Accelerating innovation

The pandemic has shone a light on the need for accelerated adoption of new tools that will drive inorganic innovation and growth in the asset servicing space. Panellists discuss how technology will help asset managers find a competitive edge and innovate their solutions

Maddie Saghir reports

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What are asset managers doing to accelerate innovation?

Hans Brown

Global head of enterprise innovation and chief information officer for corporate technology, BNY Mellon

Asset managers realise that a focus on innovation is core to the success of their business. They are embracing a broad range of digital- and data-driven initiatives to push their organisations forward and to unlock both organic and inorganic growth opportunities.

Asset managers are also looking to partner with organisations that will both complement and accelerate their own innovation activities and have the structure, capability and competency to do so.

Based on a recent BNY Mellon survey of asset managers, 69 per cent of organisations are planning to streamline with a few best-of-suite vendors and providers, while 67 per cent are increasing reliance on core financial service providers and 65 per cent are building third-party relationships with fintech companies.

"The short answer is that the sector, including managers and their service providers, could do much more to accelerate innovation and currently it lags way behind other industries and, indeed, other areas of financial services"

Keith Hale, TrustQuay

Dragan Mircov: Most asset managers are not doing enough and are sticking to well-established processes. The clear leaders perceive the opportunity to innovate and are increasingly investing in technology and automation.

This is generally driven by processes related to fund distribution that are manually handled through Excel, which can be error prone. Software solutions can systemise processes and handle data in a more error-free way. Additionally, the client side of activities has dramatically transformed in terms of how clients are approached and handled.

That said, a driver for innovation can also be the client, whether they are digitally driven or not. There are conservative clients, for example family offices, who still prefer paper. Whereas other clients, sometimes seen in private clients or fund advisers, have highly digitised internal systems and so they demand this from their partners. Asset managers must therefore find a way to serve both client types.

Eric Bernstein: Asset managers have taken the opportunity (as a consequence of the pandemic) to speed up their path to the cloud and further digitise processes in the lifecycle events that they perform. Given the current remote working and challenges in travel, their intercompany activity and client engagement has needed to go digital. This has also enabled small- to mid-sized managers to better compete as the playing field has now been levelled.

Keith Hale: The short answer is that the sector, including managers and their service providers, could do much more to accelerate innovation. Currently, it lags way behind other industries and, indeed, other areas of financial services.

In TrustQuay's recent survey of service providers, we found that firms only ranked themselves a modest five out of 10 in terms of how far they had progressed on their digitalisation journey.

However, we also found that more than 90 per cent of firms said that technological innovation in the industry needs to accelerate, so it is clearly now high up on the agenda and is becoming a clear and growing trend in the industry.

The key areas of innovation that firms need to focus on are further automating manual processes and increasing digital engagement with clients through portals. The survey showed that less than one in five service providers in alternative fund administration had implemented a two-way interactive digital portal.

Will Stevens: To accelerate innovation within the industry, some asset managers are actively working with partners on collaborative initiatives. For example, PIMCO and Man Group is collaborating with IHS Markit, State Street, McKinsey, and Microsoft on a technology-led initiative called 'The Hub'. This will focus on providing modular infrastructure for asset managers' middle- and back-office functions. The offering will be cloud-based and will use best-in-breed technology to solve some of the legacy technology issues experienced by asset managers.

The adoption of robotic process automation (RPA) has come a long way and asset managers have leveraged this technology to automate repetitive and mundane tasks.

The focus now is on augmenting RPA with artificial intelligence (AI), to achieve intelligent automation (IA), which will be truly transformative and will expedite end-to-end business process transformation.

Ryan Burns

Head of global fund services, Americas, Northern Trust

Many asset managers are taking a holistic look at both their data and operating models to identify opportunities to improve or challenge the traditional thinking that they have in place.

That has been driven not just by the pandemic environment but by the increasing fee pressure they are feeling from investors and the consistent pace of regulatory change, which is forcing investment managers to be more reliant on data and their ability to access it.

From our perspective, this review by managers is generating interest in outsourced solutions.

It is also generating interest in the use of service providers to improve asset managers' infrastructure and potentially to redistribute staff that were handling middle-office activities into roles that are focused on alpha generation.

There is increased focus on front-office capabilities, including outsourced trading and data analytics, which may allow managers to validate or improve upon their decision-making process.

Why is it important for asset managers to digitise and innovate their products and distribution models?

Hale: Accelerating innovation and digitalisation of business models is critical for firms to remain competitive in the future. For example, the key business challenges facing service providers includes a regulatory burden, the need to reduce costs and increase efficiencies, and the need to improve data quality. Interestingly, all three of these challenges are core business-as-usual issues and the root cause of all of them lies in the lack of digitalisation and automation within the industry.

