Wealth and Asset Management Services Point of View

Designing a Modern IT Ecosystem for Asset Management Firms

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The asset management business – once an industry characterized by high margins and predictable growth – has entered a period of rapid change. While asset management remains profitable and continues to offer interesting opportunities, a combination of factors — including increased market volatility, interest rate uncertainty, greater regulatory scrutiny and the rise of new products such as ETFs — has increased the pressure on firms to increase profitability while finding new avenues for growth.
Many asset firms, however, find their strategic options constrained by their own technology infrastructures. While IT spending in asset management is considerable – estimated at $50 billion in the U.S. alone in 2013 – many firms rely upon structures that are “brittle” and hard to adapt. These may include legacy systems bolted together following acquisitions, or they may reflect the difficulty of adapting a system that was custom-designed 15 to 20 years ago – for a different business environment – to the current climate of rapid change.

Among the shortcomings of current asset management technology platforms:

• Problems in adding new features, products and asset classes;

• Difficulties in integrating acquisitions;

• Challenges in addressing new regulatory and client reporting requirements;

• Unacceptable risks of system downtime and disruption of customer relationships;

• Difficulty accessing data needed for Analytics

• Significant security concerns; and

• A high total cost of ownership.

Indeed, cost of ownership, which seemed less important during the higher-margin days before 2008, has become an important consideration as asset management firms seek not just greater economy but greater efficiency in core processes.

Each of these concerns has major implications for asset management firms’ growth and profitability, but there is another important reason for these organizations to establish modern, integrated technology platforms. Many firms will need to take new directions over the next few years, exploring new paths in areas including distribution, product development, strategic alliances and the overall customer experience. Effecting such changes without a firm IT foundation will be difficult, if not impossible.
Benefits of a Modern, Integrated Back Office

We have identified six major benefits that asset management firms can derive from establishing a modern, integrated back office function:

1. Agility
   Firms with the right IT infrastructure can respond quickly to changing circumstances and unforeseen events. They can scale up rapidly to exploit a successful new product launch or undertake complex transactions (such as a merger or acquisition) with minimal disruption.

2. Differentiation
   A sophisticated back office can help asset management firms deliver differentiated products with the kind of support that customers now expect. And the IT infrastructure can cut the time required to develop and launch the product, giving the firm a potential head start on its competitors.

3. Insight
   The technology platform can support advanced analytics, providing better support for decisions on everything from risk management to product pricing. The properly designed platform also improves the collection, categorization and management of data, which is the key prerequisite for analytics that make a real difference in these and other areas.

4. Efficiency
   With margins diminished, asset management firms have learned the importance of removing complexity and taking costs out of every part of the client value chain, from marketing to client on-boarding to customer communications. The technology platform provides both the insights and the needed capabilities to identify and implement measures that lower costs while improving customer satisfaction.

5. Transparency
   As the burden of regulatory compliance increases, asset management technology platforms will be called upon to support more numerous (and more complex) reporting requirements. Modern, integrated systems can handle these demands with less difficulty and at lower cost.

6. Customer Service
   Service expectations for both individual and institutional customers have changed dramatically, shaped by the experiences delivered by top online marketers as well as by leading financial services firms. At a minimum, asset management firms should be able to provide information to customers at the time and place of their choosing. An integrated approach to IT simplifies this problem and makes it easier for firms to meet customer expectations.
Given the benefits of a sophisticated and integrated back office function — and the relatively high levels of IT spending in the industry — it might be expected that all major asset management firms would have state-of-the-art IT infrastructures ready to support both strategic changes in direction and the introduction of new products and services to regain assets lost both to customer dissatisfaction and to competing firms.

This is decidedly not the case. This is not, however, attributable to lack of resources or an unwillingness to "rock the boat" by undertaking major system renovation and/or replacement. Rather, it reflects essential changes in systems and solutions which have taken place over the last 15 to 20 years. These changes have opened up a wide range of new possibilities for the chief technology officers and chief operating officers of asset management firms, but they have also made it more difficult and more confusing to design the right infrastructure and to choose the right package of solutions to support the organization’s strategic objectives.

In the 1990s and well into the 2000s, the IT focus for asset management firms was on customization. Each organization sought to design and implement the technology platform that most perfectly suited its specific needs while providing the essential functions required by all firms, such as a reference data platform, fund accounting, and performance reporting.

Unlike today where there are mature vendor and outsourcing options, bespoke solutions prevailed five and ten years ago.

First, it was never clear whether customization offered any meaningful differentiation to the end customer, whether institutional or retail. Most customers neither knew, nor cared, what went on in the back office, as long as their basic expectations regarding information and reporting were met.

Second, customized platforms lacked scalability and were not always able to support rapid growth in assets under management, whether that growth came from a rapid uptake in new products or from the acquisition of another firm.

Third, the built-in rigidity of a customized platform made it difficult for the organization’s technology team to explore the many new software and solution offerings that have proliferated since the late 1990s. As seen in Figure 1, these offerings now address every aspect of asset management. Mature vendor and outsourcing options may now offer greater functionality than custom solutions, which was not the case in the last technology cycle that began eight to ten years ago.
Finally, as it became clear in the years following 2008 that the asset management business had entered a new era of what Accenture has termed "permanent volatility", it also became clear that many firms would have to change direction and adapt new operating models. As discussed in our Point of View entitled High Performance Asset Management, industry forces are pushing asset management firms toward choosing one of five basic operating models:

In our analysis of leading asset management firms, we found that firms adapting these models to attain high performance succeed not only by developing clear strategies – and aligning their operating model to the chosen strategy – but by creating the right IT infrastructure, with particular attention to data management and analysis. The infrastructure supports the adoption of innovative technologies in areas ranging from distribution to regulatory compliance.

