



APEX WHITEPAPER

## Five technology considerations for asset managers





## Introduction

Asset managers operate in an evolving environment, where adapting to emerging investment trends, integrated global markets and changing regulations is imperative. Yet few forces have been as influential as technological disruption, and the events of 2020 have served as a major catalyst for innovation as companies adapted to remote working, digital sales and new approaches to distribution. With COVID-19 forcing a rapid change in business practices, it became clear that asset managers needed to increase the digital enablement of their processes not only to maintain operations, but also to better meet client needs.<sup>1</sup>

The digital shift taking place in the asset management sector is not simply about enhancing operations, it is also about transforming business models and creating new approaches to distribution. Prior to the pandemic, many operators were already moving towards cloud computing

and adopting innovations such as artificial intelligence, but as a whole the industry has been noticeably slower than other financial services sectors in adopting and implementing new technologies.<sup>2,3</sup> When the long-term impacts of COVID-19 on the way we live and work became apparent, technology suddenly vaulted to a higher priority level.

The pandemic may have served as a catalyst for faster action, but several long-term trends were already driving the need for more innovative approaches by asset managers. Demographics are changing, regulatory pressures are tightening and distribution models are increasingly digital in nature. Business models are rapidly evolving to respond to these demands, with technology playing a leading role in the quest for deeper insights, more efficient operations, delivering client-centric service models and long-term competitive advantage.

# The role of data

It is no secret that the data and the value it can unlock is receiving more attention than ever. According to McKinsey, the number of research publications mentioning key words such as 'big data' and 'analytics' quadrupled between 2012 and 2017.<sup>4</sup> Since then, the focus on data in all walks of life has only grown stronger, but in many ways the asset management sector has not taken full advantage of its potential. In 2019, research by EY found that only 41% of financial services companies had what it described as 'very good' data-driven insights into customers.

It is no surprise, then, that Accenture said asset managers will need a 'data reinvention' if they are to thrive and grow.<sup>5</sup> To meet client demands and develop innovative products, firms require the ability to analyse large amounts of data and spot emerging trends in real time. The problem, however, is that many operators lack the insight and resources to translate their data into a valuable asset that gives them an edge over their peers.

This is despite investment professionals being no strangers to data. From a portfolio management perspective, investment decisions are almost entirely based on data analytics. Similarly, regulatory compliance and reporting obligations are also data-heavy operations.

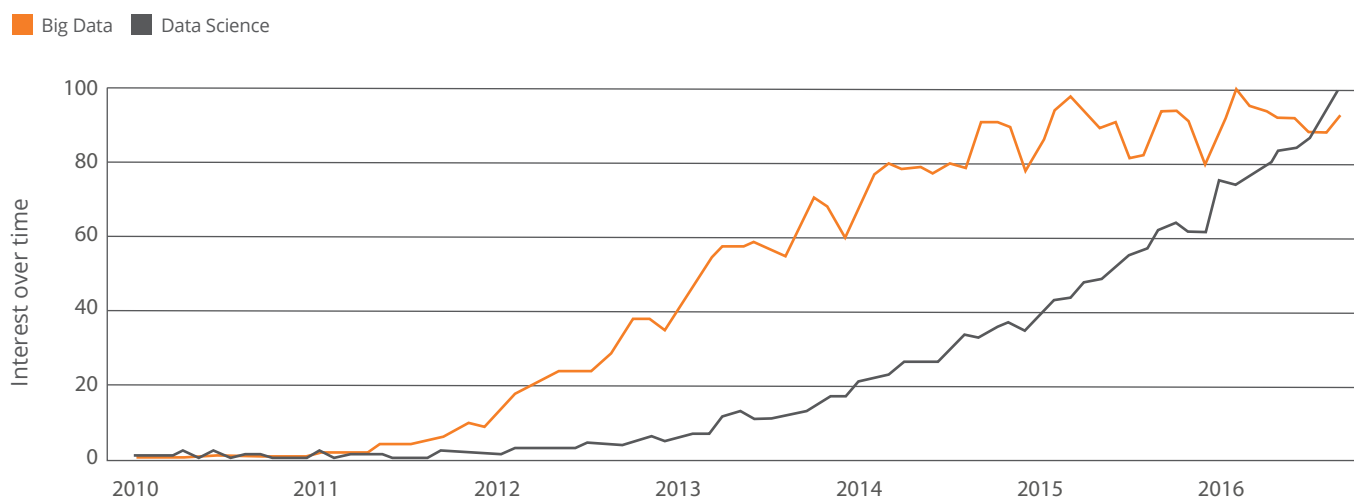
However, product development and client services are areas where asset managers have often overlooked the power of data, but where many of the biggest opportunities lie.

