

CAPITAL MARKETS

# Digital Transformation: The Central Challenge for Asset Management Firms

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Strategy | Digital | Technology | Operations

A hand holding a smartphone. The phone screen displays a text message. Surrounding the phone are several circular icons: a red one with a globe, a green one with a house, a blue one with an upload arrow, a yellow one with three people, an orange one with a bird, a red one with a gear and plus, a teal one with a network diagram, and an orange one with a Wi-Fi signal. The background is a light orange gradient with a large white speech bubble shape behind the phone.

Of all the changes confronting asset managers, perhaps none has more potential to transform the industry than the rise of digital technologies.

# Why is Digital Important?

Firms have moved to adopt digital technologies, but few have effectively integrated such technologies into the investment management lifecycle.

Our research, and our work with a wide range of asset management firms, indicates to us that digital transformation can provide a significant competitive advantage to asset managers. This advantage manifests itself on many fronts, including, better performance of assets under management; more effective and efficient distribution strategies; improved segmentation and targeting of key customer groups; and faster development of more desirable products.

Although innovative technologies in the form of mobile, social media, cloud computing, big data and analytics is a key enabling factor in the digital transformation of asset management, the most important feature in this transformation is a shift in firms' orientation, from selling a product to selling to a client (whether that client is an investor or an intermediary such as a financial advisor).

To successfully accomplish this move to customer-centricity, firms need a full understanding of what clients and advisors really want and need from asset managers, and then they need to be able to deliver this experience on a continuous basis.

This encompasses investment performance but also service, information, and, vitally, the kind of experience that clients and financial advisors now expect.

Asset managers that take a step back and look to develop outcome-based digital strategies using an "outside-in" approach -- one that utilizes digital technologies to create operational efficiency and delivers clients and advisors customized experiences -- will differentiate themselves from competitors and facilitate future growth.

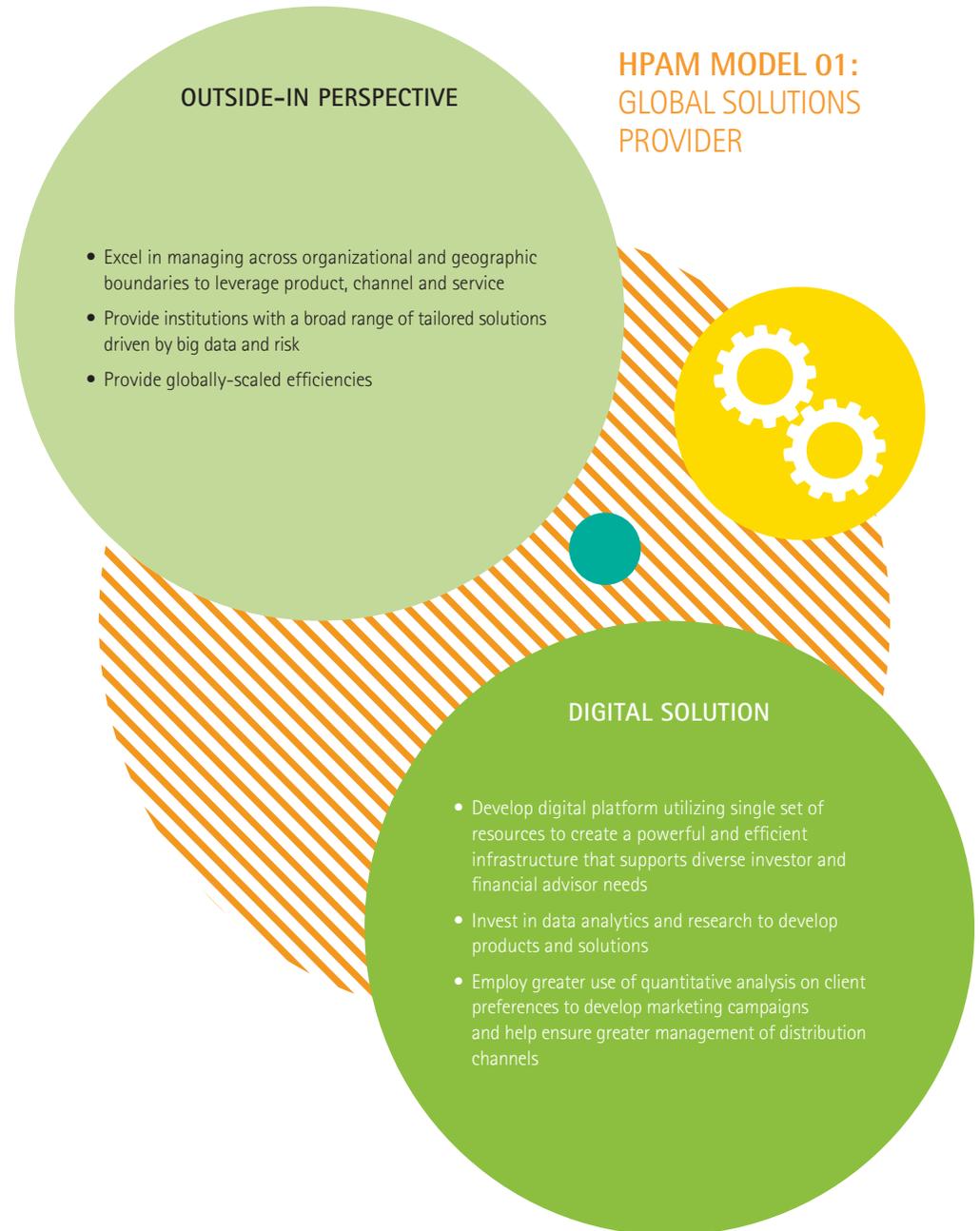
Pressure from a number of sources has also intensified the need for digital transformation. While the asset management business has rebounded from its lows in 2008 and 2009, firms have had to cope with resistance to fees and commissions and the proliferation of low-cost alternatives, including exchange-traded funds (ETFs), no-load funds, and passively managed, index-based products.

