READY FOR REINVENTION:
WHY ASSET MANAGEMENT LEADERS MUST PREPARE TO SURVIVE AND THRIVE

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When we speak with our clients in the asset management space, we tend to hear that they are strongly optimistic for the future. This optimism is based on the inflows that the industry is experiencing, with assets under management (AUM) generally predicted to grow globally at a rate close to 6 percent per year to over $110 trillion by 2020. The opportunity for growth-ready asset managers is huge.

Amid the positive outlooks, though, we see more and more firms recognizing they need to take a hard look at their technology and assessing whether or not their current systems can provide the best platform for their growth. Between meeting multiple regulatory hurdles, such as MiFID II, or navigating unprecedented investor pressures for transparency and expectations for a new type of customer experience, our clients are coming face-to-face with the realization that reinvention may very well be the key to survival.

A client question that is growing more common for us is, “How can we expect to continue growing and keep ahead of the pack in an ever-evolving and rapidly changing environment?”

We’ve got a few ideas...

Views of asset management executives in the front office suggest that better use of emerging technology, investment in digital innovation and stronger automation are now key imperatives for the sector in its hunt for growth. More than half (51 percent) of front-office asset management leaders cite improving investment performance as a top growth objective for the next 12 months, with executives also focused on improving operating margins (47 percent) and acquiring new clients (46 percent).

For asset management professionals in the middle and back office, optimism about growth is tempered by anxiety about their ability to execute the firm’s 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. However, as managers seek to increase the customization of solutions for investors and offer more diversified multi-asset solutions, they will need to focus on technology system consolidation and 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.

New research from FIS, captured in the report The Hunt for Growth, highlights a need for new ways of thinking – including a focus on consolidating technological systems and a commitment to investing in innovation – across the front, middle and back office.
Ready For Reinvention: Why Asset Management Leaders Must Prepare to Survive and Thrive

WHY IT’S TIME FOR REINVENTION

In one of the most glaring findings from the report, it seems asset managers are clear about the growth goals they want to hit, but not confident in their existing technological and operational environments to get them there. Improving operational efficiency in the middle and back office will be key to success.

Figure 1: Preparedness of technology and operations for growth

What does this all mean for asset managers?

It’s telling – although not entirely surprising – that asset managers are confident about growth targets but acknowledge their technology and operations aren’t strong enough for the job. We have seen plenty of examples where spreadsheets and manual processes are still cemented strongly into operational environments across a wide variety of asset management firms. And spreadsheets can have steep hidden costs, including extra employees to manage them and time required to update or fix them. Of course, a firm employing this strategy would typically have a few people in charge of managing spreadsheets, which creates added “key person” risk. If asset managers seek to branch out and grow their business with a spreadsheet-driven operational environment, their manual challenges and the associated costs can multiply.

A “technological sticky-tape” approach simply cannot support the kind of innovative investment strategies and multi-asset class approaches that firms are exploring to reinvent for the future.

The need for improvement cuts across the front, middle and back offices. Some 43 percent of asset management executives see the front office as most in need of technology infrastructure improvement over the next 12 months, versus 34 percent that cite the middle office and 18 percent for the back office. However, the report findings highlight a clear correlation between those asset managers who invest in the middle and back office technologies for operational efficiencies and their ability to achieve their growth objectives. A third think that technology spending could help to increase revenues though strengthening cyber security, reducing operating costs and simplifying the IT infrastructure.

The bottom line is, if asset managers are not actively pursuing technological reinvention today, how can they expect to rise to the future?
REINVENTION REQUIRES GROWTH READINESS

Our research found six areas where there is a clear separation between those we call the Readiness Leaders and the rest of the pack:

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

What makes someone a Readiness Leader? To determine the answer, we used the FIS Readiness Index, which rates asset managers’ performance on each of these key growth enablers above. Its message is clear: those asset managers closest to achieving operational excellence are reaping the rewards, growing more rapidly than their rivals.

