New age thinking

OUR PANEL OF EXPERTS DISCUSSES THE STATE OF INNOVATION IN THE INDUSTRY AND WHETHER TECHNOLOGY AND THE PANDEMIC HAVE CREATED A ONCE-IN-A-GENERATION OPPORTUNITY TO CHANGE. CHAIRED BY **NICHOLAS PRATT**.

PANEL

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FundsTech – Where has innovation been most evident in the industry?

Richard Clarkson, Oracle – The events of the last 18 months have driven a lot of innovation. There has been a pivot to the cloud and a search for new ways of doing traditional, mundane 'old' jobs. As an industry, we have begun the move into digital services, for both the service offering to the investor and the service provided within the organisations. We have also seen the globalisation of asset management. The larger players want a single source of truth rather than multiple systems from multiple providers.

"AS AN INDUSTRY, WE HAVE BEGUN THE MOVE INTO DIGITAL SERVICES, FOR BOTH THE SERVICE OFFERING TO THE INVESTOR AND THE SERVICE PROVIDED WITHIN THE ORGANISATIONS."

Richard Clarkson, Oracle

Janusz Lorenc, Metrosoft – We have seen a significant move to digitisation here and I support the idea that large players want to consolidate platforms and vendors and have a single source of truth. The problem I see is that very large players can afford this, but the middle-size players cannot, unless a comprehensive solution is offered on a Software-as-a-Service basis.

Maxime Aerts, Fundsquare – Cloud computing, APIs, blockchain, artificial intelligence and machine learning are all becoming reality in our world. They used to exist as standalone technologies but we now see real-use cases. We've also seen an evolution of the service model where the aim is to put the client at the centre and to adjust the product based on client behaviour. Finally, we've seen a business evolution via tokenisation of assets and registers providing increased access to inaccessible products and bringing more liquidity to illiquid products.

Markus Ruetimann, Aprexo – Our changing operating environment is influencing innovation. We continue to experience the prevalence of passive asset management. Currently a fifth of assets under management (AuM) are reportedly managed passively and the industry expects that to go up to a third by the end of 2025. At the same time, the mega asset managers control 53% of all AuM and that is likely to go up to 68% – according to PwC. Customers are getting younger, expecting a more exciting digital experience and we've seen the democratisation of investment knowledge. All of these trends will have an impact on innovation and how asset managers compete in future.

Innovation has been most evident with respect to cloud adoption, data science and the emergence of AI and ML technologies which are still on the frontier and not yet core. You also have the fintechs developing data management products to address the absence of data lineage, provenance and traceability. The pandemic has accelerated the need for targeted innovation.

Daniel Andemeskel, Universal Investments – I separate innovation within the traditional business set-up and new products and business models. Innovation in the traditional business has been focused on distribution, products and operational efficiency, e.g. we are using news-based real-time ESG analysis to cater for new clients' demands. The traditional business model can be exemplified by a diesel car, because we are a huge manufacturer of funds and investment products, and the new product or business model (UI Enlyte) is like an electric car, a whole new platform for digital assets using the blockchain/distributed ledger technology (DLT). That separation is very important when it comes to reaping the benefits from these environments.

It has been a great year for innovation. The pandemic accelerated a lot of things and it meant that firms could no longer avoid developments like remote working. It was also interesting how much push there was from regulators for new working environments. They are putting a lot of new laws in place around tokenisation and digital assets and really spearheading a lot of innovation.

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Edward Glyn, Calastone – The industry has come a very long way in terms of removing friction from the supply chain of asset management. We've got a long way to go, but we have removed a lot of the friction that was traditionally there. We are in an industry that has typically moved data back and forward from point to point and when I look at the work that we have done with clients over the past couple of years using DLT, you're now sharing data, as opposed to moving data, which has given rise to massive potential.

In terms of Daniel's point about current and new operating models, we still have a lot of assets to sweat in terms of improving current processes, whether that's around data or manual transfers. But there is also this promised land that we can get to and we should focus on both.

Eric Bernstein, Broadridge – Our own research shows that in the last 18 months, digital has outperformed its peers across multiple areas, from onboarding to clearing and settlement, with a big emphasis on the user experience. In the pandemic, we thought it would be difficult to implement new technologies and initiatives while physically distant from the client. However, we've learned that it's much easier to guide a customer to onboard electronic tools from the web in five minutes. These tools are incredibly intuitive, and you are using a data source that doesn't require an army of people to ensure it is correct and reconciled. I think that trend is going to accelerate even further with the new technologies that are out there, like Snowflake.