The role of the retail broker or financial advisor has changed, as well, with firms emphasizing asset gathering rather than commission-based trading. In a world of open conference calls, real-time quotes on mobile devices, and immediate dissemination of financial news, asset managers no longer have exclusive access to market-moving information.

In light of these and other pressures, most asset management firms will need to undertake significant digital transformation, and do so quickly.

## High Performance Asset Manager Business Models

Accenture's High Performance Asset Management research\* identified five distinct business models that define how asset managers seek to be perceived by clients and advisors. These models can be used to drive the application of digital solutions working from the outside-in. Illustrative examples of these models can be seen on pages 5-7:



\* High Performance Asset Management, April 2013, <http://www.accenture.com/us-en/Pages/insight-high-performance-asset-management-summary.aspx>

DIGITAL TRANSFORMATION:  
THE CENTRAL CHALLENGE FOR ASSET MANAGEMENT FIRMS

HPAM MODEL 02:  
FOCUSED  
ALPHA  
FACTORY

OUTSIDE-IN PERSPECTIVE

- Investment performance must consistently meet/exceed benchmarks or the manager will be dropped
- Separates the consistent alpha producers from the "closet indexers" and volatile performers



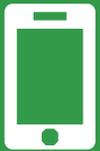
DIGITAL SOLUTION

- Leverage social media outlets to maintain a strong brand and reputation
- Heavy investments in research and state of the art technology and data analytics to deliver superior performance

HPAM MODEL 03:  
ENTERPRISE  
VALUE  
CREATOR

OUTSIDE-IN PERSPECTIVE

- Leverages corporate infrastructure to create greater opportunities for cross selling and delivering complete, integrated solutions
- Asset management is one component of the client's overall experience with the firm
- Banks and insurers are targeting the retirement market for growth
- Greater regulatory scrutiny and more costly compliance measures
- Challenged to retain talent



DIGITAL SOLUTION

- Heavy investments in technology and data analytics to deliver superior performance, cross-sell efficiently, and develop products and solutions
- Utilize web, mobile and gameification to develop training tools that will enhance skillset of sales force
- Continuously interact with the firm's brand to maintain reputation and expand awareness

## HPAM MODEL 04: EMERGING MARKET LEADER



### OUTSIDE-IN PERSPECTIVE

- Build on local relationships and distribution channels to capture high market shares
- Established position in emerging markets provides distribution, regulatory and operational advantages
- Leverage position into gather foreign AUMs