The net result is that companies are running fast just to stand still, trying to fit old manual processes around new regulations, devoting more human resources to try and fix efficiency problems and relying on data from numerous, fragmented and poorly connected legacy systems. This is simply not sustainable.

Bernstein: The digitisation process allows for a streamlined process and better checks and balances. The old model of non-digital processes was slow and inefficient, having a big reliance on people physically passing the baton. If we now consider the distribution model as a digital process, it allows David to compete with Goliath, and it also allows asset managers to go efficiently from the start to the finish with complete auditability and control, thus reducing costs.

The ever increasing costs of supporting legacy applications coupled with the ongoing wealth transfer and the associated expectations of new generations of investors has put significant demand on asset managers to offer new, innovative and cost-effective solutions. As a result, firms are accelerating their investments in newer technologies in support of the entire investing process, making it much simpler and easy to participate in.

Brown: Asset managers continuously look towards bringing in new capabilities to operate efficiently, whether that is in the search for alpha, or in making their existing beta smarter. The pandemic has accelerated the process of digitisation and highlighted the importance of resilience and reliability while delivering innovation. We see these as being complementary, in that innovation, reliability and resiliency go hand-in-hand to deliver better investment outcomes, data and transformed operations. For BNY Mellon, that innovation is predicated on taking an open approach to the wider ecosystem where we create an open-architecture structure that delivers services that are designed in a modular way that can be integrated to meet the unique needs of our asset managers.

Stevens: As the world changes and technology continues to evolve, there are many financial offerings that can be entirely accessed and managed on a smartphone. Asset managers need to keep pace with this level of user experience as traditional investment approaches are being replaced with more modern, accessible, and real-time interfaces.

Requirements for remote working have also been a key consideration as investors want instant access to their portfolios and market data, with the ability to make changes on the fly. Asset managers need to look for the best solutions to ensure they can offer their clients the most optimal experience especially when managing decisions on corporate events. This couples with the need for innovative back-office tools which connect seamlessly with front-office applications.

Mircov: COVID-19 has shown that asset managers cannot effectively generate new inflows if they are not properly set up for working remotely and are prevented from face-to-face client meetings. In some places in Luxembourg up to 70 per cent of sales are managed by fax. The pandemic has shown that innovation is needed in distribution models. The days of meeting clients in a pub, a bar or a nice restaurant may be gone, at least for now.

Asset managers who are small or who are new to a market have a heightened need to digitise, whereas it may not be the number one priority for larger firms. But even larger firms understand that if they are not transforming, then they themselves may face the undesirable transformation of managing a declining business.

Burns: Digitalisation and access to information are important for two reasons: to get the most value out of the product set and investment strategies that asset managers have in place today, and to identify potential opportunities to focus distribution efforts in a very competitive marketplace.

What types of technology can be leveraged for creating solutions with a competitive edge?

Burns: Cloud-based tools and AI can allow you to get to market quicker and in a lower-cost environment than technology that asset managers may be utilising in-house today. This is crucial because asset managers who can improve their operating expense environment are able to be more responsive to fee pressures in the marketplace and potentially able to put their product at a more compelling price point for investors. A service like Investment Data Science, developed by fintechs using the cloud and AI, can help investment teams to analyse and understand their investment successes in a way that positions them to repeat that success and sustain it on a go-forward basis. That consistency is appealing to investors and can help to potentially grow your asset base and retain current investors who are satisfied with the results you are providing.

Bernstein: If we look at the ABCD's (AI, blockchain, cloud, and digital) of innovation, asset managers can use all of these to give them a competitive edge. Data can be gathered and disseminated using AI and digital. The end client is increasingly desiring underlying data and information, so in using digital and cloud technologies, these investors can get to it better than the old model, which shows transparency and is encouraging to investors.

Stevens: Technical efficiency, strong controls and consolidated technology in the back-office will allow firms to reduce operating costs which may enable firms to offer lower fees and commissions. The overall connectivity and user experience will influence investors when spreads are competitive, as investors will look for differentiating factors which will make their overall experience smoother and more intuitive. AI offers the possibility for further understanding of investor habits as it will become crucial for technology vendors to understand how users interact with their software.

Hale: A key catalyst that is driving forward the digitalisation of the industry is the rising expectations of end investors. As the intergenerational transfer of wealth moves to digital native generations, these more sophisticated clients are now expecting the ease of access, speed of response and engagement they are experiencing in other parts of financial services.