Edward's point about the use of the blockchain to consolidate data and create a single source of truth has never been more important. The industry is moving from closed architectures to a completely open, API-enabled world where everyone is accessing the same data set in real-time. If you combine that with the new digital experience, where you have a new user interface on top of something like blockchain, that is where the future lies.

Niall Hornett, Citi – The world has changed since March 2020. Socially responsible investing is everywhere and will continue to grow. The younger generation of people are more attuned to what they're buying and where they are buying it from, whether it is divesting from petrochemical firms or active investors putting pressure on supermarkets to declare the fat levels in their fizzy drinks. People are clearly going to start investing with a social conscience, whether that's a retail investor putting money into an ISA or an institutional investor. The industry has to recognise that and be able to use data and analytics to demonstrate they are living up to their ESG claims. Our clients are very interested in how we help them in that space, for example, working with fintechs on ESG ratings. But there is still a long way to go in terms of developing a standard market taxonomy and continuing to drive innovation.

***FundsTech* – Which new technologies have made the most progress in the last 18 months?**

Glyn – We have got to differentiate between activity and progress. A tremendous amount of activity over the last few years has been around the use of DLT, but we definitely don't yet have mass adoption. Whereas some of our clients have made massive progress in areas like our DLT fund services offering or fund issuance or the tokenisation of assets, there are others who are still living in the past and yet to jump on that particular journey. There's a huge dichotomy between clients who are making massive progress and a whole slew of slower movers who will potentially die off if they don't start to embrace these innovation possibilities.

Lorenc – Application programming interfaces (APIs) have been around forever and, finally, most of what we do now is API-based. This allows for real-time fetching and sharing of data – not replicating and then sharing, which invites data reconciliation problems. APIs are a game-changer in terms of processes. For example, the onboarding and KYC [know-your-client] process relies on lots of data from different sources and providers with different systems and this is where APIs, when used, allow for real-time control. We also see greater interest in machine learning (ML) and simple explainable 'white box' algorithms.

Ruetimann – I would pick three examples, namely – the cloud, DevOps, and chaos engineering. The latter refers to the discipline of experimenting on a software system in production in order to test the application's integrity and resilience.

Clarkson – There is also that element of adoption. We've talked for years about innovation in this industry and the last 18 months has driven that innovation forward in leaps and bounds, but we're still starting from the 1980s whereas most industries are starting from the 2010s. Faxes are still used a lot and we need to get our feet moving forwards, together as one. There are too many parties involved in this process and there's too much friction. There can be 19 layers between the investor and the fund manager, and that raises issues around data and the investor journey and without an investor, we don't have a job. For us to add value, we've got to make sure that costs are reduced and that friction is minimised, be that through simplified processes or easier access to data. We've talked about ESG, but bitcoin is not ESG-friendly because it consumes too much energy, so is DLT the answer if it takes half a rainforest to power it? That's the question we've got to ask ourselves.

"IT'S NOT ABOUT THE NEW TECHNOLOGY THAT HAS COME INTO OUR INDUSTRY, IT'S RATHER THAT TECHNOLOGIES THAT HAVE BEEN HERE FOR SOME TIME HAVE REACHED A NEW MATURITY LEVEL."

Daniel Andemeskel, Universal Investments

Andemeskel – It's not about the new technology that has come into our industry, it's rather that technologies that have been here for some time have reached a new maturity level, DLT being one of the best examples. In the last year, we have seen a rise in use-cases and a surge of investment in new technology like AI and ML. Currently in the industry we can see concrete, tangible products that create value for asset managers and for clients, be it onboarding and KYC/AML [anti-money laundering] or ESG-driven investments, where you need to have better insight into investors' beliefs. The incumbent players are also no longer secured through the closed regulatory environment. New players are entering and obtaining regulatory approval and that is accelerating innovation.

"THERE IS SO MUCH INEFFICIENCY IN THE MARKET TODAY WITH MUCH OF IT RESULTING FROM PEOPLE'S FEARS OF DISINTERMEDIATION. BUT IN THE END, IF WE CAN DRASTICALLY IMPROVE EFFICIENCY, WHO CARES?"