As the operating environment evolves, there are two major areas where data analytics will play a pivotal role in the industry:

- Harnessing information to enhance investment decisions and portfolio construction, improve product development, identify new sales channels and opportunities, and enhance distribution models;
- Streamlining and automating middle and back office functions to create efficiencies and improve customer service.

The data available to asset managers is vast and the opportunities for its evaluation and analysis are significant. When making investment decisions, portfolio managers can develop an even more accurate picture of a company by making greater use of analytics. Information about a company's brand, customer profiles, and even location data can all help to form a view on its potential for long-term success, with big data analytics now being viewed as a science in its own right, as demonstrated by the growing interest in this area.<sup>6</sup>

**Graphic 1: Searches for "data science" now exceed searches for "big data"**



Source: Schroders, "Harnessing the data deluge"

<sup>1</sup><https://home.kpmg/xx/en/home/insights/2020/08/redefining-business-and-operating-models.html>

<sup>2</sup><https://home.kpmg/xx/en/home/insights/2020/08/accelerating-digital-transforming-through-technology.html>

<sup>3</sup><https://www2.deloitte.com/us/en/pages/financial-services/articles/technology-asset-management-distribution-whitepaper.html>

<sup>4</sup><https://www.mckinsey.com/industries/financial-services/our-insights/advanced-analytics-in-asset-management-beyond-the-buzz>

<sup>5</sup>[https://www.accenture.com/\\_acnmedia/PDF-129/Accenture-The-Power-of-Data-Driven-Asset-Management.pdf](https://www.accenture.com/_acnmedia/PDF-129/Accenture-The-Power-of-Data-Driven-Asset-Management.pdf)

