TEN TRENDS
Shaping the Future of Asset Management in 2020

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Today’s operating environment for asset managers may be the toughest ever, and 2020 is likely to be a watershed year

Leaders should be attentive to the evolving demands on their company’s operating model, technology workforce and ability to drive change at speed.

External pressures are growing

Economic
• Fee Compression
• Rising Costs
• Decoupling of AUM and Revenue Growth
• The Shift Toward Passive Investing
• Advancing Regulation
• Disruptive Technologies and a Market Heavily Skewed Toward Equities and ETFs

Geopolitical
• Trade Wars
• Mideast Tensions
• Brexit
• US Elections

Source: Accenture
What are your firm’s greatest strengths as you head into the new decade? In what areas do you feel vulnerable?

To generate dialogue about the future of asset management, and the actions asset managers should be taking most urgently, we have used our industry research, as well as interviews with leading executives, to come up with our list of the “top 10” paths to prosperity for asset managers in the coming year.
Asset managers that succeed could require a new mindset and new capabilities. Becoming more innovative and changing the culture so that it embraces transformation puts operating model change in a heightened focus.

Approximately three-quarters of businesses report that the disruptive impact of constantly shifting customer demands and new market entrants has increased over the past three years. Yet operating models aren’t changing at pace.1

The new model should also address every core capability across the enterprise—front, middle and back office and infrastructure. Operating model transformation also requires reconsidering which activities are core and differentiating, and which are non-value added. For example, depending on their strategy, some firms might decide to explore outsourcing a function that was historically considered a profit center (e.g., trading).

**KEY TAKEAWAY**

The operating model should be flexible and constantly responsive, adapting quickly to emerging solutions and approaches—even those that may not yet be fully understood. **Change your static operating model to a dynamic, data-centric model by leveraging a playbook that puts insight and analysis at the very center of where you are and who you want to be.**
For asset managers, cost takeout is likely to remain a high-priority item. Firms are hyper-focused on challenging how functions, incurred costs, etc. are delivering value to the organization. The accelerating trends in applied intelligence, automation and outsourcing are expected to cause players to have to defend all their cost center strategies. The operating environment is such that each cost has to provide clear and substantiated benefits that impact the overall investment lifecycle or customer experience—driving a call to action.

As the capabilities of industry vendors broaden, mature and demonstrate a strong business case, leaders might feel even more pressure to prove the value of retained functions.

**KEY TAKEAWAY**

Asset managers should look at their cost structures within the context of delivering value to the organization. By looking through the value lens—both to clients and to employees—firms are expected to have a better understanding of where to unlock trapped value versus fixing value drains.
Firms are diversifying their product mix and specifically chasing margin drivers—e.g., alternative investments. At the same time, asset managers need to be mindful that non-traditional competitors are or might be entering the market as well.

In our recent study, Reinventing Operations in Asset Management, we found that a high number of companies agreed that new revenue opportunities will provide the greatest lift to firms in the asset management industry.

Additional revenue streams are likely to come from new and innovative products and distribution channels. But some firms are also looking to monetize capabilities beyond their product and asset management competencies. For example, by licensing their proprietary software capabilities such as the white labeling of client platforms, or even their “product-in-a-box” offering, firms could realize more significant topline growth.

**KEY TAKEAWAY**

Companies need to reinvent and industrialize their underlying value chain, with a clearer focus on their business model (unconstrained active, smart beta, and/or true passive), structures (funds, managed accounts, etc.) as well as niche versus scale operations.
Asset managers should be closely monitoring the maturity curve and roadmap of innovative technologies and understand their applicability to specific areas across the investment lifecycle. Are asset management firms well positioned for the technology future? Many are not. According to an Accenture study, 42 percent of survey respondents believe that their operations and technology are not currently configured to execute their firm’s overall strategy.

This lack of preparedness underscores the pressing need to more effectively leverage technologies like automation, applied intelligence (AI) and analytics—not only to realize cost savings, but also to increase flexibility and adaptability to support both current and future strategic objectives. Experimentation and proofs of concept in areas such as blockchain and quantum computing are expected to also eventually separate leaders from laggards.

Today, some of the most prescient organizations are already using analytics to peek around the corner and anticipate their customers’ wants—analyzing patterns of behavior and using the insights from customer interests and transactions to personalize experiences in ways not possible just a few years ago.

**KEY TAKEAWAY**

Asset management winners will be likely those that embrace, engage and facilitate advanced technologies across all parts of their business—products, services, engagement and value chain.

2020 is the year when the asset management industry could catch up with the pace of innovation in other segments—especially when it comes to innovation using data and analytics.

One caveat: Don’t fall into a hype cycle. Focus first on technologies with clear and measurable outcomes in the here and now.
Client preferences and expectations have changed. Personalization is key today. Asset managers need to evolve to manage the ongoing shifts in customer behaviors, changes in regulations and the increased pace of technology innovation.

Old ways of working can limit an organization’s ability to gain and then keep a competitive advantage. Clients have more choices at their fingertips than ever before, so firms that win will likely be those who constantly challenge things like their product mix and distribution strategy.

KEY TAKEAWAY

Asset managers should develop deeper, more meaningful customer relationships to deliver the right offering to the right client at the right time. Enhanced competitive positioning should be driven by strong client relationships.
This path is closely related to the previous point. One particular application of innovative technologies is to help improve the user/customer experience. As organizations progress towards the digital future, they’re learning that a successful user experience—which leads to the conversion of users into sustainable customers—is key to business growth.