It seems that digital engagement is in an early stage of implementation within the industry, as firms are clearly recognising the increasing client demand and expectations. In the coming years, we therefore expect to see a rapid increase in the digitalisation of offerings.

The increasing demand from investors to access information and services digitally now means it is impossible to imagine that those firms who do not provide this access will be able to maintain viable and competitive business models moving forward.

Mircov: Fund management and fund distribution are core activities. Today, asset managers are spending too much on administration, and tech vendors can help with that. With the growth of fund platforms, it may well be that in 20 years we will not see the 'classical' fund sale.

The regulatory reporting platform is key to leveraging technological transformation. This is because regulatory reporting is not what asset managers should be focusing their skill and knowledge on. It is very labour intensive and firms can clearly save money by outsourcing these tasks to a technology vendor and focusing instead on client facing activities.

Moreover, regulatory reporting is not just about the reports provided to the external regulator, but the competitive edge that also comes from the reports issued to clients.

Asset managers need to understand why the clients need these reports. It may be for the clients' own clients, or to help their clients meet their own regulatory reporting obligations. Therefore, reporting must be of the right quality. It is unlikely that a client would buy again if the reporting caused any issues with other parties down the line.

Brown: The technology is an enabler and a tool to arrive at desired outcomes, not an end in its own right. There are very exciting trends and capabilities that are at different levels of maturity — whether cloud computing, or the ability to use better AI or machine learning, to drive better insights, predictive analytics, or the use cases for technologies such as distributed ledger technology (DLT).

What are the main barriers asset managers face when it comes to implementing new technologies and operational transformation? And what can they do to mitigate some of these challenges?

Mircov: Knowledge is the barrier. Asset managers need specialist expertise covering IT and market regulation. To have this in-house is not cost effective. This is especially so when you need a person that understands both technology and regulation. The forward-looking firms therefore outsource this to specialised vendors.

Burns: Two common barriers to digital transformation among asset managers are legacy technology infrastructure and a lack of current talent and resourcing internally to support a migration to newer technology and an expanded toolkit. Each can be managed by focusing on what is truly core and critical to your operating environment.

When you identify core capabilities, you can consider whether the systems and infrastructure that are not crucial to your value proposition could be handled via new technology and a new model.

A trusted service provider can assist with this process and potentially bridge the gap to hiring or sourcing new talent.

As we engage in outsourcing trading or middle-office services for asset managers, the next-generation tech and operating model in effect is located within Northern Trust, as opposed to the manager buying new operating systems and hiring tech talent.

Keith Hale

Executive chairman, TrustQuay

The technology largely exists today; the challenge is that firms need to properly invest, adopt and improve upon it.

What is holding back innovation is a dichotomy in the industry between belief and behaviour. While the vast majority of firms believe that becoming a digital leader will make them more competitive, only a small percentage of firms actually consider themselves to be a digital leader.

The dichotomy between belief and behaviour within the industry appears to stem from the lack of investment into digitalisation. This needs to change for successful firms as they shift their thinking and look to the proven success of other industries with regard to digital transformation.

Technology providers need to play their part to clearly lay out the business case for innovation and the return on investment delivered.

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"The great news is that tech firms and asset servicers are here to help these asset managers achieve their goals and, in the end, the efficiencies gained will allow for cost and operational risk reduction"

Eric Bernstein, Broadridge Asset Management

Brown: There is no single barrier that impedes technology and transformation — it is the combined elements of culture, familiarity and adoption that play a key role in what barriers exist and how they are perceived. These unique cultures dictate how they perceive the safety and soundness of new technologies, regulatory concerns and integration difficulties with legacy and non-legacy infrastructure. It is incumbent upon us to assess these cultural dynamics and look at the business models and data taxonomy to bring them to the desired outcomes.

Bernstein: Asset managers are looking at operational improvements and technology upgrades now more than ever. The barriers to achieving this new normal are resources that can aid in the transformation while continuing to manage the day-to-day. The great news is that tech firms and asset servicers are here to help these asset managers achieve their goals and, in the end, the efficiencies gained will allow for cost and operational risk reduction.

Many asset managers are assessing the skills required to transform their operating model from current to future state. In many cases, they are discovering that the skills that have successfully worked in the past may not be the ones they need to help transform for the future. As a result, skills associated with new technologies and user centric design theory are in high demand.

Will Stevens

Product management director, IHS Markit

Typically, asset managers leverage products from multiple third-party service providers, all running on different technology stacks.

Often, this is in combination with in-house legacy systems which can act as a major barrier of entry for new technology and operations transformation projects.

The cost of overhauling internal systems and achieving systematic integration using industry adopted standards is often expensive and time-consuming for internal IT teams, who are often under-resourced or focused on the myriad of current and upcoming regulatory requirements.

