

Interestingly, the FIS Readiness Index shows that asset managers perceive data management to be a relative strength. Three-fifths (62 percent) of asset managers believe their ability to unify data sources across the organization is effective. This is their highest-rated area of data management competency, however, and may have been accelerated by an imperative for regulatory and customer reporting in recent years.

Their weakest competency is in predictive analytics of investment risk and opportunity, an ability that could have the greatest bearing on asset managers’ competitive edge over the next few years. Only 13 percent believe they are highly effective at this today, while only half (54 percent) are in any way satisfied with their performance.

Those asset managers that have made progress are reaping the rewards. “We’ve created a data store that enables us to centralize and standardize data as it flows through various systems and from third parties,” says Igor Lobanov, head of systems architecture at Legal & General Investment Management in the U.K. “We know what’s there, we apply quality checks, and we understand precisely what each of the data points actually mean, which enables us to construct a dataset for a particular customer or investment desk or particular scenario.”

Looking ahead, asset managers will need to get more out of their data to succeed. At Legal & General, Igor Lobanov says that while driving these gains may take time, the pay-offs are real. “We’ve been talking for a number of years about our investment book of record capability – our ability to construct a real-time, or near real-time, view of the investment position on the back of the trading and post-trade activities independently from our administration systems,” he says. “We’re now almost there, including good coverage of complex assets such as OTC derivatives, and we can begin to focus our efforts to innovate and create more value on top of this data set.”
61 percent see big data and analytics as a key skill set.

Figure 5. Data management capability

- Unifying data sources across the organization
- Combining external data with internal data to better inform our decision-making
- Ability to visualize and simplify complex organizational data for decision-making
- Advance analytics for predictive identification of risk and opportunities

Legend:
- Don’t know
- Highly ineffective
- Ineffective
- Neither effective nor ineffective
- Effective
- Highly effective
The FIS Readiness Index shows that emerging technology adoption is a relatively weak area of asset managers’ operating model today. Our index shows the majority of buy-side institutions score just 5/10 on this metric, versus the Readiness Leaders, who score 7.9.

Concerning blockchain, despite much hype, asset managers have made very little tangible progress with respect to distributed ledger technology (DLT): less than 10 percent of managers say they have achieved any level of implementation of such a solution. The need to engage government and peer institutions in the development of DLT solutions is a clear obstacle to rapid adoption. However, managers are paying attention to DLT: 45 percent say they are researching or testing solutions.

Asset managers’ adoption of AI or machine learning solutions has been marginally quicker: 17 percent have undertaken some live implementation of such solutions within their business. A further 44 percent are actively researching and developing applications of AI.

There are significant differences between Readiness Leaders and the majority of the industry when it comes to applying AI to performance analytics, the automation of operations and the development of robo-advisory platforms.

While mobile technology is well established in many sectors, asset managers are only now beginning to fully embrace mobile as they recognize the opportunities it creates to better engage customers and expand distribution, particularly in the retail space. Just 24 percent of asset managers say they have launched mobile services for customers today, but a further 58 percent are developing them.

Lion Global Investors’ James Tan says the firm has created a mobile-friendly online information content portal for its newly launched LionGlobal Disruptive Innovation Fund (LGDIF), which connects to the transactional platforms of its online distribution partners.

“Investors will still need to go through the transactional platforms of our online distribution partners, but it is an important start for expanding our distribution business via mobile,” explains Tan. “We’ve got an advantage in this sense because we have a parent company that is a retail bank that has its own mobile retail platform – the next phase of this product is to sell it via the bank’s own retail platform.”

Asset managers are only now beginning to fully embrace mobile.
Among the readiness leaders, the main applications of AI/Machine Learning being explored are:

- Reconciliation: 47%
- Collateral management: 42%
- Regulatory reporting: 47%

Among the readiness leaders, the main applications of blockchain are:

- Performance analytics: 51%
- Automation of operations: 48%
- Risk management: 41%
Digital innovation offers an important route to growth for the asset management industry as robo-advisory technology impacts distribution models, and AI and big data deliver new advantages in deriving investment insights, for example.

Incumbents have already launched or acquired digital advice platforms in response to some of these forces of change. One firm has also announced it will overhaul its active equity unit – turning to big data and AI to replace some of its human stock-pickers.

However, with asset managers scoring just 5.3/10 in the FIS Readiness Index for their digital innovation strategy, many are clearly facing challenges in expediting innovation.

Oliver Murray, chief executive officer of Bridgehouse Asset Management, says the firm is investing in new front-office technologies to keep pace with market competition, but keeping up with regulation can be a drain on funding. “There are lots of regulations that we have to stay current with, and as a relatively small company, that impacts our spending on both technology and personnel on the compliance side,” says Murray.

