



REINVENTING OPERATIONS IN ASSET MANAGEMENT

Asset managers are reshaping their back
and middle offices for future success

AT A GLANCE

The asset management industry is at a critical juncture in its history. After a decade in which fee compression and the growth of index investing have driven sweeping change, these shifting economics are now converging with the relentless advance of regulation and disruptive technological breakthroughs. In response, asset managers are investing in innovation and reinvigorating their products and processes.

What are asset managers currently investing in for the future? And how and why are they doing so?

To find out, Accenture and the [Investment Company Institute](#) (ICI) have conducted an in-depth study into the investment operations of ICI's members.* The research covered 33 asset managers accounting for around \$15 trillion of the industry's assets under management (AUM).

The findings reveal how operations leaders at asset managers are working to overcome—or at least keep pace with—today's challenges. While many managers are capitalizing on the switch to passive investing, the industry is being anything but passive when it comes to responding to the challenges it faces.

*The Investment Company Institute (ICI) is the leading association representing regulated funds globally, including mutual funds, exchange-traded funds (ETFs), closed-end funds, and unit investment trusts (UITs) in the United States, and similar funds offered to investors in jurisdictions worldwide.

42%

of survey respondents believe their operations and technology are not configured to execute the firm's overall strategy.

The results include:

- Widespread acknowledgement that operations must change radically to support firms' evolving strategies.
- Operations leaders are responding to the need for change by calling for the disruption of several aspects of the investment lifecycle and are taking steps to transform their own operations.
- To do this, they're taking concerted action to update their operating models. The majority have completed a major operating model change in the past three years, with the primary focus being process improvement.
- There's also a strong consensus that the workforce must evolve to support the evolution of firms' operations. Many asset managers are defining new skill requirements and refining their recruitment methods to obtain the talent needed for future success.

While the challenges and responses differ depending on the size of the firm, what is certain across the industry is that operations leaders are responding to this ever-evolving landscape.

Committing to a future of perpetual reinvention

Reviewing the research findings, it's clear that many asset management firms are moving to address the market pressures and competitive forces in the industry. Ultimately, they understand that the best way to prepare for the future is to create it. Thus, forward-thinking operations leaders are acting to reshape and reinvent their operations and evolve their talent for a disrupted world.

THE ASSET MANAGEMENT LANDSCAPE

Before reviewing the study's findings, this paper will consider the current state of the asset management industry. Industry pundits point to a set of six challenges asset managers need to address:

1.



The shift from active to passive investing

2.



Demographic changes

3.



Shifts in demand

4.



The rise of technology-enabled disruptors

5.



Changing regulations

6.



Increasing global complexity

While these are certainly formidable headwinds for asset managers, Accenture’s view is that the most pressing issue today for the industry is the decoupling of AUM growth and revenue growth (see Figure 1).

- From 2014 to 2018, Accenture research found the AUM of 25 publicly traded asset managers grew by 22 percent, whereas revenue edged up by just 1 percent over the same period. Further exacerbating the top line growth challenge, 2018 alone saw an 11 percent decline in the firms’ gross margin.
- In May 2019, the percentage of US equity fund assets invested in passive funds reached 47 percent, according to ICI.

Binary winners and losers are being created every day. To win in this shifting landscape requires a delicate balance of bold leadership and the right operational capabilities to make it happen.

This phenomenon has forced asset managers to address the market pressures and competitive forces in their industry by rethinking how their technology and operations support models can better support the front office and improve client engagement.

Operations leaders have a high degree of responsibility for these initiatives—and also an opportunity to be an important partner in bringing their firm’s strategic goals to life and enabling a renewed focus on growth.

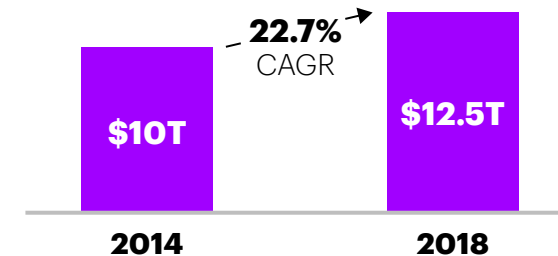
Yet the research shows that 42 percent of operations executives believe their operations and technology are not configured to adequately execute the firm’s overall strategy. However, as we will see, they are not at all complacent about this situation, and are moving forward to address it.