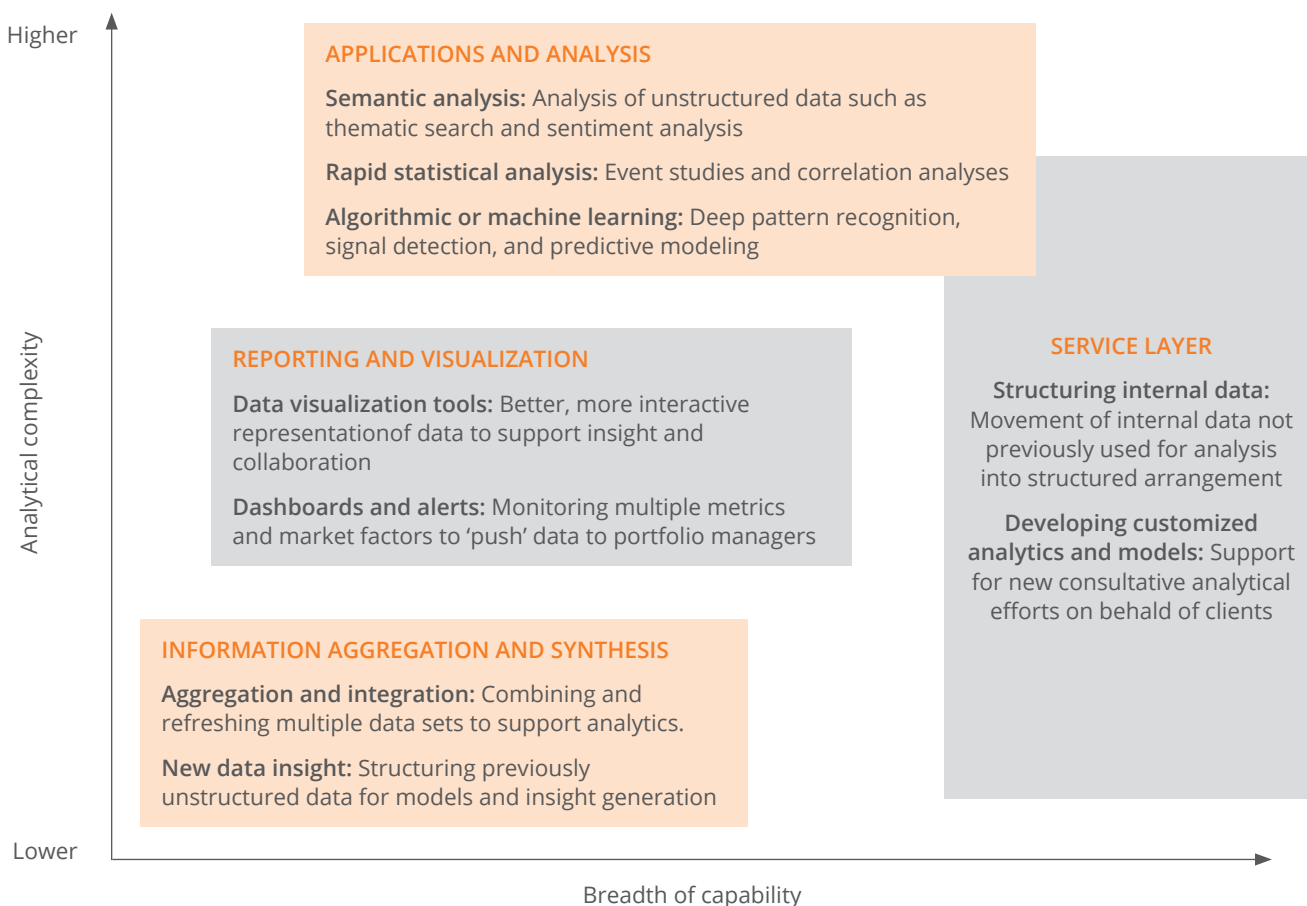
<sup>6</sup><https://www.schroders.com/en/nordics/professional-investor/nordic-insights/expert-magazine/harnessing-the-data-deluge-how-asset-managers-and-their-clients-can-benefit-from-the-data-science-revolution/>

By gaining new insights into how businesses operate and not simply relying on traditional forms of analysis, investment managers can gain a more detailed understanding than ever before. This can make all the difference when determining whether to execute a trade.

Asset allocation activity accounts for just a fraction of data's role in the industry. Risk management, regulatory

compliance and client reporting are all data-intensive operations, so too is information related to clients and client preferences, marketing activities, and distribution channels. Emerging technologies such as machine learning, artificial intelligence and predictive reasoning can allow firms to not only automate processes, but also model scenarios and develop targeted insights that assist with decision making.<sup>7</sup>

**Graphic 2: Asset managers increasing use of analytics**



Source: BCG, "How asset managers can succeed with advanced analytics"

Implemented properly, these systems can crunch vast quantities of data and generate enormous value, but quite often they are only available to large asset management groups that have sufficient resources.

For asset managers that are short on resources and expertise, such an undertaking creates its own set of risks and complexities that can pose a threat to the business.