“Fintech is something we talk about every day in our business, but we need to understand which part of the value chain these technologies will evolve.”

Eleanor Wan
BEA Union Investment Management

Figure 6. Barriers to digital innovation
Asset managers cite a host of obstacles that are preventing them from pursuing digital innovation at the pace they would like. Legacy IT systems are a barrier for a third (33 percent) of asset managers, while 28 percent are concerned about cybersecurity risk. Then there are systemic issues: 22 percent point to a lack of collaboration between silos in their business as an issue, while 20 percent say the culture of their organization is not sufficiently open to innovation.

Moreover, says Eleanor Wan, chief executive officer of BEA Union Investment Management in Hong Kong, asset managers must pick and choose their technologies carefully. “Fintech is something we talk about every day in our business, but we need to understand which part of the value chain these technologies will evolve,” she says. “For example, technology can definitely help to replace some of the very labor-intensive areas of our business, but I don’t believe a machine can replace a human being and power advice.”

Our research finds that asset managers are taking a wide variety of steps to strengthen digital innovation, both internally and externally. Some 29 percent say they have embraced collaborations with innovative third parties, while the same number have outsourced non-core services to free up resources. A third (33 percent) are focused on encouraging a more open innovation culture, while a fifth (21 percent) have launched incubator or accelerator programs.

Certainly, the innovation drive is set to continue over the next year, with almost a third of asset managers (31 percent) planning investment in third-party technology. Collaborations will continue to be significant and digital is rising up the board agenda, with one-fifth (19 percent) of asset managers planning to appoint digital specialists at board level.

Data, too, will be an area where innovation must continue. Asset managers score relatively well on the data management element of the FIS Readiness Index, reflecting their management of data today. In the future, as the data they receive proliferates – from a whole host of other innovations – they will need to adapt accordingly, finding new ways to store, manage and process data, and above all to drive value from this information.
Differentiating the customer experience

The FIS Readiness Index shows that customer experience is the area where asset managers feel they are already performing relatively strongly, scoring 7.4/10.

There are challenges ahead in adding value through the customer experience, however, as customers demand new types of solutions, better access to information and lower costs. At the same time, Oliver Murray of Bridgehouse Asset Management says it’s becoming easier for smaller firms to compete on operational efficiency.

“Today, competitive advantage really comes down to cost and service and how you deliver to your customers in the most effective way.”

Oliver Murray, Bridgehouse Asset Management

Figure 8. Effectiveness of the customer experience

<table>
<thead>
<tr>
<th>Service Type</th>
<th>N/A</th>
<th>Ineffective</th>
<th>Neither effective nor effective</th>
<th>Effective</th>
<th>Highly effective</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personalized/tailored service</td>
<td>1%</td>
<td>5%</td>
<td>22%</td>
<td>46%</td>
<td>25%</td>
</tr>
<tr>
<td>Transparency on costs/fees</td>
<td>1%</td>
<td>7%</td>
<td>22%</td>
<td>41%</td>
<td>29%</td>
</tr>
<tr>
<td>Digital/mobile access to service</td>
<td>1%</td>
<td>12%</td>
<td>19%</td>
<td>43%</td>
<td>25%</td>
</tr>
<tr>
<td>Customization of products</td>
<td>1%</td>
<td>3%</td>
<td>23%</td>
<td>48%</td>
<td>24%</td>
</tr>
<tr>
<td>Timeless of response</td>
<td>1%</td>
<td>2%</td>
<td>16%</td>
<td>44%</td>
<td>36%</td>
</tr>
</tbody>
</table>

Don't know
“There was a time when the ability to build a good operational infrastructure for yourself was a competitive advantage, but today a new entrant into the business can be just as operationally sound and efficient as an incumbent,” says Murray. “Today, competitive advantage really comes down to cost and service and how you deliver to your customers in the most effective way.”

In our survey, four-fifths of asset managers believe they are effective in the timeliness of their response to customers, which makes it their strongest performing area. The weakest area for asset managers is their digital access to services, where one-third say they are not providing an effective service; a further 30 percent believe the transparency they provide on cost and fees is less than effective.

That confidence is reflected in the asset managers’ assessment of their customer services, with at least six in 10 rating themselves as effective or highly effective on each of the criteria surveyed.

Nevertheless, as asset managers seek to differentiate on the customers’ experience, further improvements will be necessary. Of those asset managers that acknowledge they are ineffective at meeting customer demands, the primary reason is outdated or inadequate technology, with 56 percent reporting this. A further 42 percent are concerned about structural issues such as organizational silos in their organizations.

Closing these gaps will require operational improvements. Often, changes in one area will enable gains elsewhere – better digital services will underpin analytics, for example. “Now that everything is so much more web-based, we have a much better ability to understand who is looking at what,” says Robert White, president of Eaton Vance Management in Singapore. “We can really understand what customers are focused on, which informs our approach to the strategies that are most relevant to different investors.”