The cost and time to achieve this in the continually evolving technology and regulatory landscape often outweighs the benefits. To mitigate these challenges, one of the best and most cost-effective ways is to onboard key operations processes onto specialised software platforms which are being offered on the cloud.

These platforms are continuously updated to remain aligned with industry regulations and standards and run on the latest technology stack.

How important is it for asset managers to collaborate with fintechs in order to unlock innovation? Do you think there is enough collaboration in the industry?

Burns: Collaboration with fintechs is key to staying current with what is available in the market. The speed at which a growing number of fintechs are moving to produce usable tools is really amazing.

Fintechs are also a good source of comparative data, as their experience with multiple clients can provide much-needed perspective on how other asset managers are adapting and utilising innovation in the technology space.

While the level of collaboration is good, it can absolutely be improved upon because so much of our own efficiency and success is reliant on technology.

Collaboration with fintechs is like identifying new areas for sales and distribution — you have to invest continuously to make sure you are getting the latest and potentially most valuable information in a vast and fast-moving market.

The trend is positive and we are seeing an increase in collaboration and talking about aspects of the business that were historically out of scope.

People are taking a holistic look at their business model, which is definitely allowing that communication and collaboration to increase and be more visible.

Bernstein: There continues to be a lot of friction in the asset management community which is constraining many from unlocking innovation.

The industry is filled with amazing technology firms and all players (asset managers, service providers, outsourcers and technology companies) need to collaborate, as the venn diagram shows that there are great opportunities for all.

The concept of coopetition is needed in order for the industry to speed up its path to excellence. We are all rowing together and many players are forming partnerships and consortiums in order to break down walls.

"A collaboration with fintech that takes away, or significantly lowers, the risk and overhead within operations should be extremely welcome"

Will Stevens, IHS Markit

Stevens: More and more fintech firms are now providing interfaces and integration into their third-party and mobile digital applications. As a result of this, it is vitally important for asset managers to collaborate with fintechs. The technology side of their operations is not normally their unique selling point, nor should it be.

Asset managers are hired to seek alpha and are judged based on their performance. A collaboration with fintech that takes away, or significantly lowers, the risk and overhead within operations should be extremely welcome. There are pockets of collaboration in the industry, but it should be much wider and encompassing all segments to really move the industry forward. Leveraging the specialism and latest innovation that fintechs offer is a faster and cleaner route to sustainable progress.

Brown: As part of our open and modular approach, we think it is critical to collaborate with the industry, which includes fintechs, to accelerate the outcomes that asset managers are looking for. BNY Mellon has collaborated with and invested in a number of fintechs across the back-, middle- and front-office to create a 'win-win' proposition to generate the accelerated innovation that clients are looking for while also providing validation of the capability of the fintech to be able to do that.

We have a variety of partnerships with a growing portfolio of fintechs providing a range of services and solutions for clients, such as Milestone — which we recently announced the intent to acquire — and Symphony. We think it is important and our vision is an ecosystem where collaboration drives the outcomes that our clients and the industry is looking for. For us, openness is a key component to working with clients to help them refine their business models.

"The industry is filled with amazing technology firms and all players need to collaborate"

Eric Bernstein, Broadridge Asset Management

Dragan Mircov

Director, client success, LPA

As we saw with the second Markets in Financial Instruments Directive (MiFID II) and are now realising with the UCITS/Packaged Retail and Insurance-based Investment Products (PRIIPs) developments, nobody seems to know precisely what to do. Therefore, the solution has to be to work together. It is not about finding a different way, it is about the mutual protection of everyone doing something the same way. By working with a fintech partner and learning from their experience, asset managers can be assured of a more market-robust solution at a lower cost. While some firms are already extensively collaborating with third parties, this is a trend which will likely continue and grow in the coming years.

One of the biggest challenges facing firms is the need to comply with constantly evolving regulatory requirements across a multitude of jurisdictions. This can be an immense strain on one single firm, no matter the size, which is why collaborating with specialist firms is the right approach.

Regarding PRIIPs, we are continually asked questions about how to sell products to different clients across different jurisdictions. Many are not sure who is allowed to sell what, to whom and in which market. By working alone, asset managers need to hire a fleet of specialised lawyers and advisers to keep up to date with this ever changing environment, and to some extent that may be necessary. But collaboration with fintechs is a much more effective approach. Those who are not doing this risk losing out in the marketplace.

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What strategies is your company working on to ramp up technological innovation?

Stevens: IHS Markit is always working to evolve and grow its product suite to stay in front of current and expected demands. Regulations are increasingly becoming more complex, which requires an exponential level of enhancement in technology, hence alongside our existing products we are introducing many new products to cater for specific needs.