<sup>7</sup><https://www.bcg.com/en-gb/publications/2016/financial-institutions-asset-wealth-management-how-asset-managers-can-succeed-with-advanced-analytics>



# Keeping pace with technological change

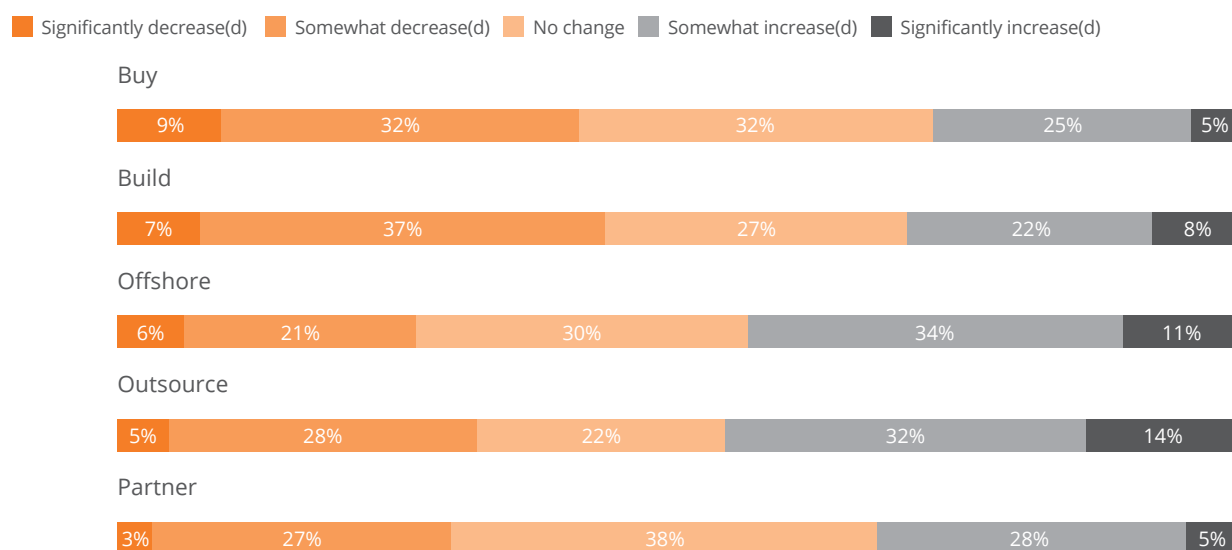
Technological disruption and the increasing trend towards becoming more digital is both an opportunity and a threat for asset managers. According to Gartner, 80% of traditional financial services businesses could cease operating by 2030 as disruptive market entrants, such as digital platforms, fintechs and other competitors gain greater market share.<sup>8</sup> Digital transformation is essential, and firms can achieve this either by building new services and solutions from the ground up, or by forging meaningful partnerships with technology and service providers.

Simply putting in place a series of solutions designed to meet the demands of today is not enough. Efficient operations are the result of compatibility, connectivity and scalability – something that cannot be achieved through piecemeal implementation. While some organisations choose the build-it-yourself approach, this is not always the most cost-effective or future-proof avenue. Rather, seeking partnerships with technology

vendors, fintechs and other providers that can offer plug-and-play services can drive down costs.<sup>9</sup>

As outsourcing different elements of the so-called activity chain becomes easier, two likely scenarios will take place. First, firms will reduce the personnel-related costs in middle and back office operations to as little as 20% of the total in the coming years.<sup>10</sup> This will be driven by greater use of software as a service (SaaS) offerings that bolster security, perform compliance checks or process large quantities of data. These services can also enable smaller firms, which naturally have fewer resources and lack economies of scale, to gain competitive advantage; by adopting an outsourced model, they need not take on the costs, complexity and capital investment of building their own back and middle office functions. Following COVID-19, while some investment firms are seeking to reduce costs, 46% plan to increase spending on outsourcing.

**Graphic 3: While some asset managers plan to decrease costs, more than half are still investing**



Note: Percentage may not add up to 100% due to rounding.