In an industry where customers are increasingly seeking bespoke solutions rather than just products, this deeper understanding, enabled by better analytics capability, will be a critical attribute. Those managers that feel they are delivering an effective customer experience say that the ability to analyze customer needs is the most important enabler of this success, with 61 percent citing this. As another part of the response to this demand, 36 percent of managers say they will increase their offering around outcome-oriented multi-asset solutions.

However, all of these improvements will have to be achieved while asset managers meet customers expectations on fee levels. Almost two-thirds (64 percent) say it is likely they will reduce fees for actively managed funds over the next 12 months, while 67 percent pledge to improve fee transparency. “This is another area where automation must improve, since calculating fee levels across multiple share classes or fund structures requires a fair degree of flexibility from your operating platform,” says Martin Boyd, division executive, buy-side and post-trade solutions at FIS. “Asset managers have to give a level of transparency that wasn’t there before.”
Rethinking the talent mix

While technology investment, organizational change such as automation and outsourcing, and innovation will all play a part in delivering operational excellence, talent gaps also loom large for many asset managers.

Traditional skill sets will not suffice in the new era that is emerging. New risks are increasingly apparent, not just as investment portfolios become more diversified, but also as technology evolves. Only 46 percent of asset managers are confident in their institution’s cyber risk management capability, for instance. And only two-thirds (67 percent) are convinced of the strength of their operational risk management too.

Ultimately, warns Bridgehouse Asset Management’s Oliver Murray, those asset managers that cannot prove to their customers that they have the right people and structures in place will lose market share. “Customers can and will come in and do operational due diligence,” he warns. “They want to make sure that you’ve got the appropriate infrastructure in place and that you’re a credible organization – [and] the definition of credible will evolve over time.”

As big data capability becomes more important in delivering better investment performance and risk insights, it is notable that only 46 percent of asset managers would describe their existing data analytics expertise as being good.

In emerging technologies, moreover, asset managers admit their in-house talent needs greater improvement. While 59 percent believe they already have people skilled in leading digital transformation, the figure falls to just 36 percent for AI.

There will be strong competition for the best people, says James Tan of Lion Global Investors. “We can and do outsource service provision across the business, and there are enough providers out there to support that, but each time our business changes, we also need to invest in human capital, and that is where the challenge lies,” he says.

Nor can asset managers overlook other areas where talent gaps may occur. In particular, with significant numbers of firms looking to emerging markets for future growth, recruitment and retention in these economies, where skill shortages may be an issue and competition will be fierce, must be a priority.

“Each time our business changes, we also need to invest in human capital, and that is where the challenge lies.”

James Tan, Lion Global Investors
Figure 9. Digital talent gaps

Key areas for improvement

- Big data analytics/data science expertise
- Artificial intelligence/robotics expertise
- Distributed ledger technology expertise

Key areas of competence

- Digital change/digital transformation expertise
- Software development programming expertise
- Algorithmic and automated trading developers
- Digital distribution/delivery expertise

Lower priority areas of improvement

- Software development programming expertise

Lower priority areas of competence

- Digital distribution/delivery expertise

Importance

Performance
A move toward outsourcing

Asset managers are increasingly outsourcing work, particularly in the fund accounting and transfer agency areas, where our research suggests the use of third-party providers is currently the most advanced. However, sizeable numbers of managers expect to increase outsourcing in the middle office and in investment risk management over the next 12 months.

Only 12 percent are outsourcing the lion’s share of their middle-office operations today, compared to 27 percent who are doing this for fund accounting and 33 percent for transfer agency. But there are clearly plans to increase middle-office outsourcing, with 29 percent citing plans to increase outsourcing of middle-office operations over the next five years.

The move toward outsourcing is driven by a number of factors: 58 percent of asset managers cite cost effectiveness as one of their top three drivers, but their desire to speed up processes (42 percent) is also important, as is the need to access advanced technologies such as cloud solutions (37 percent). “There is an argument that the asset manager has to retain total control of their data,” says FIS’ Tony Warren. “But if your administrator is a trusted source and has the right technology in place to produce a real-time online IBOR view of the data, why create an additional overhead and reconciliation point that could be unnecessary?”

The private equity executive, who wished to remain anonymous, cites the firm’s outsourcing strategy as a critical enabler of growth, after it launched two multibillion-dollar global real estate funds in recent years. “The operational impact of our growth was significant. We started automating as much of our internal processing as we could, but even with these systems, the size of my team more than doubled in the last four years,” this executive explains. “We decided to outsource to fund administrators with the expertise to manage a multibillion-dollar, multi-regional fund. Now, if we were to launch a $5 billion fund, as an example, we would only need one-third of the people to manage that fund in-house, and two-thirds could be outsourced to an administrator.”