### DIGITAL SOLUTION

- Invest in technology, analytics, marketing, sales and distribution to bring the right products to the local market
- Greater use of mobile technology to further develop local relationships and distribution channels
- Utilize digital technology capabilities to understand client and advisor needs

## HPAM MODEL 05: CLIENT EXPERIENCE CHAMPION

### OUTSIDE-IN PERSPECTIVE

- Greater focus on understanding client needs and developing appealing offerings
- Mounting pressure to add value through advice, delivery platforms and overall client experience
- Client relationship management has emerged as a key differentiator between high performers and laggards in developed markets
- Pressure for lower prices and enhanced services cause firms to redesign operating models



### DIGITAL SOLUTION

- Building strong brands by using social and mobile technology to engage customers and alliance partners
- Increased data management and analytical capabilities to deliver enhanced client and advisor experiences and, for the institutional market, leverage them to deliver superior client reporting and increased demand for analytics
- Invest ahead of the curve in robust client relationship management systems and integrated multichannel distribution platforms
- Provide superior sales and marketing content

DIGITAL TRANSFORMATION:  
THE CENTRAL CHALLENGE FOR ASSET MANAGEMENT FIRMS



# The Changing Asset Management Landscape

Asset management is a dynamic industry and change has been constant, with the pace of change accelerating over the last few decades. Firms now find themselves dealing with an array of challenging and interrelated issues relative to client expectations and distribution.

These include:

- **Demographic Shifts in Portfolio Managers and Clients.** As the “Boomer” generation moves into retirement, a new generation of financial advisors, portfolio managers and clients are taking responsibility for a larger and larger share of assets. These individuals are more tech-savvy and, in many cases, conduct business primarily through digital channels, including mobile, with less emphasis on face-to-face contact.
- **The Rise of Low-Cost Providers.** New vehicles – and new firms with innovative business models such as eToro – make it easier for investors to manage their own assets. ETFs offer low-cost diversification, not just in equities and fixed-income, but in other asset classes such as commodities. Above all, firms offering do-it-yourself and/or extremely low-cost asset management models put pressure on more traditional firms to demonstrate the value they provide and why they are worth the fees that investors are paying.

- **Growth of Emerging Markets.** Asset management firms see important opportunities in fast-growing emerging markets, but are scrambling to adapt their operating and distribution models to meet the expectations of these potential clients. Increasing savings is top of mind for investors in both developed and emerging markets. Investors in emerging markets are often more reliant upon mobile technologies, not only for communications but for performing a wide range of business activities. Asset management firms seeking to court these investors need to meet them more than halfway with innovative mobile applications.

Asset managers seeking to gain market share will need end-to-end solutions that can be adapted and scaled to meet the needs of each market. With an increasing number of firms doing business in multiple countries, these solutions should be able to collect, analyze and report data to support regulatory demands in each jurisdiction.

- **A New Regulatory Environment.** Regulatory agencies' adoption and implementation of digital technologies has failed to keep pace with asset managers in a number of areas. The benefits of real-time chat and collaboration with clients and advisors are often nullified because reviewing responses as mandated by regulations due is costly and time consuming. Similarly, electronic signatures exist today, but submitting marketing materials, presentations, and telephone and video transcripts via PDF and hardcopy should be more digitized to increase efficiency and decrease spend.

Firms that work collaboratively with regulatory agencies, helping to define the review process and addressing technology gaps and issues can shape the path that others must follow.