Figure 1: 2018 was a challenging year for US publicly traded asset managers.



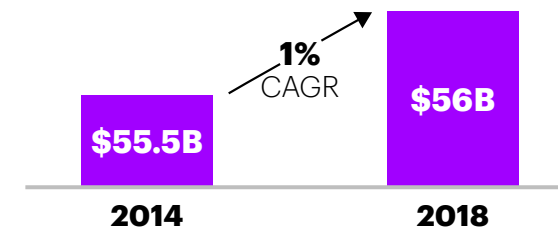
AUM (USD Trillions)

- Steady 5-year AUM growth of 22.7% CAGR for US publicly traded asset managers.
- Global AUM predicted to reach USD \$145T by 2025.



Revenue (USD Billions)

- 5-year growth rate of 1% for publicly traded asset managers concentrated to a few firms and allocated to low-fee passive products.
- Revenue per investment professional is flat, limiting scalability.



Source: Accenture research

AN INDUSTRY UNDERGOING TRANSFORMATION

In combination, the findings from the operations study build up to a unique and fascinating snapshot of an industry transforming from old to new ways of operating and doing business.

Key research findings

The insights cover the full spectrum of issues facing operations leaders in effecting this change—from improving growth and efficiency to harnessing emerging technologies, from managing legacy technology to optimizing talent, and more. In each area, the research shows that leading firms are applying innovative thinking to overcome industry-wide challenges, creating a model that others may choose to follow.

The role of growth and efficiency levers

Accenture's [Capital Markets Vision 2022](#) report finds that in the most optimistic scenario, buy-side revenues could rise more than 10 percent by 2022. However, under an entirely plausible alternative scenario, those revenues could fall even below 2018's level. To win in either scenario, the report advises that an asset manager's transformation programs must incorporate a combination of the growth and efficiency levers shown in Figure 2.

The asset management operations study confirms that many asset managers are well on their way to deploying these levers in a careful and considered way.

Figure 2: Growth and efficiency levers will continue to play a critical role in helping to determine the winners in the industry.

Efficiency Levers	Growth Levers
Operating model changes	New revenue opportunities
Outsourcing	Winning market share
Industry collaboration (utilities, etc.)	Enhancing performance
Internal cost cutting	Mergers and acquisitions

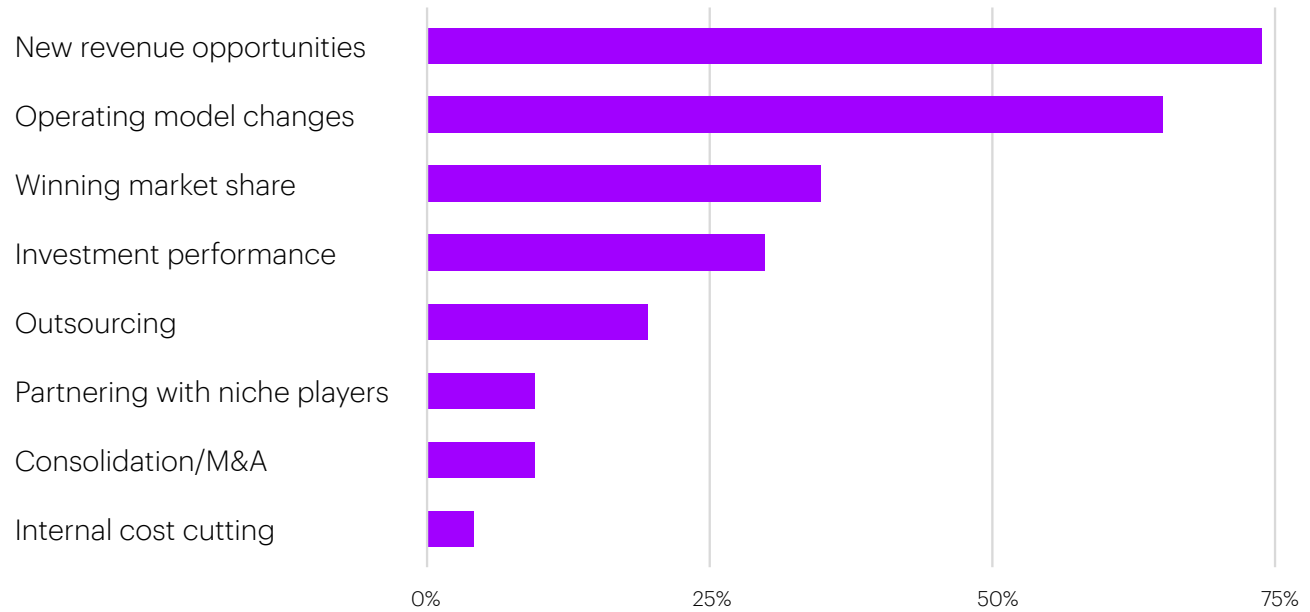
Source: Accenture Capital Markets Vision 2022