It is certainly noticeable that the Readiness Leaders are significantly more likely to have outsourced middle-office work. Almost half (48 percent) have outsourced the lion’s share of their middle-office operations, compared to just 8 percent of the rest of their peers who have done the same.

“The fast-growing companies have moved past the need to do everything in-house,” says FIS’ Martin Boyd. “They don’t want to waste their finite resources on anything that does not differentiate their value offer.”
Leaders are much more likely to outsource more than 50 percent of their middle-office operations.

Figure 10. Proportion of buy-side firms outsourcing more than 50 percent of operational activities

- Middle-office operations: 13% current, 30% next 12 months
- Investment risk management: 20% current, 25% next 12 months
- Fund accounting: 27% current, 28% next 12 months
- Transfer agency: 31% current, 32% next 12 months

Buy-side Readiness Leaders: 48% increase
Industry (excluding Leaders): 8% increase
Six steps to becoming growth ready

Asset managers recognize that significant growth opportunities are emerging in the years ahead, but that they are not yet operationally-equipped to fully capture them in what will be a hyper-competitive and fast-changing environment.

This is true for most asset managers, including the Readiness Leaders. However, these firms are setting an example for others to follow: the progress they have made toward operational excellence is helping to drive better results in pursuit of their growth objectives.

Our research shows that to emulate this success and become growth ready, asset managers need to take action across these key areas of their operating model.
1. STRENGTHEN AUTOMATION
Institutions must increase automation throughout the middle office and beyond, using workflow and exception-based management, and then AI solutions, to underpin more STP.

2. DRIVE INSIGHT FROM DATA
Many asset managers have yet to move to a single source of the truth on data across the organization. But this should be just the first step: improved reporting and analytics tools will deliver predictive insights about both operational performance and customer needs.

3. EXPLOIT EMERGING TECHNOLOGIES
New technologies such as AI, blockchain and mobile can enable a compelling new value proposition for customers. Accelerating the adoption of appropriate use cases through piloting to implementation is therefore crucial.

4. UNLOCK INNOVATION
Asset managers must find ways around obstacles such as cybersecurity risk and legacy systems to expedite innovation; greater collaboration with innovative third parties, including fintech firms, offers huge opportunities. The industry is also moving, where possible, toward scalable cloud-based solutions that are provided by a trusted service provider, which also makes innovation more affordable.

5. DIFFERENTIATE THE CUSTOMER EXPERIENCE
Asset managers’ customers expect digital and mobile access to services that not all firms are yet providing. Meanwhile, improved data management and analysis will enable asset managers to better understand customer needs, enabling the delivery of bespoke solutions and services.

6. RETHINK TALENT
The new operating model for growth will be ineffective unless the asset management workforce is rethought. Asset managers require an influx of digital talent throughout their businesses to truly differentiate themselves and improve their growth readiness.

WHAT’S YOUR GROWTH READINESS? ARE YOU READY TO RISE?

Benchmark your growth readiness
FISReadinessReport.com
Appendix

About the research

Survey
Between March and May 2017, in collaboration with Longitude Research, we conducted a survey of 239 senior-level asset managers as part of a larger survey of 1,042 executives from across the buy and sell side, including 509 buy-side respondents from asset managers, fund administrators, insurers and pension funds.

Interviews
We also conducted more than 20 in-depth qualitative interviews with industry leaders (See Acknowledgements for full details).
Methodology – The FIS Readiness Index

About
The Readiness Index collates and measures companies’ self-assessed performance in six operational areas that FIS has identified as being representative of how firms achieve growth:

Questions
For each category, executives were asked to respond to a series of self-assessment questions about their company’s performance within each area (for example, how well their company performs in unifying data sources across the organization, or the extent to which it offers customers a tailored service). The questions were tailored to different types of business across the buy and sell side.

Scoring
The majority of questions included in the index asked executives to rank their businesses on a scale of 1 to 5, where 5 = highly effective/active, etc., and 1 = highly ineffective (respondents that ticked “don’t know” were given a neutral score of 3).

Several questions, such as those related to innovation, asked respondents to choose from a range of activities or strategies that their companies may be involved in (such as M&A, third-party collaborations or setting up incubator programs). For these questions, companies undertaking at least five activities were awarded a top score, with the remaining responses scaled accordingly.

Building the FIS Readiness Index
The question scores were aggregated for each individual respondent, first to a category score and then overall. To allow for more refined insights, both category and overall scores were placed on a scale of 1 to 10, where 10 is best. As shown above, as we believe each area accords equal merit, the categories each receive an equal weighting in the Index.

Buy-side Readiness Leaders
Asset managers provided 23 percent of respondents in the overall survey and constituted roughly the same proportion – 23 percent – of the Readiness Leader group.
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About FIS

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