Source: Deloitte, "2021 investment management outlook"

A drawback to outsourcing, however, can be added complexity and cost when multiple vendors are in play. If left unchecked, this can add unwanted risks to the business and erode service quality. To solve this, asset managers may consider single-source solution providers (SSSPs), which can meet both front, middle and back

office needs. For example, front office functionality can cover portfolio and order management, risk, compliance and performance management operations, while middle- and back office solutions take care of enterprise management, client communications and regulatory reporting needs.

<sup>8</sup><https://www.gartner.com/en/newsroom/press-releases/2018-10-29-gartner-says-digitalization-will-make-most-heritage-financial-firms-irrelevant-by-2030>

<sup>9</sup> <https://www.pwc.com/gx/en/industries/financial-services/asset-management/publications/asset-management-2020-a-brave-new-world.html>

<sup>10</sup> <https://www.oliverwyman.com/our-expertise/insights/2020/dec/asset-management-trends-2021.html>

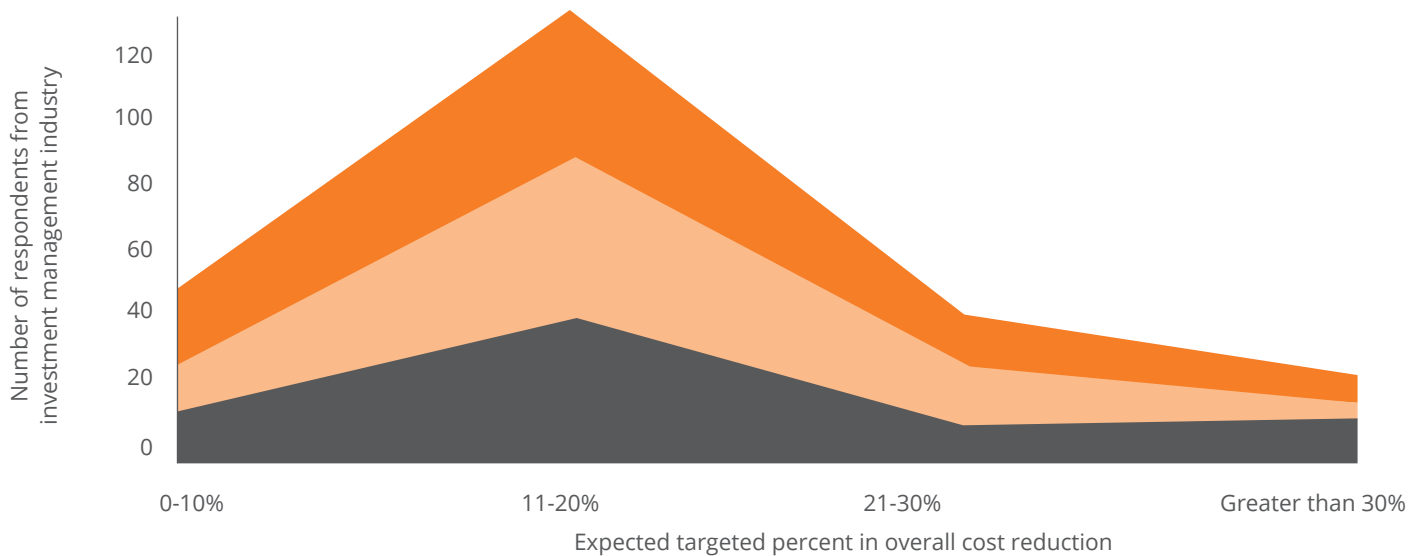
# Maintaining an edge

The asset management sector is by its nature a cost-intensive industry. Along with workforce-related costs, firms must also cover the costs of research, risk management and regulatory compliance, along with a host of operational expenses. Technology investments are another major cost centre, but are essential for many firms' survival.

In its 2021 investment management outlook, Deloitte found that half of the firms it surveyed were aiming to reduce total costs by 11% to 10% following a challenging year due to COVID-19.<sup>11</sup>

**Graphic 4: Planned cost reductions**

■ North America ■ Europe ■ Asia-Pacific



Source: Deloitte, "2021 investment management outlook"

Nevertheless, technology investments continue to accelerate, in part because of the competitive advantages they provide. Deloitte found that firms in North America, Europe and Asia Pacific all expect to increase spending on data analytics, cloud computing and digital channels.