1) Global Solutions Providers
Firms that excel in managing across geographic boundaries to leverage product, channel and service capabilities.

2) Focused Alpha Factories
Firms characterized by a flat organization with a near-total focus on investment performance.

3) Client Experience Champions
Client Experience Champions are firms that make anticipatory investments in client relationship management, retirement platforms and integrated multi-channel distribution.

4) Enterprise Value Creators
These firms leverage their corporate infrastructure while adding value to banking and insurance relationships.

5) Emerging Market Leaders
In this relatively new model, firms build on local relationships and distribution channels to capture large shares in emerging markets. They also have strong ties to local businesses and to national and regional governments in the areas they serve.
Case Study: Dealing with the ETF Outflow

The introduction of exchange-traded funds (ETFs) has had a significant impact on the asset management industry. By the end of 2012, the Investment Company Institute estimated that ETFs represented as much as $1.3 trillion, or roughly 9 percent of total U.S. assets under management.

One asset management firm, after experiencing extensive outflows to ETFs, worked to improve its ability to add new products and asset classes. With its aging, customized back office, this asset manager typically took in excess of six months to add new products or asset classes.

A transformation to an ecosystem of packaged software solutions such as Asset Control, Eagle and BI-SAM took less than 18 months and enabled the client to shorten time to market to three to six months, rationalize operations across asset classes and redirect key development resources to unique business capabilities.
The Ecosystem Concept

Gradually, leading financial services firms have ceased to look at their technology platforms as rigid structures supporting an organization that is permanently pointed in one direction. Rather, these firms – including some top asset management organizations – have explored the concept of a technology “ecosystem” that supports rapid change with a high degree of flexibility and adaptability.

Technological innovations such as software as a service and cloud computing have helped make this concept workable. Firms can now take a “pay as you go” approach, avoiding large upfront capital expenditures. In an ecosystem, software and solutions can be purchased on a modular or “compartmentalized” basis, so that the acquisition of new functionality in one area need not cause disruption in another.

The ecosystem provides support for core processes, but also provides the agility needed for new product introductions and even the entry into new asset classes such as real estate, commodities or alternative investments – quickly and efficiently.

Assess business impacts related to brittle applications

- Delays in new products
- Delays in new asset classes
- Increased acquisition costs due to operations

Confirm next generation back office business needs

- Establish cost to serve
- Align 5 years business strategy with technology delivery
- Scrutinize sequencing of technology delivery

Assess technology readiness for a transformation

- Review product management
- Review program management
- Review integration capabilities
- Are these areas scaled for transformation?

How to Get Started

The task of dealing with legacy systems and complex operating models may seem daunting. Many firms start the transformation process by convening leadership at the director level to determine what has changed in the technology landscape and what new options are available.

This assessment then brings in the individuals responsible for specific asset classes, products and customer segments – while looking at the broader industry and vendor landscape -- to separate core competencies from commoditized activities offering little or no competitive differentiation. In the latter case, customization might not be needed and resources can be diverted to areas adding higher value.

Key considerations to keep in mind include the impact on the business from brittle applications, including delays in new products, delays in entering new asset classes and increased acquisition costs due to operations. In addition, the assessment phase confirms the future business needs of the next generation back office, establishing the cost to serve and aligning the five-year business strategy with technology delivery. The sequencing of technology delivery is another important concern.

The assessment should also assess back office readiness for a transformation, including product management, program management and integration capabilities. These areas need both skills and scale for an effective transformation.
Reaching the Desired State

While the ecosystem concept is not difficult to grasp, developing an integrated platform with the desired features and functionality can be a significant challenge for asset management firms of any size. Simply understanding the maturity of vendor offerings is a full-time undertaking, and firms are understandably unwilling to devote resources to tasks that do not seem, at first glance, to provide a direct benefit to customers.

Replacing an aging, custom-built system with proven, packaged software solutions offers numerous benefits, including improvements in core processes such as the reference data platform, fund accounting and performance reporting. An ecosystem approach is capable of handling new asset classes quickly and streamlines the introduction of new products.

While there are numerous advantages to the ecosystem approach, however, there remain a number of key considerations which asset managers should address before undertaking major transformation initiatives.

First, it is important to discuss the current and future needs of internal stakeholders in areas such as research and portfolio management, investment administration, trading and compliance. What are their levels of satisfaction with the existing platform? What are their strategic concerns, both for the business and for their customers?

Second, the technology platform needs to be aligned with the asset manager’s chosen operating model. If changes are contemplated to bring the firm more in line with one of the high performance models favored by leading firms, then IT should be aligned to support these changes in direction.

Third, the organization needs to determine the governance of the transformation project and of the IT technology platform going forward.

Fourth, the actual architecture and ecosystem needs to be mapped out, with key software components and suppliers identified. An important and often overlooked consideration at this stage is the availability of internal talent to move the program forward and to sustain it once completed.

Fifth, the IT team needs to reach agreement on budget and on a road map and timetable for implementation. This is then presented for approval and buy-in.
Moving the Back Office Forward

The technology platform or "back office" of an asset management firm is no longer a static environment supporting traditional investing in equities and fixed-income. As asset managers explore new avenues for profitable growth, the back office is the essential element in adding new products, supporting new asset classes and improving core processes.

Asset managers seeking to attract new customers and retain customers through superior returns with offerings in areas including ETFs, derivatives, commodities and private equity will need to address new regulatory requirements along with complex fund accounting and performance reporting. The pursuit of superior returns requires support of more complex investment strategies delivering new products and utilizing new and diverse asset classes.

Rather than relying on aging customized platforms designed for other purposes, however, asset management firms can now explore specific software solutions that fit into a flexible, highly adaptive ecosystem providing the basis not only for new product offerings and asset classes but for process improvements, greater overall efficiency and lower cost of ownership.
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