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Asset management and next-gen technology

Samir Pandiri, president of Broadridge International, outlines fund management strength post COVID-19, and why asset managers need to be ready for technology adoption and even more innovation

Although the traditional fund management industry emerged from the pandemic in a strong position, the sector still faces acute challenges.

Firstly, active managers are losing out to low cost passive funds, with asset share for active managers declining 35.8 per cent over the last 20 years to 53.8 per cent, and some even speculating passives could overtake active funds on assets under management (AuM) terms by 2026.

At the same time, managers are facing rising cost pressures due to new regulations and various operational requirements. In response, managers are increasingly embracing digitalisation — viewing it as a way to improve customer experiences while also obtaining cost synergies.

Broadridge looks at how traditional asset managers are currently approaching digital transformation, and their progress to date.

A digital transformation journey

Broadridge conducted primary research into progress with digital transformation by interviewing C-suite executives from 750 firms globally on the buy-side and sell-side. This allowed Broadridge to categorise firms as ranging from 'beginners' to 'leaders', using a proprietary digital maturity framework.

The study found that, relative to their peers in other financial services industry sectors, many traditional long-only asset managers are at an advanced stage of their digital transformation.

In terms of their digital maturity, 41 per cent of asset managers were categorised as 'leaders', and just 9 per cent were scored as 'beginners'.

According to the Broadridge survey, 78 per cent of asset manager respondents said their main strategic priority area for digital transformation over the next two years would be portfolio management.

Operations were cited by 71 per cent as a priority, while strategic planning was also a key focus area, with 66 per cent saying they saw this as one of their top priorities for transformation. So how are traditional asset managers leveraging technology to achieve these objectives?

Digitalisation is playing an integral role in improving the client experience. In contrast to alternatives, whose client demographic is almost exclusively institutional, traditional funds cater to a wider mix of investors.

In fact, Boston Consulting Group says retail portfolios account for 41 per cent — or US$41 trillion — of the global assets currently controlled by active managers. Retail (and institutional) clients want the investment experience to be seamless, something which is especially true for the growing crop of millennial and digitally native investors.

With investors becoming more tech-savvy, many will want reports shared with them via apps or dashboards as opposed to email or physical correspondence. In fact, 28 per cent of investors have used a personal financial app, a figure that rises to 61 per cent among millennials.

Conscious of the changing investor dynamics, asset managers are making significant improvements to their in-house technology infrastructure. 45 per cent of managers told Broadridge that they are at the advanced stages of implementing a shift away from paper-based processes towards digital communications. In addition, 44 per cent of firms said they are at the advanced stages of developing seamless, omni-channel client experiences across devices.

30 per cent of managers noted they are at an advanced level of building micro-personalised marketing and communications that are unique to each individual user. A further 69 per cent of asset managers told Broadridge they were at a mid or advanced level of using data to improve customer experiences. Although fundraising has been strong, competition for investor assets remains high.

The managers that utilise technology to augment client communications and experiences will likely have a competitive edge moving forward.

Many traditional asset managers are also looking at ways to create efficiencies in their workflows, processes, and operations. This comes as investment firms of all types face growing operating costs – owing to regulation, added reporting requirements, and overheads arising from COVID-19. One way firms can reduce operating costs is through automation.

Replacing legacy infrastructure

By improving and automating inefficient or error-prone manual processes and replacing legacy infrastructure with modern cloud-based solutions, firms can realise significant savings and reduce risk. In fact, traditional asset managers are ahead of their counterparts in the alternatives industry, with 42 per cent of respondents telling Broadridge they are at the advanced stages of implementing a modern IT platform. Whereas hedge funds and private market strategies have been slow to integrate disruptive technologies like artificial intelligence (AI) and blockchain into their operations, traditional funds lead the way.

The study found that 28 per cent of firms were at the advanced stages of implementing robotic process automation (RPA) to automate workflow activities across the firm. 28 per cent also added they were at the advanced stages of adopting machine learning and AI tools for intelligent automation. Some managers told Broadridge they expect to make significant progress on blockchain in the next two years, a technology which could transform activities such as client onboarding, know-your-customer, and repo trading, along with regulatory compliance.

Data and analytics will be instrumental in supporting the traditional asset management industry's growth. The use cases for data and analytics are extensive, as they can be applied in investment decision making, operations, and investor relations. However, for data and analytics to yield decent results, information needs to be organised in a structured, systematised, and holistic format, which can be easily accessed across the entire business.

This can be a challenging undertaking, and only 15 per cent of asset managers told the Broadridge study they were at the advanced stages of implementing a centralised data platform. Some forward-thinking managers are even attempting to develop capabilities around predictive analytics – and applying it in operations and investments.

The Broadridge study found that 30 per cent of asset managers were at the advanced stages of using data for predictive analytics and/or other forms of advanced analysis. Such analytics can be used to fine-tune investment decisions, bolster returns, and improve operations.

However, adoption of new or disruptive technologies is not without its challenges, something the funds industry fully recognises. The Broadridge report found that 32 per cent of managers said their greatest challenge in driving digital transformation was the pace of technology change, followed by data security and privacy concerns at 26 per cent, and poor access to quality data at 20 per cent. While these challenges can be overcome, they can clearly frustrate technology change programmes at fund managers.

Evolving for the future

Asset managers are ahead of their peers in terms of technology adoption and innovation. However, there is still a great deal of work to do to move the industry forward in its digital transformation.

With the sector targeting an investor base which is becoming more tech savvy, while simultaneously operating in an increasingly crowded market environment, digitalisation will be a critical enabler and differentiator for fund managers. ■