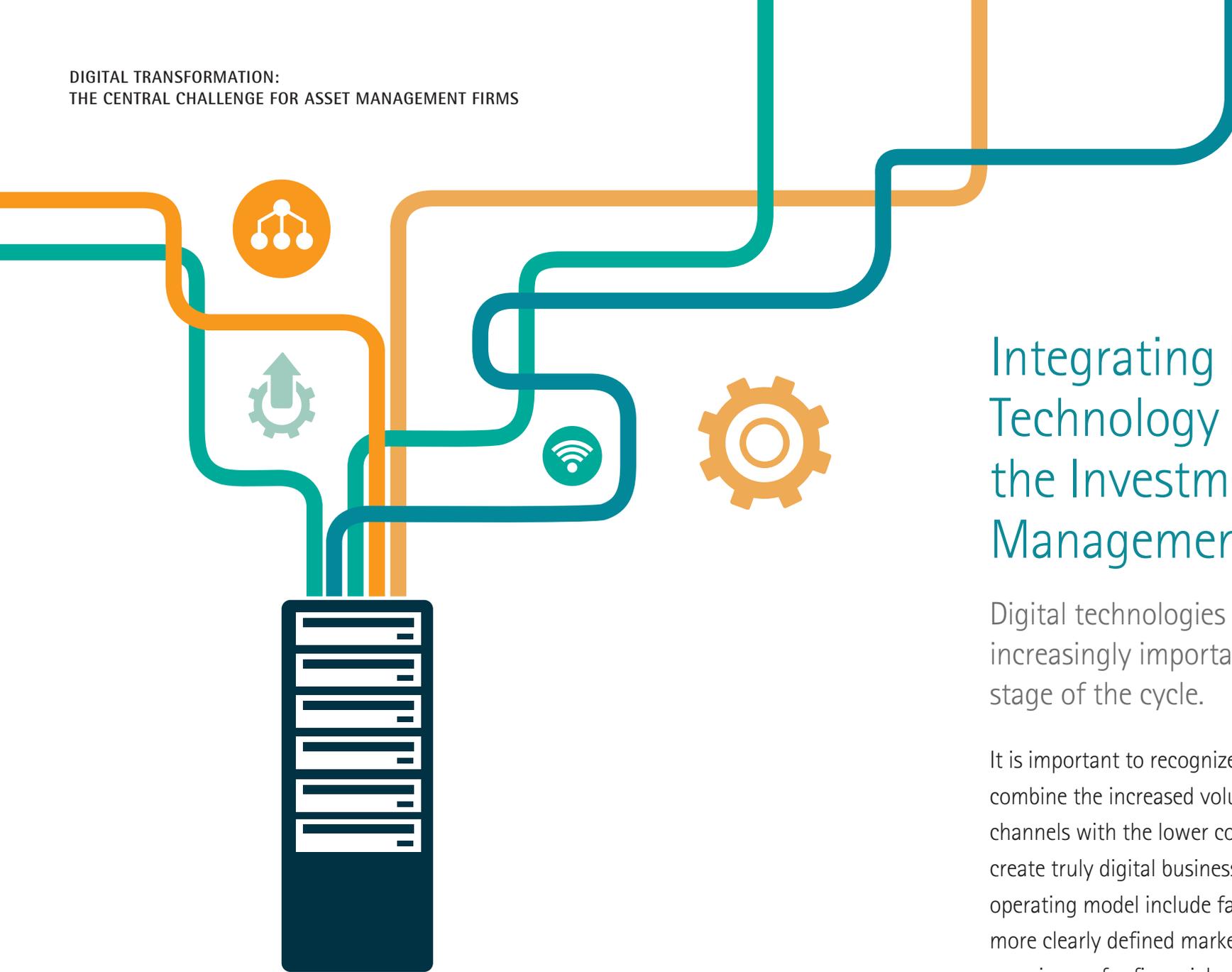


- **New Concerns about Risk.** The financial crisis exposed significant problems in the way that asset management firms identified and mitigated market, credit, counterparty, valuation and related risks. Firms have strengthened their risk management functions and policies but still face a volatile environment and conflicting pressures to lower risk while delivering acceptable returns in a low-interest rate environment.
- **The Importance of Reputation and Brand Awareness.** Given the challenges above, reputation and brand awareness are more important than ever, and clients and advisors have a growing role in determining a firm's reputation through social media and the digital grapevine.

In these and other areas, digital technologies and analytics have created opportunities for asset managers to improve their position with investors while strengthening key functions. Asset management firms' success in using these new technologies, however, has been uneven. Each opportunity, it seems, comes with its own set of challenges.



As the asset management landscape continues to change and evolve, so must asset managers. For those that wish to remain competitive, retain clients and advisors and increase market share, doing business as usual is no longer enough. Asset managers need to evaluate existing business models and identify opportunities where they can become more agile, as change will be constant. Further integration of digital technologies across the investment management lifecycle will allow them to quickly address challenges as they arise and adapt to change more rapidly.