Eric Bernstein, Broadridge

Bernstein – The industry is in a 'Field of Dreams' moment – if we build it, people have to come. If they don't come, no matter how innovative we are, what's the point? With DLT, there are processes where you can innovate and get a lot of bang for your buck. For example, you can have investor onboarding where a physical signature is digitised, it doesn't have to be end-to-end, and it is ready for consumption. In certain jurisdictions, the use of electronic signatures has been a painful experience. There is nothing wrong with taking a physical signature, converting it into a pdf and putting it on DLT to create an immutable record for everyone to consume. We have found that you get a lot more adoption when you break the technology down into little pieces rather than trying to do it all. Anyone who says they are all things to all people is usually nothing to anybody.

***FundsTech* – Where is innovation most needed?**

Hornett – We have to start to look outside of our traditional industry and how we've done things. We've still got an eighties mentality. It's getting better, but when you look at the likes of Amazon, we've got a long way to go to capture that experience for a retail investor who may only be putting £25 into an ISA or a lifetime savings product, but it's really important to them and they want to be able to change funds and see recommendations. If you make it affordable and you personalise it, that business will grow. It isn't just a case of giving £25 over to someone and then forgetting about it.

Aerts – Innovation is needed in most areas but as we continually move towards a client-centric model, we require better knowledge of the clients and more data to analyse. The Holy Grail is to link the lifecycle of a product, environment events and customer intelligence. This is the logical next step in anticipating trends and better responding to clients' needs while bringing value.

Clarkson – We need to innovate to simplify the distribution network, especially in Europe, where it is very fragmented. And we have to make data much more usable. How do we use data to ensure we develop products for 20-year-olds to start saving, the middle aged and the retirees. The word has changed, we live longer and we need to save earlier. So how do we support that?

Ruetimann – There are five areas where innovation is most needed. Number one is client experience with respect to digital content, tools and self-service facilities. Number two is data curation, improving the accuracy and completeness of data used for decision-making as well as client and regulatory reporting. The third point is accommodating new investment vehicles containing digital assets. The fourth area is information security. New, innovative technology solutions will be needed to cope with the next operating pandemic. I consider this to be the biggest headaches for COOs today.

The final area is one which I have been talking about for over a decade, namely the need to deliver operational alpha and to lower the cost of investing in capital and private markets. The industry has not made much progress with respect to the latter. Intermediation remains extensive and expensive for investors. Operational alpha is the ability to deliver process efficiencies and to ensure the effectiveness of a firm's technology solutions and sourcing strategies.

Andemeskel – Innovation is most needed in situations where we can provide access for people that are overseen or are currently not being served. When Facebook decided to launch its own currency, Libra, the main reason why it received so much attention was that Facebook has 3 billion people on its platform and many of them have no access to financial services. Another area relates to new assets and investments – from tokenised football clubs to windfarms, from impact investing to ESG and microfinancing. All of these areas are growing and we need to invest in technology to be able to offer these products. We need to reach a point where it is as easy to invest in a fund as it is to buy a book on Amazon.

Glyn – One of the things I've learned during the pandemic is that our industry makes things slightly more difficult than they need to be. Everybody's talked about 'Amazonisation' and it is interesting to look at the data. Amazon has about 200 million Amazon Prime members and that statistic grew by 25% in the US over the past year. And 69% of all people who trial Amazon Prime go on to use it; 93% of users continue to pay for the program after one year. Imagine if any of us in this industry had a sales record or conversion rate of 69%. When you look at why consumers use a marketplace, rather than go direct to the provider, 26% of US online consumers cite saved payment info and single-click buying as their main reasons. Around half of Amazon's Prime users admit to free shipping and ease of finding products as their favourite features.

The big difference between the likes of Amazon and our industry, especially in the UK, is that funds are sold and not bought. With Amazon and Facebook, it is about three things: what people are sharing, what people are looking for and what people want to buy. We have to make the client experience better and we have to remove friction in the back end to create 'fulfilment shops' in the style of Amazon. And we have to get people more interested in what we're doing as an industry. People are too apathetic towards their investments and only start to take interest when they see they actually can't afford to live a future life in comfort, until it is too late.

"IT IS NOT A QUESTION OF LACKING INNOVATION, IT IS ABOUT HOW WE DELIVER THE INNOVATION AND TECHNOLOGY THAT IS ALREADY HERE... IT'S THE METHODOLOGY THAT REQUIRES A CHANGE OF MINDSET."

Janusz Lorenc, Metrosoft

Bernstein – We are forced to have these tri-party relationships. There's no bilateral relationship, so unlike Amazon, there are middlemen controlling a lot of the operational efficiency. If I'm on the buy-side and buy a security, it then goes to my custodian, my fund administrator. On the sell-side, it goes to their clearing agent. They meet somewhere in the middle, and then it's sent back. This process takes two days. It reminds me of when my grandmother used to send me a cheque in the mail. I'd get it one-and-a-half weeks later, cash the cheque at the bank and have $20. There is so much inefficiency in the market today, with much of it resulting from people's fears of disintermediation. But in the end, if we can drastically improve efficiency, who cares?

