InsideOps | Insights for Asset Management Operations Leaders

Bending the Cost Curve

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Some leading asset managers are embarking on a second wave of initiatives aimed at bending the cost curve. This second wave is characterized by a combination of new technology and transformational operating model changes that enable firms to simultaneously reduce costs and invest in future-state capabilities to support superior investment performance and a differentiated client experience.

What’s more, many asset management firms are looking to realize the payback for these initiatives in one year or less. The stakes are high. Reflexive cost cutting initiatives can only take an asset management firm so far and may ultimately have a detrimental impact on the firm’s ability to create a lasting value proposition for its clients.

Across the industry, new strategic cost cutting and cost avoidance options are opening up and being utilized by asset managers. Enhanced service provider platforms, transformational operating model changes and advances in robotic technology could be helping asset managers write the next chapter in their histories and along the way provide measurable cost savings.

### Lay of the Land

Cost cutting in the asset management business has become the coin of the realm in the last decade. The combination of an extended period of low interest rates and vigorous competition has forced asset managers to do more with less. The secular shift to passive investing, the increasing regulatory burden and heightened complexity have increased the pressure on the costs of asset manager operations.

Further, passive assets under management may be growing, but from a revenue standpoint, this means flows are headed to products with lower fees. The reality is that, despite the cost cutting, for the last five years, expenses at some asset managers have been growing at a faster pace than revenue. Firms are responding with a variety of above-the-line strategies, consisting of divestitures, acquisitions and new distribution channels, but cost cutting remains in focus for margin protection. As shown in Figure 1, the second wave of cost cutting may require incremental, one-time costs, but they tee up longer-term enterprise benefits and meaningfully bend the cost curve.

### Asset Manager Options

#### Outsourcing

Executing a firm’s growth strategy often places strains on its technology, operations and budgets. Consequently, firms are taking their strategic themes to action by reviewing whether operations can continue to support growth in a highly scalable, cost effective and nimble manner. Asset managers are increasingly conducting outsourcing suitability assessments across all phases of the investment lifecycle. Middle and back office outsourcing could relieve some of the scalability issues and help save costs while also providing a platform to quickly pivot to new investment strategies and launch new products. Service providers’ back and middle office operations have matured and become highly scalable alternatives.

The challenge for asset management firms is to thoroughly explore their current operations and determine whether they are equipped to meet the future requirements laid out in the firm’s overall strategy. If not, next comes the critical step in the outsourcing suitability exercise: to understand whether one or more service providers are a better option to deliver on the required strategic capabilities and cost savings targets.

#### Robotics

Advances in robotic process automation (RPA) have prompted many asset management firms to explore robotics as part of the next phase of cost management strategies. Evolving from desktop automation over a decade ago, financial services firms are now deploying digital assistants that dynamically manage resources and staff for peak volumes. The ability to deliver consistently accurate responses reduces the costs associated with human errors.

Further, when implemented at scale, robotics can deliver a three to six-month payback.

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**Figure 1: Bending the Cost Curve**

![Bending the Cost Curve Diagram](source: Accenture Research)
Defining the candidates for robotics process automation begins with an assessment of business processes using a set of process, technology and risk feasibility criteria. Likely automation candidates consist of high volume processes that are manual, rule-based, repetitive, involve one or more systems and have relatively static rules.

Real, current examples of asset managers leveraging robotics include the anti-money laundering processes and resolution of unmatched trades. Picture a world where one robot is retrieving trade data while another is performing the trade matching tasks, formatting the inquiry emails to the counterparties and routing resolutions to the right parties. It’s happening now, and it’s happening within quick pay-back periods.

The challenge for asset managers is to ensure a comprehensive governance structure over the deployment and oversight of processes that have been automated through the RPA process. Many firms are centralizing the leadership and governance of RPA—which makes sense in that similar to the manner in which firms have centralized the governance of today’s workforce in human resources, governance of robots should be centralized as well.

Operating Model Changes

Firms are taking a fresh look at their operating models, even before an obvious breaking point occurs. We’ve especially seen this in the middle office, where redundant or non-scable tasks such as security master set-up, corporate action processing or portfolio accounting are performed to different standards, in multiple locations, on different systems and across multiple products at the same firm. We’ve observed many operating model initiatives owned by technology leaders who have operational experience. They often have the best line of sight into the redundancies and costs associated with a sub-optimal operating framework.

Transforming the operating model by itself might be the most difficult tactic firms can pursue to reduce costs. It also has the longest fuse in terms of payback. Current functions and approaches may have been built over 25 to 30 years, and implementing changes may require more than just agreeing on an obvious process improvement.

The reality is that firms need to operate differently over the next five to 10 years, and the operating model is a key lever for this change. Territorial and political challenges may complicate the process to agree on the right model. Further, the challenge for asset managers is to create meaningful change with an operating model initiative and begin to logically arrange functions across business lines in a way that supports future growth. The temptation is to make a few organizational chart changes which may be quick, but would inevitably disappoint when the anticipated cost savings do not materialize.

A sound methodology consists of a thorough current state assessment and a clean-slate approach to considering alternatives, including offshoring and merging functions. Once alternatives are considered, a thorough gap analysis would make sure that any technology and talent requirements are carefully considered before landing on the optimal operating model.

Once the operating model is agreed to, the roadmap would chart the path forward and measure key milestones. The challenge for asset managers here is allocating the right resources and establishing the right decision-making framework and governance model to resolve issues and break the inevitable ties that are a part of these initiatives.

Technology Rationalization

Technology rationalization initiatives are a key part of the second wave. Where duplication exists, firms need to objectively and systematically capture the business requirements and the corresponding technology requirements for front, middle and back office functions. Many difficult decisions are made in this area. Firms may want to consider looking across brands and products. The challenge for asset managers is to develop a blueprint that can be utilized system-by-system and function-by-function to rationalize the firm’s existing applications. The typical approach is to:

- Validate existing requirements and document additional core needs
- Summarize findings and high level business case
- Validate critical requirements via a lab environment

Significant savings can be realized in this area but it is important to keep the key stakeholders and clients whole as decisions about technology are made.

Success

Now is a good time for asset management firms’ operations leaders to take a second look at cost cutting initiatives. The challenges lie in the ability to ensure the cost cutting initiatives are simultaneously accretive to overall capabilities of the firm as it moves its strategic themes into action.

Asset managers should answer three fundamental questions to determine whether they are ready for the next phase of cost-cutting initiatives.

1. Has the work performed in the back or middle offices fundamentally changed as a result of the cost-cutting initiatives taken to date (e.g., become more automated or analytical)?
2. Have the prior cost-cutting initiatives simplified operations and made the firm more agile (e.g., are there centers of excellence, are processes less risky and streamlined)?
3. Have the cost-cutting initiatives taken to date improved client interaction with the firm (e.g., quality of responses, timeliness, additional costs, data integrity and risks)?

Answering “no” to any of these questions could signal that the firm is ready to embark on that second wave. This could begin with a comprehensive review of operations that have the ability to deliver transformational changes powered by advances in intelligent automation.
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