## Integrating Digital Technology into the Investment Management Lifecycle

Digital technologies are playing an increasingly important role at each stage of the cycle.

It is important to recognize, however, that firms need to combine the increased volumes and value from digital channels with the lower costs of digitized processes to create truly digital businesses. Benefits from this type of operating model include faster product development, more clearly defined market segmentation, tailored experiences for financial advisors and investors, along with lower processing costs.

## Traditional Asset Management & Servicing Lifecycle



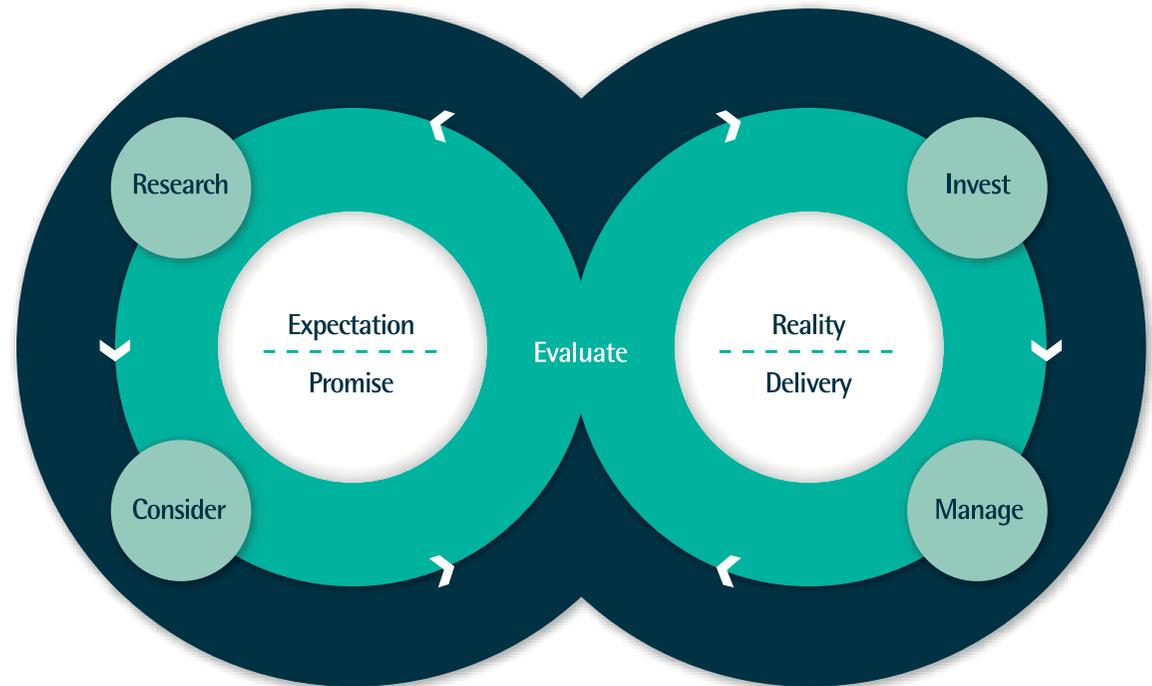
## The Non-stop Customer Experience Lifecycle

### ■ Open content & channels

Partner channels (FA's, IC's...). industry/trade organizations, off board social media & publications, governmental agencies...

### ■ Branded content & channels

Wholesalers, internal Sales Desk, Website, Apps, Marketing, Onboard social community, trade shows...



## Implications for Asset Manager

**1 Customized Experience**  
Agility & speed are key

**2 Open Ecosystem**  
Empowered by the network

**3 Never a Done Deal**  
Ongoing engagement is the norm

## Product Development

In the early stages of the investment management lifecycle (developing products and services) the use of big data to monitor social media and track investor sentiment can support the development of new products that reflect changing investor demands. Analytics helps pinpoint changing demographics and demands within specific population segments and can be used to test investment ideas with different audiences.