***FundsTech* – Asset managers are increasingly reliant on third parties, so how do you solve that disintermediation fear?**

Bernstein – Ultimately, the friction in the market is the problem and that stems from fear. I operate every day knowing that I don't need to be the third party; I could be part of a bilateral relationship. There's this incredible fear in the market structure which creates roadblocks and leads to operational friction. When we reduce the friction, we create an open environment, like Amazon – Amazon isn't the producer, it's the facilitator and eliminates friction in transactions. The same thing can happen in the funds industry. I think it will reduce cost and friction and open up the market.

Lorenc – It is not a question of lacking innovation. It is about how we deliver the innovation and technology that is already here. For example, if you look at agile software development and DevOps – it is a great concept that requires full trust between parties. You need to throw away 'waterfall' thinking and protecting your own territory and work together and experiment to deliver a solution that works. So, it's not the technology, it's the methodology that requires a change of mindset.

Ruetimann – Collaboration and differentiation are intrinsically linked. No asset manager has all the required capacity and capability in-house and must thus source talent, technology, and services from external providers. Differentiation is based on investment performance, quality of client servicing, risk management and culture.

Hornett – The younger generation have different demands and want a different experience. We have got to start thinking about that because we need to encourage people to save and to start thinking about their long-term futures. I know it's difficult to make that appealing, but I'm not so sure the products and services that we operate are going to touch that generation in the right way and I fear they will look for alternative vehicles to invest in. They have a different view of the world and they want a different experience and we need to adapt to that.

***FundsTech* – What impact has the pandemic had on innovation?**

Aerts – It has been an accelerator for digital solutions and for cloud-based services – developments that were already underway before the pandemic. Now we see more of our clients trying to go beyond that and are looking to digitise everything so that they can ensure a seamless relationship with their employees and clients, whatever the situation. This has led to projects being initiated such as implementing new platforms or providing real-time information to clients so they can be autonomous.

"THE PANDEMIC HAS CHANGED EVERYTHING. OUR TRADITIONAL WAYS OF WORKING ARE NOW DIFFERENT AND THE WAY THAT WE THINK ABOUT THINGS IS DIFFERENT."

Niall Hornett, Citi

Bernstein – If any of us had hired a management consultant and asked how long it would take and how much it would cost to implement remote working across the entire industry globally, they would have told us that it wasn't possible. Yet, we did it all in four or five days. The pandemic forced us to do things we needed to do, like remote working. It also levelled the playing field. Those big companies that could send 50 people on a private plane to meet a potential customer could no longer fly. We learned that it is way less expensive to go digital rather than spending all that money on travel and marketing. In the funds industry, it has been interesting to watch this dynamic. The big players in areas like distribution have always had the upper hand. Now we are seeing niche players come to the market – fund managers with interesting products reaching end investors without having to sit on a plane or in a conference room. It is David versus Goliath at its best.

Andemeskel – The biggest transformation has happened in the culture of work. For employers, having an office was always a guarantee that people will be working. They have had to adapt to the idea that people can work from home and still be productive. The proof is there. Remote working is also here to stay. It has also made it possible to have decentralised teams from all over the world working from home.

Clarkson – The pandemic has shown how blessed we are as an industry that most of us didn't lose our jobs and were easily able to transition to a working environment at home. But we forget that a lot of young people were suddenly jobless overnight and are still jobless 18 months later. These are the cohort ones we are trying to sell to with the digital services and innovation we as an industry have been discussing for the past few years. However, part of the innovation is not necessarily to do with technology but with social development and recognising that as an industry, we have to reach a younger audience, earlier. That might mean Instagram influencers portraying how wonderful it is to save money or even include financial services in education, as a Leaving Certificate, A-Level or Baccalaureate qualification. We've all fallen into this industry – there's no degree course for custodians. How do we make people recognise that financial services are critical to their mental and physical wellbeing from now into their retirement years?

Lorenc – We've seen a big improvement in reducing the use of paper but there have been challenges elsewhere. Without team colocation, software companies cannot move as fast as they could. For some, the happiness that comes from working from home compensates for not working together in the same space. But for specific methodologies, like Scrum, colocation is critical because the team needs to know everything all the time, so their velocity is impacted and innovating is more difficult. And, as Richard said, the funds industry survived the pandemic and is doing very well. But if you look at the long-term economic outlook, it's tragic. We have lost many, many potential investors for the foreseeable future.