If those in the “everyone else” category want to become Readiness Leaders and Readiness Leaders want to continue rising, a few areas stand out. For an industry that’s ready for reinvention, it’s hard to imagine a strong growth trajectory without strengthening and optimizing these areas of operational excellence first. Otherwise, there is a very real danger that firms could be left behind as the industry connects to the future.

With the industry’s reinvention hinging on smart technology consolidation and growth-focused innovation, we will explore three of the focus areas within The Hunt for Growth research.

Figure 2: Buy-side Readiness Leaders outscore their rivals in six areas of operational excellence
FOCUS AREA: AUTOMATION

When it comes to leveraging automation, if you look at those firms in the “everyone else” category, they’ve scored only a 5.3/10 while Readiness Leaders are at 7.2/10. While this isn’t necessarily surprising as a depiction of where the industry is today, this result coupled with what we see every day in discussions with professionals from various firms points to an eagerness for improvement.

As we found in our research, a reduction in operating costs is the biggest driver of IT spending for asset managers in general, with 36 percent ranking this among the top three benefits their technology spend must deliver. Greater automation coupled with technology consolidation will be crucial here. Driving further simplification and automation in areas such as the trading book, compliance, client 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.

More and more, we’re seeing firms hit a tipping point where they had no choice but to upgrade to more highly automated technology or hire more operational people to slog through manual tasks. And inevitably, more hires and time-intensive manual processes come with more cost pressure. In a hyper-competitive industry where investors and regulators are continually changing and bringing new demands and talent acquisition is harder than ever, which is the sounder investment?

FOCUS AREA: EMERGING TECHNOLOGY

If strengthening automation is the foundation, investing in emerging technology is the next level. As we saw in our research, only about one in 10 asset managers have achieved full automation with robotics today. Areas like robotics, machine learning and artificial intelligence all have a place in the connected future of asset management, from assessing market movements through algorithms through to supporting the back office to more efficiently generate a daily net asset value (NAV).

Robotics isn’t an industry buzzword to brush off – it’s an area where already we are seeing some visionary firms rising above their peers by incorporating emerging technologies to complete complex tasks. It’s hard not to see the gap where Readiness Leaders scored a 7.9/10 and the rest of the pack sits at 5.0/10. Among the Readiness Leaders, the main applications of emerging technologies being explored are:

1. Performance analytics (51 percent)
2. Automation of operations (48 percent)
3. Risk management (41 percent)

With machine learning robotics technology in place, the system can essentially “learn” a firm’s processes and be used to generate higher levels of automation, reduce risk, and support smarter performance. For instance, we are already introducing robotics in our suite of reconciliation solutions. Through a combination of AI and statistical algorithms, our solution automates the building and onboarding of new reconciliation processes from end to end, allowing users to analyze and map data fields, generate and assess match rules, and produce business requirements documentation in seconds. Additionally, our reconciliation clients can apply AI to validate or refine the business logic of existing processes, comparing established match rules with new suggestions and modifying them according to the findings of machine learning.

Make no mistake: robotics and other emerging technologies will help revolutionize an industry in need of reinvention. This isn’t an area to approach with a “if it’s not broke, don’t fix it” attitude, and this isn’t about papering over deficiencies in outdated systems. Those asset managers that will rise to the future are looking at ways to get ahead of the moment when old ways of operating will be past the point of a “fix.” The firms that are fastest to harness emerging technologies are likely to be the firms that will emerge as winners in tomorrow’s hyper-competitive landscape.
**FOCUS AREA: DIGITAL INNOVATION**

While all six areas of Readiness leadership are interconnected, the area of digital strategy and innovation may be the one that truly ties everything together. Working hand-in-hand with the point of enhancing the customer experience, embracing digital innovation is a critical area for asset managers to improve if they want to achieve the future growth they’re seeking.

This point speaks to the rise of technology in general – the idea of walking around with the world’s information and entertainment in our pockets is no longer new.

It is no secret that we use our smart phones all day long for everything from enjoying a favorite song on-demand from a streaming music service to managing our finances on the go. Asset managers must acknowledge that investors now expect apps that feel intuitive, websites that make things simple, and a digital user experience that is smooth and seamless. Don’t go the way of the dinosaurs – asset managers that fail to emphasize digital strategy could risk losing investment and turning off potential investors.