In fact, research by CaseyQuirk, part of Deloitte, found asset managers spent US\$51 billion worldwide on technology spending in 2019 and this is expected to reach US\$84 billion by 2023.<sup>12</sup> To put this into context, these figures work out to a median spend of about 10% of operating expenses in 2019 and this is anticipated to

rise to 20% in 2023. While spending is broadly expected to increase, it is likely that projects will be rationalised to ensure they are achieving maximum value for money, particularly in an era when margins are squeezed.

To maintain profitability as well as competitive advantage, firms will need to make critical decisions about how they source, develop and deploy technology solutions. Greater use of SSSPs is one piece of the puzzle, as they eliminate the bulk of the development costs associated with building systems in-house.

<sup>11</sup><https://www2.deloitte.com/us/en/insights/industry/financial-services/financial-services-industry-outlooks/investment-management-industry-outlook.html>

<sup>12</sup><https://www2.deloitte.com/us/en/pages/consulting/articles/data-in-asset-management.html?nc=1>



## The digital banking revolution

Mobile phones and digital technology have been a major catalyst for change in the banking sector. Between 2010 and 2019, more than 3,000 bank branches in the US were closed, while the UK lost more than 25% of its branches between 2012 and 2017.<sup>13</sup> The reason? Along with cost-cutting measures, it was a response to consumers shifting to digital channels for day-to-day transactions that no longer need to be performed in a branch.

With the global decline in bank branches and changing consumer habits, the relationship between banks and their customers has transformed. The way consumers interact with banks was already evolving prior to COVID-19, but the virus outbreak served to accelerate certain transformations. Chief among these was the shift to digital channels and, while this has the potential to erode trust as human interactions decrease, research by Accenture suggests that a focus on a more personal approach, in addition to value for money, is considered appealing to consumers.<sup>14</sup>

The successful banks of today have moved away from pushing products through traditional sales methods and marketplaces, according to an EY report.<sup>15</sup> Customer expectations have changed; people are focused on costs

and convenience, but they also want products designed around their needs and they want a better level of service. Because of this, banks are focusing on developing high-quality, hyper-relevant services and experiences for target customers. These banks are constantly seeking to provide new offerings for their customers and place an emphasis on assessing and improving service quality to ensure their customers receive the best experience possible, as this is a major driver of retention.

Trust is also an important factor. A decade after the 2008 global financial crisis, a YouGov poll found that trust in the UK banking sector was poor. It found two-thirds of adults did not trust banks to work in the best interest of society.<sup>16</sup> However, this does not necessarily mean customers are wholly unsatisfied or distrustful of banks or financial services providers in general. In fact, an EY report found that 60% of consumers are comfortable with sharing their personal information with their primary financial service provider, and this represents an opportunity to increase competitive advantage through features such as price transparency, personalisation and the ability for consumers to own and control their financial data.<sup>17</sup>

<sup>13</sup><https://www2.deloitte.com/uk/en/insights/industry/financial-services/bank-branch-transformation-digital-banking.html>

<sup>14</sup><https://www.accenture.com/us-en/insights/banking/consumer-study-making-digital-banking-more-human>

<sup>15</sup>[https://www.ey.com/en\\_gl/banking-new-decade/how-banks-can-stay-relevant-as-customer-preferences-change](https://www.ey.com/en_gl/banking-new-decade/how-banks-can-stay-relevant-as-customer-preferences-change)

<sup>16</sup><https://yougov.co.uk/topics/finance/articles-reports/2018/08/29/ten-years-after-financial-crisis-two-thirds-britis>

<sup>17</sup>[https://www.ey.com/en\\_gl/banking-new-decade/how-banks-can-stay-relevant-as-customer-preferences-change](https://www.ey.com/en_gl/banking-new-decade/how-banks-can-stay-relevant-as-customer-preferences-change)