Today, the asset management industry is already moving from a world of one-size-fits-all products and services to one in which firms create custom, personalized experiences for the end-customer.

Asset managers may never have imagined that they would need to provide the same “user experience” to their customers as retailers or consumer electronics companies. However, user experiences in one area of consumers’ lives are shifting user expectations in others, and businesses must respond.

**KEY TAKEAWAY**

It is critical that leaders of asset management firms recognize that they are no longer just competing with industry peers. They need to learn from other industries and match or better the types of personalized experiences those companies provide.
Data needs to be at the heart of an asset management firm’s strategy today. A true, front-to-back view of data is critical. To better design a more agile operating model, asset managers should confirm that an effective data foundation is in place—one that promotes trustworthy, clean data and a strong governance structure. Yet, 66 percent of asset managers say that data management is the area of their business most in need of total disruption.¹

A strong data foundation drives the effectiveness of emerging technologies and is a critical factor in unlocking scalability. Without an effective data strategy and data foundation in place, innovation may be constrained, and automation initiatives may run into head winds.

**KEY TAKEAWAY**

Understand the true value of clearly defining an enterprise data strategy—how it could support innovation, and what capabilities are required to realize its full potential.

Modernize the existing data supply chain—data architecture, governance, platforms and operations—if needed, so it is better positioned to manage data, especially at the pace required to generate intelligent insights.
Firms need to move away from reactive approaches to all aspects of risk management (i.e. investments, cyber operations, etc.), and more towards forward-thinking, predictive safeguards, particularly when assessing how best to leverage emerging technologies to mitigate or defend.

As part of the Accenture 2019 Capital Markets Global Risk Management Study, we asked 201 risk managers at capital markets businesses what is currently causing them the most worry. One concerning answer: only five percent were highly confident in their ability to manage the increasing frequency and sophistication of cyber threats.

Our research data has also shown that evolving regulation, cyber threats, changing investor sentiment and growing interest in non-traditional assets and complex portfolios are weighing on risk managers’ minds. As a priority, firms should develop holistic, “always on” capabilities to combat 24/7 machine risks (e.g., cyberattacks, algorithmic breakdowns) and human risks (e.g., conduct and compliance monitoring, anti-phishing security).

Firms should build a more proactive risk management function, diligently scanning the horizon for the next threats as risks evolve and manifest themselves in new, unfamiliar forms. Rather than plan for specific eventualities, they should continue to prepare for disruption—looking outwards in every direction.

**KEY TAKEAWAY**

Firms should identify their most important digital assets, which should be fortified with the most robust cyber defenses. A one-size-fits-all approach that attempts to protect all data and assets in the same way is most likely not appropriate for today’s risk environment.

Human error is responsible for the majority of cyber breaches, so carry out robust cyber training (especially with regard to phishing) and establish appropriate controls across the workforce to accompany investments in predictive analytics and cybersecurity software.
Operational transformation directly impacts roles and skillset demands, so firms should be continuously reassessing their talent strategies. This need is coinciding with substantial pressures around talent, particularly around upskilling and retention.

The industry’s current focus on functional expertise is set to shift towards more technical skills, as seen in a recent Accenture survey. However, this won’t be a binary shift. Firms should think carefully about re-skilling and blend the infusion of data-oriented talent with practitioners who know the business. The art is in striking a balance between upskilling the people who understand the business and integrating the data scientists who need to learn it. Firms that are able to find that balance should be in a position to keep the engine running while also seeding the transition to a new human capital model.

KEY TAKEAWAY

Amid all the talk of cost efficiencies from automation and AI, a perception is emerging that firms might be faced with having to decide between people and machines. By contrast, we believe that success could be based on a hybrid approach—what we call a “people + machines” model. Innovations are likely to force leaders to reinvent how human capital is deployed, but this new world might present exciting new opportunities for people and the firms that employ them.
Full organizational acceptance of change starts with leadership vision and direction. The key to realizing breakthrough transformation is to create a culture that embraces ongoing change.

People are the key to success and the catalyst to gaining acceptance for monumental change within the organization. It is imperative for the organization to promote a culture of innovation and focus on incremental delivery. Firms can no longer wait 12 months to begin to realize value from capital investments. Delivering incremental value needs to be the focus.

**KEY TAKEAWAY**

Managing organization change is becoming a key pillar of any successful enterprise. Adaptability also needs to be embedded in the culture, not just aligned with large programs and projects. As more and more organizations emphasize the importance of speed to market, organizations that institutionalize a “culture of change” will likely be at the top of their class.
What will the characteristics of a successful asset manager be in five years? In twenty? Some asset managers are still playing catch-up to address today’s demands. Going forward, asset managers need to design with future disruptions in mind—meaning, they need to take an iterative, agile approach. No one can be certain what the future will bring, so one key to surviving, and thriving, should be the ability to adapt and drive change at a pace unprecedented in the industry today.

How can managers push through and invest in the right strategies to win—and to gain a competitive edge—when many economic indicators and business factors are blinking red lights? The asset management companies at risk today are likely those where leadership lacks the will to change, and who focus on the short term at the expense of long-term viability.

CONCLUSION
FOCUS ON LONG-TERM VIABILITY, NOT JUST SHORT-TERM GAINS
About Accenture

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