The key will be in overcoming barriers to digital innovation that could prevent asset managers from rising to a digitally-connected future.

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Figure 3: What stands in the way of asset managers’ ability to innovate?

From the research results and the multitude of industry conversations – even when we look at completely different sectors outside of financial services – we wonder, “Are firms not sufficiently open to innovation?” This is where the gap between high confidence about hitting growth targets and technological and operational readiness feels more like a chasm. The firms that will rise to the future aren’t balking at the discomfort of reinvention and innovation; rather, they are taking this challenge head-on, perhaps knowing some of their rivals may not choose to be as bold. This may be a make-or-break for attracting and delivering for tomorrow’s investors – who will be make-or-break for the long-term growth of a firm or fund.
ARE ASSET MANAGERS READY FOR REINVENTION?

No one said reinvention or rising to the future would be easy.

Asset managers continue to face a host of challenges from tough market conditions to regulatory change to geopolitical climates to evolving investor demands. In spite of these challenges, asset management executives continue to be optimistic about growth, with expectations to increase automation, explore emerging technologies, and to respond to changing investor demands, with 45 percent predicting they will increase their existing offering of multi-asset solutions or launch new products in this area.

Are asset managers ready for reinvention? The outlook is good, but there is still plenty of work to do. It is clear what the industry needs to do to connect the dots between “ready” and “rise” – now it’s a matter of kicking things into high gear. FIS is keeping our sights set on the future, and we’re helping our clients solve their technology challenges today to help them withstand unexpected challenges and reinvent for tomorrow.

The asset managers that take the necessary steps toward growth across our six areas of growth readiness will be best-positioned to rise and win in the future.

ABOUT THE RESEARCH
The Hunt for Growth Across Asset Management

Survey: Between March and May 2017, in collaboration with Longitude Research, we conducted a survey of 239 senior-level asset managers and 509 buy-side respondents representing the institutional and wholesale financial services market.

- Asset manager type: Traditional asset manager (traditional equity and/or fixed income strategies), 36%; Private equity fund manager, 26%; Hedge fund, 24%; Boutique asset manager, 13%; Other asset managers, 1%
- Regions (AM): Europe, 26%; North America, 33%; APAC, 31%; LAMEA, 10%
- Seniority (AM): C-suite, 22%; Head of business unit / Director-level, 78%
- Function (AM): Trading and investment, 28%; Risk and compliance, 19%; Operations, 14%; IT, 17%; Finance and treasury, 14%; Sales, 4%; CEO, 4%

Interviews: We also conducted more than 20 in-depth qualitative interviews with industry leaders.

THE FIS READINESS INDEX
The FIS Readiness Index is based on a survey of 239 senior-level respondents within asset management firms, and 509 respondents overall within buy side institutions around the world and across different business areas.

It collates and measures companies’ self-assessed performance in six operational areas that FIS has identified as being representative of how firms achieve growth. Key areas (weightings in brackets):

1  Automation (17 percent)
2  Data (17 percent)
3  Emerging technologies (17 percent)
4  Innovation (17 percent)
5  Customer experience (17 percent)
6  Talent (17 percent)

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 client service). The questions were tailored to different types of business across 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 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, the six categories each receive an equal weighting in the FIS Readiness Index.
About FIS
FIS is a global leader in financial services technology, with a focus on retail and institutional banking, payments, asset and wealth management, risk and compliance, consulting and outsourcing solutions. Through the depth and breadth of our solutions portfolio, global capabilities and domain expertise, FIS serves more than 20,000 clients in over 130 countries. Headquartered in Jacksonville, Florida, FIS employs more than 56,000 people worldwide and holds leadership positions in payment processing, financial software and banking solutions. Providing software, services and outsourcing of the technology that empowers the financial world, FIS is a Fortune 500 company and is a member of Standard & Poor’s 500® Index. For more information about FIS, visit www.fisglobal.com