These new products are fully integrated with our existing products, offering our clients new complementary tools to seamlessly manage the challenges they face. As a data and technology company, we see demand for intelligent tools to manage communication between the front- and back-office, strategy for managing digital assets, and an increase in demand for managed services, resulting in continual investment in scalable technologies to serve and grow new offerings that leverage economies of scale across our product suite.

Burns: We have made big advances in our Whole Office strategy of offering services for the entire investment lifecycle by partnering with fintechs, making agreements with larger industry players and selectively building solutions in-house. We are able to integrate capabilities with our global operating architecture, bringing a greater capability stack to our clients and introducing services more quickly by leveraging the innovation that others are producing, which is fantastic.

Whole Office also aligns our internal structure to ensure there is continuity across what may have been traditional business silos. As clients utilise new technology available to the front-, middle- and back-office, we need to ensure our business is aligned and our service wrapper is consistent across those so that clients are getting the benefit of a multi-product relationship with a single organisation. What we have done is aligned our organisation structure to potentially avoid business line conflict to generate the best outcome from a business support, product capability and development perspective under one umbrella.

Mircov: LPA entered the asset management space with the acquisition of the acarda regulatory reporting platform and we intend to continue our investment in this space. A big chunk of the investment will go towards improving the technology incorporating elements (for example optical character recognition (OCR), natural language processing, machine learning, and AI). We have already delivered several successful projects, such as the Capmatix document generation and workflow automation software in use with more than 200 banks around the world today. Secondly, we are focused on improving the client experience from initial needs identification, through project implementation and system adaptation to ongoing software delivery — whether this is through a Software-as-a-Service (SaaS) solution or even offering an outsourced managed service where LPA takes care of the reporting and all the asset manager needs to do is issue a raw data file through a secure server.

Most significantly for us, with the adoption of cloud-based systems we are increasingly able to take the solution internationally, increasing the already established presence in key markets like the UK, France, Germany and Switzerland.

> *"It is impossible to build and scale if you do not have the innovative culture underpinned by a reliable and resilient infrastructure — only then can you build the programmes and solutions that allow you to be an innovator"*
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> **Hans Brown, BNY Mellon**

Hale: A key initiative we recently developed at TrustQuay is the launch of the first fully automated and integrated onboarding solution specifically designed and developed for the corporate services and trust administration market that includes built-in ID verification.

As part of a major new upgrade to TrustQuay Portal, which we first launched in November 2020, this new onboarding solution will allow corporate services and trust providers to deliver their clients a fast, simple and fully automated onboarding experience, with a full audit trail to help firms meet their know your customer (KYC) and anti-money laundering (AML) obligations quickly and efficiently.

Developed in partnership with GBG, the new onboarding solution uses an ID scan to check the validity of identification against a database of real documents. A selfie is then used to match the applicant to the identity document, running both a biometric validation against the ID and a liveness check to ensure the applicant is in fact the real owner. Proof of address documents are then scanned, with the underlying system verifying address using application programming interfaces (APIs) to access credit reference agencies and other databases.

With most industries already having an intuitive two-way digital interactive user experience with clients, the trust and corporate services sector now needs to catch up with other parts of the financial services market, but quickly with reasonable levels of investment. This new version of the TrustQuay Portal enables service providers to offer an end-client digital onboarding experience, without the need for long complex integration projects of generic third-party tools, since it plugs straight into our core products. Leveraging the best-in-class digital onboarding capabilities of GBG, we feel this is another significant step forward in automating and digitising the industry.

Brown: Great innovation is built on a firm foundation, and at BNY Mellon we deliver a resilient, reliable infrastructure and programmes that allow us to innovate. It is impossible to build and scale if you do not have the innovative culture underpinned by a reliable and resilient infrastructure — only then can you build the programmes and solutions that allow you to be an innovator.

BNY Mellon's open, modular approach allows us to identify clients' needs to power the growth of their business, tailor an approach for their unique requirements, and implement the solutions that future-proof and reimagine their operating model. ■

> *"The next generation operating model is grounded with a customer-centric design philosophy"*

Eric Bernstein

President, Broadridge Asset Management

We continue to push the envelope in providing data through digital means (storage, aggregation and dissemination). In addition, all of our products are cloud-enabled and some have gone down the route of blockchain in order to achieve further benefits (jurisdictional and immutability).

The next generation operating model is grounded with a customer centric design philosophy. We are redesigning our supporting processes to be more efficient, moving aggressively through the digitisation of our solutions, offering advanced analytics and easy access to our capabilities with an API first approach to functional design.