## Key ESG drivers

As the asset management industry moves towards universal adoption of ESG investing, technology can play a major role. The current landscape of ESG investing is disjointed and lacking in standardisation. With companies being scrutinised against dozens of sustainability criteria, the process is not only time-consuming for investment managers, but different analysts can reach vastly different conclusions. This lack of standardised data may hide material risks as it may not capture a company's financial risk and performance record.<sup>18</sup>

ESG investing is an area where transformative technology can play a leading role in enabling optimal investment selection. For instance, there is evidence that portfolios invested in line with ESG principles can deliver outperformance, but the challenge lies in applying this data to their investment process and client reporting efforts.<sup>19</sup> The barrier, however, remains inconsistent data. Larger companies with more resources are able to produce data-rich ESG disclosures, while smaller organisations struggle to do so. This opens the door for effective technology that can quantitatively measure a company's performance from the point of investment and score it against its peers. Such a solution makes it possible to recommend changes to the company on how it can improve its ESG credentials over the investment cycle. By tracking the company's progress, it is possible to determine whether it is overperforming or

underperforming, allowing the asset manager to make an informed investment decision.

Adding to the ESG equation is a heavier regulatory burden, which involves different rules in different jurisdictions. For example, the EU Sustainable Finance Disclosure Regulation (SFDR), which is progressively taking effect at this time, requires asset managers to incorporate sustainability risks across various aspects of their operations, including disclosures, integration into policies such as remuneration policies, risk policies, the investment process, product governance and wider internal processes and systems. Furthermore, the EU Taxonomy regulation defines whether an economic activity constitutes an environmentally sustainable activity, which helps asset managers avoid greenwashing.

The changes largely focus on improving disclosure requirements, but there are also requirements for improved risk management policies and senior management responsibility for sustainability risks, among others.<sup>20</sup> Keeping track of these requirements and disclosures can be a tall order for asset managers. With the regulatory environment in constant flux, it can be costly to employ the resources necessary for compliance. This opens the door for a platform that has economies of scale and can provide tools for assessing true ESG performance and ensuring ongoing alignment with the demands of regulations such as SFDR.

<sup>18</sup><https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/lack-of-standardized-esg-data-may-hide-material-risks-oecd-says-60541261>

<sup>19</sup><https://www2.deloitte.com/us/en/insights/industry/financial-services/esg-investing-performance.html>

<sup>20</sup><https://www.macfarlanes.com/what-we-think/in-depth/2020/esg-a-roadmap-of-incoming-eu-regulation-impacting-asset-managers/>





## Discover more

Much has been said about how the world is now in the age of Digital 2.0, and it is easy to see why. Previously, the digital shift involved moving towards mobile technology and creating new applications for these devices. In the current phase, the focus has turned to machine learning, artificial intelligence, cloud computing and big data.<sup>21</sup> Many of these technologies mark the beginning of a new paradigm where data analytics and process automation are essential to be competitive.

Today's asset managers are placing technology and data at the heart of their business. From an operational perspective, it is increasingly helping firms to reduce operational costs and create efficiencies that help them streamline operations. From a value-added perspective, technology is making it possible to process and