For example, asset management firms have instinctively addressed the demand for investment options that are not commission driven and are lower cost. There has been rapid evolution from actively managed mutual funds to ETFs, or from transaction-based portfolios to fee-based wrap accounts and fee only services. Other examples include the emergence of target date fund and 529 plans to directly address investment goals. Using analytics to identify trends in changing sentiments and new demands will create opportunities for more product innovation in the future.

## Generate Demand and Sell to Clients

Client Experience through Self Service: As the cycle moves into the phases related to generating demand and selling to clients, the use of digital technologies will depend upon the firm's chosen strategy. A model based on self-service and low-cost options emphasizes the need for mobility, interactive solutions and analytics. In addition to a strong Web presence, firms should explore using digital, such as gamification, to create educational experiences and to customize marketing campaigns.

*Financial Advisors' Insights:* A model based on selling through financial advisors can employ analytics to review financial advisor (FA) production and the mix of the FAs' books of business, providing insight into opportunities the FAs can bring to their own clients. Analytics can also identify pockets of wealth representing potential targets for FAs.

*Changing role of the Wholesaler:* Internal and external forces are changing the role of the wholesaler from someone focused exclusively on pushing products to a combination of coach and advisor.

Today, digital technologies are supporting these changes by providing additional, relevant insights. Improvements in data gathering and analytics now provide wholesalers new insights into financial advisors' activities. When wholesalers meet with FAs, they can do so armed with recommendations and tools to help the FA grow his or her business. Customer relationship management tools can help wholesalers cross sell and improve FAs experiences with asset management firms, leading to greater loyalty and a steady flow of orders. Analytics offerings from companies such as Market Metrics now offer product penetration reports at the branch level.

Analytics can also collect data on wholesaler spending in areas such as FA entertainment and compare it against sales generated by those advisors. In addition, analytics can profile advisors to draw correlations between the characteristics of individual advisors and their performance, helping wholesalers concentrate their efforts on key producers.

## Growing the Relationship (investment performance)

Fund and account performance is critical to maintaining and growing client relationships for actively managed funds. Actively managed funds in particular can benefit from more analytics and insights for investment decisions. For example, social media and big data analytics can uncover market sentiment that may affect investment decisions, prices and trade volumes. More robust predictive analytics supporting "what-if" analysis can forecast impact on fund performance by new combinations of strategies or fund managers. Operationally, variance price analysis can provide new insights into improvements in trade execution that could have resulted in better returns.

Passively managed funds, however, may have less need for analytics for portfolio management. For these firms, as the lifecycle moves into the client acquisition and service phases, collaboration and mobile technologies can help asset managers stay in close contact with FAs and/or investors.

## Service the Client – Creating Operational Efficiencies

To optimize the potential of digital technologies, asset management firms should concentrate on end-to-end solutions that streamline and automate as many processes as possible.

Asset management firms struggle to find solutions that integrate processes from the front office all the way to the back office, so they have tended to build proprietary, customized systems.

These systems worked well enough in a less complex environment, but now firms must address multiple demands including new regulatory requirements, new products and asset classes, better risk management and changing customer expectations. They must also keep costs in line with flattened fees.

The concept of operational efficiency also extends to improvements in distribution and/or customer service. As noted in Accenture's Point of View on High Performance Asset Management\*\*, innovative asset management firms are using cloud and software as a service (SaaS) solutions, big data, analytics, mobile and social applications to gain competitive advantage.

\*\* High Performance Asset Management, April 2013,  
<http://www.accenture.com/us-en/Pages/insight-high-performance-asset-management-summary.aspx>



## Embracing Digital Transformation

End-to-end digital solutions can transform every aspect of the asset management business, from client onboarding to client reporting, while improving service and turnaround time, reducing costs, improving risk management and optimizing portfolio returns.

For many firms, an enhanced brand presence is an immediate priority. To attract younger investors – and savings that they accrue outside of 401-k plans – asset management firms need to use social media such as Twitter, Facebook and Instagram to create awareness and introduce younger customers to the brand.

Many asset management firms have been hesitant to use social media because of compliance and regulatory concerns. It is clear, however, that creating an interactive brand experience which uses the firm's web presence and social media tools to educate current and prospective clients about different aspects of financial planning can build positive associations for the brand. Using gaming as an educational tool can also build additional brand awareness and loyalty.