Hornett – The pandemic has changed everything. Our traditional ways of working are now different and the way that we think about things is different. For an organisation like Citi, having up to 200,000 people working remotely at one time proves that cloud infrastructure and everything can work and can be very effective. Initially it was all focused on maintaining service and standards, but the home working environment gives you the space to do some lateral thinking that you may not always get in the office. The flipside to that is working with people drives ideas. You need that interaction and it is not always possible on a video conference. You need to have that balance where working from home is combined with time in the office, which is also important for mental health. We will have a new way of working, but we've got to recognise that the people piece is still vital in our industry.

Glyn – As a digital business, the pandemic has shown us that you can go from a physical to a virtual environment. But we have also seen so many asset managers now who are looking to change their TA [transfer agent] or their custodian because of the poor service, particularly around reporting. The number of RFPs [requests for proposals] I have seen has been shocking. Back in 2008, PwC looked at people who changed their providers during the financial crisis and it was because of poor service, not poor performance. During the pandemic, there has been such disparity between securities services providers – the good ones and the ones who failed because they didn't have automation and couldn't provide real-time reporting to their clients. That's been a real game-changer.

Ruetimann – We observed two somewhat opposing trends. Some fund managers are now accelerating their digital transformation programmes with focus on the digital client experience and use of cognitive technologies for portfolio research and construction. Others seem to play it safe, waiting to benefit from the innovation pursued by their external services providers. One could interpret this as being about the risk and reward ratio, job security as well as shrinking project budgets.

"BECAUSE OF PRESSURE OF MARGINS EVERYWHERE, WE'VE SEEN A LOT OF PROCESS AUTOMATION TO INCREASE EFFICIENCY AND REDUCE COSTS. THE BIGGEST INNOVATION COMES FROM CHANGING THE MODEL, NOT ADJUSTING THE PROCESSES."

Maxime Aerts, Fundsquare

***FundsTech* – Should the industry look beyond traditional thinking to encourage more innovation?**

Hornett – We have to look at the

younger generation. We have to make them part of the process so that they feel the funds industry is part of their important life decisions, like long-term retirement and health planning. If we can get them to understand and appreciate the industry early on in their lives, it would be a quantum leap forward.

Bernstein – It's all about the marketplace and building an ecosystem based on an open architecture that allows for new entrants, breaks down barriers for investors and service providers and focuses on disintermediation. If you combine all of those things, you create a model that will break down costs for the end investor and enable success for all participants.

Aerts – Because of pressure on margins everywhere, we've seen a lot of process automation to increase efficiency and reduce costs. The biggest innovation comes from changing the model, not adjusting the processes. The direct-to-consumer (D2C) model is the next step in the industry thanks to blockchain and real-time access to data, but it is a challenge to deploy as it might render activities completely obsolete. The D2C model also means that the rules need to change.

Lorenc – This industry really does not cooperate very well on a large scale. We have the technologies and the tools. But we need to listen to each other and to embrace change and risk, otherwise innovation stays in the lab.

Glyn – All the ingredients for success are there to reduce friction and make the client service and experience better/more compelling. The technology is there, the business case is there and the pandemic has provided us a platform to really encourage change. We have now a once-in-a-generation opportunity to really make things happen, and shame on us as an industry if we don't take advantage of that.

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Edward Glyn, Calastone

Ruetimann – The industry needs to look further afield for talent. The future CEOs of asset managers may well have experience in running a non-financial services firm. Enriching your talent pool with people from engineering, high-performance sports or various social sciences has already proven successful for some. True innovation derives from people from different personal and professional backgrounds, operating in a culture that encourages and rewards different thinking and unconditional collaboration.

Andemeskel – We should never forget two things. Firstly, it is not just about our current clients but also the clients that we are not serving right now, such as the millennials. We have to find lighter and more digital solutions to cater for them. Secondly, we need to move into a connected, decentralised, holistic and marketplace-driven ecosystem rather than a market where everyone has their own environment and no one is sharing because of competitive advantages.

Clarkson – We have to improve our use of data and the ability to supply data across multiple providers. To have eight or nine TA systems is not efficient. If we look to the future, you cannot adopt open architecture with seven TA systems and a data mesh on top to hide it all. As a TA, you need to have a single solution with global capabilities that can work with APIs and microservices, so that your asset manager clients don't move on to another provider with better solutions. **f**e