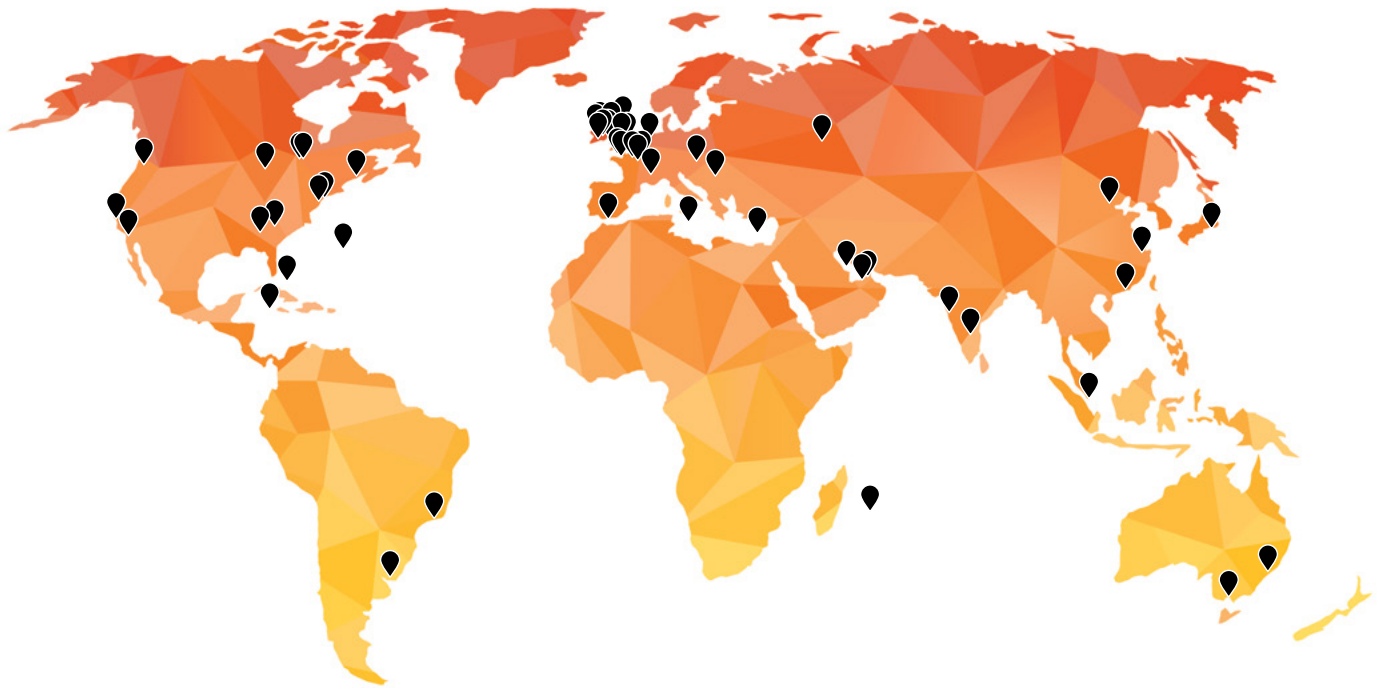
manipulate data in ways that were not possible in the past. It is helping to drive intelligent ESG data insights that inform investment decisions and make it possible to monitor more factors, while it also makes it easier to meet regulatory compliance and meet the changing requirements of different jurisdictions and asset classes.

As a leading global financial services provider, we offer a single-source solution that helps to create more efficient operations and drives informed decision making in the asset management sector. This approach enables us to deliver an extensive range of services across the full value chain that are tailored to each client's needs, including fund services, digital onboarding and bank accounts, depositary, custody, and a pioneering ESG ratings and advisory services for private markets.

<sup>21</sup><https://www.forbes.com/sites/forbestechcouncil/2017/12/18/the-emergence-of-digital-2-0-what-to-get-ready-for-in-2018/?sh=1d1efd0c1c94>

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### Who we are

- Apex Group is a global financial services provider.
- Our solutions are trusted by clients to provide the operational and administrative foundations for their business.
- We are a pioneering new single-source operating model to resolve complexity and deliver efficiency.

### What we do

- Our expert teams deliver clients with tailored solutions to meet their needs. We understand that no client is the same and therefore we treat each relationship individually to elevate our value as your partner.
- We deliver a broad range of financial solutions across the asset management, private clients and capital markets space.

### Our purpose

- To be stewards of the financial services ecosystem and protect the assets of our clients at a time of increased regulation and complexity.
- To provide a unique single-source solution delivered by the best people in the industry - to streamline our clients' day-to-day activities and provide all the services they need under one roof.



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