Steps to building a stronger digital brand presence may consist of:

- Establishing a consistent message and voice for the firm;
- Setting digital priorities, using analytics to identify channels with the greatest potential impact;
- Listening to the client, through social media and all other channels, and using that information to tailor specific product offerings; and
- Fine-tuning the client and advisor experience to maximize ease of use and navigability.

In building and enhancing their brand presence, asset management firms should make sure that they have the IT and digital foundation in place to support agility, increase speed to market, and improve overall performance. Attracting customers through innovative marketing and distribution – and then disappointing them through poor execution – is not a recipe for success.

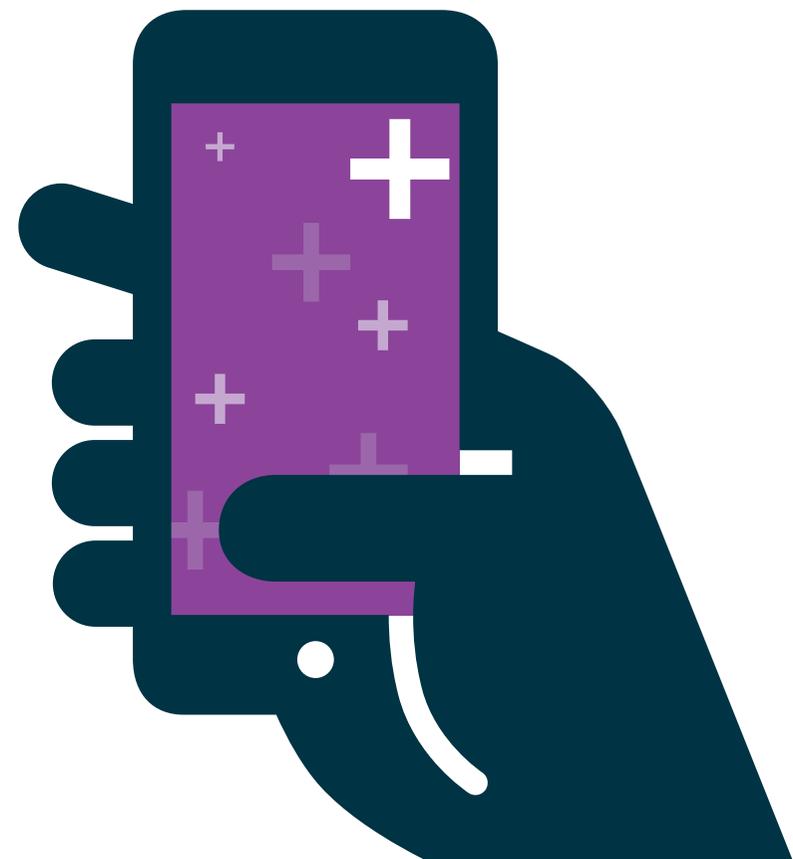


## Moving Forward with Digital

As we have noted, the proliferation of innovative digital technologies coincides with the intensification of internal and external pressures on the asset management industry. The environment for asset management firms is highly volatile and extremely dynamic, but it is also filled with new opportunities.

As do-it-yourself and low-cost options multiply, investors will continue to demand more customized, outcome-based investment solutions in return for the price they pay. This will involve multiple asset classes and will require asset managers to acquire more data and use more technology in areas including risk and performance analysis, modeling and development of custom benchmarks.

As asset management firms refine their strategies and operating models, their reliance on digital technologies will grow, but there should be an emphasis on taking the right actions rather than just taking action. Successful digital transformations will combine a well-thought out operating model with a flexible IT and data infrastructure, providing the foundation for effective use of technology at every phase of the investment lifecycle.





## About Accenture

Accenture is a global management consulting, technology services and outsourcing company, with approximately 275,000 people serving clients in more than 120 countries. Combining unparalleled experience, comprehensive capabilities across all industries and business functions, and extensive research on the world's most successful companies, Accenture collaborates with clients to help them become high-performance businesses and governments. The company generated net revenues of US\$28.6 billion for the fiscal year ended Aug. 31, 2013. Its home page is [www.accenture.com](http://www.accenture.com)

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