1. Growth levers

Firms of all sizes participating in the study agree that new revenue sources are the surest path to growth (see Figure 3). New revenue streams are likely to come from new products and distribution channels, but some firms are also looking to monetize capabilities beyond their product and asset management competencies. By licensing their proprietary software capabilities such as the white labelling of client platforms, or even their “product in a box” capability, firms could realize topline growth.

Winning market share and enhancing performance are the other pathways to growth in which firms are investing. To win market share, it is important for asset managers to help advisers and investors understand how their products fit into an overall investment strategy. To help achieve this, firms identify sales and distribution data support and client-facing technology as key areas of investment at the enterprise level.

Figure 3: Which of these growth and/or efficiency levers will provide the most benefit to firms in the asset management industry?



Source: Accenture/ICI operations study

2. Efficiency levers

A flexible and durable operating model can play a vital role in supporting the products and services an asset manager provides to internal and external customers across the world. It is hardly surprising, then, that 53 percent of respondents to the survey pointed to operating model changes as their top efficiency lever, while 64 percent of firms have completed a major operating model change in the past three years.

Based on the survey responses, the primary drivers for launching operating model initiatives are:

- Process improvement (30 percent)
- Improved support of investment decision-making (23 percent)
- The need to replace legacy technology (23 percent)

Interestingly, cost cutting was not identified as a primary driver for launching an operating model initiative, and ranks even lower on the efficiency initiatives list. This may suggest that reflexive cost cutting in the industry has run its course. Finally, an encouraging sign for all asset managers that are still considering an operating model change is that 100 percent of firms that have completed an operating model change indicated that their initiative had achieved the intended results.

53%

of operations leaders say operating model changes are their top efficiency lever.

64%

have completed a major operating model change in the past three years.

100%

of firms that have completed an operating model change indicate that it has achieved the intended results.

Innovation and technology: the innovation imperative

While a combination of new sources of revenue and operating leverage can be key to enabling and sustaining growth, firms also need supporting technology and an innovation competency. Technology and innovation represent a bridge between growth levers and efficiency levers. This reflects the fact that, across many industries, a key part of the innovation story is the ability to discover and adopt a new set of emerging technologies that will act as a catalyst for results.

The study shows that 55 percent of asset management firms reported having a formal initiative in place to evaluate the business and operational potential of new technologies such as tools and fintech solutions. Enabled by the cloud and APIs (application programming interfaces), the rapid emergence and democratization of new technologies have required firms to adopt a more open stance in embracing the fintech community of start-ups, accelerators, incubators and consortia.

Against this background, asset managers who are not evaluating fintechs should consider their approach towards innovation and technology. The study reveals that middle office functions—including collateral management, data management, derivatives processing and transaction management—will be the biggest beneficiaries of fintech partnerships. In the back office, respondents had high expectations for fintechs' impact on expense management, fund accounting and financial reporting.

Approximately one-third of the firms agreed that at-scale middle office fintech partnerships were common across the industry, suggesting that these partnerships are already delivering results. To help ensure the success of a fintech partnership, a program laser-focused on realizing bottom-line impact is needed. It is vital to avoid the initial focus on “shiny objects” that can result in proofs of concept that lack a clear vision of eventual production and outcomes.

55%

of asset management firms surveyed report having a formal initiative in place to evaluate the business and operational potential of new technologies.

Common operational challenges: complex investments, data management and legacy technology

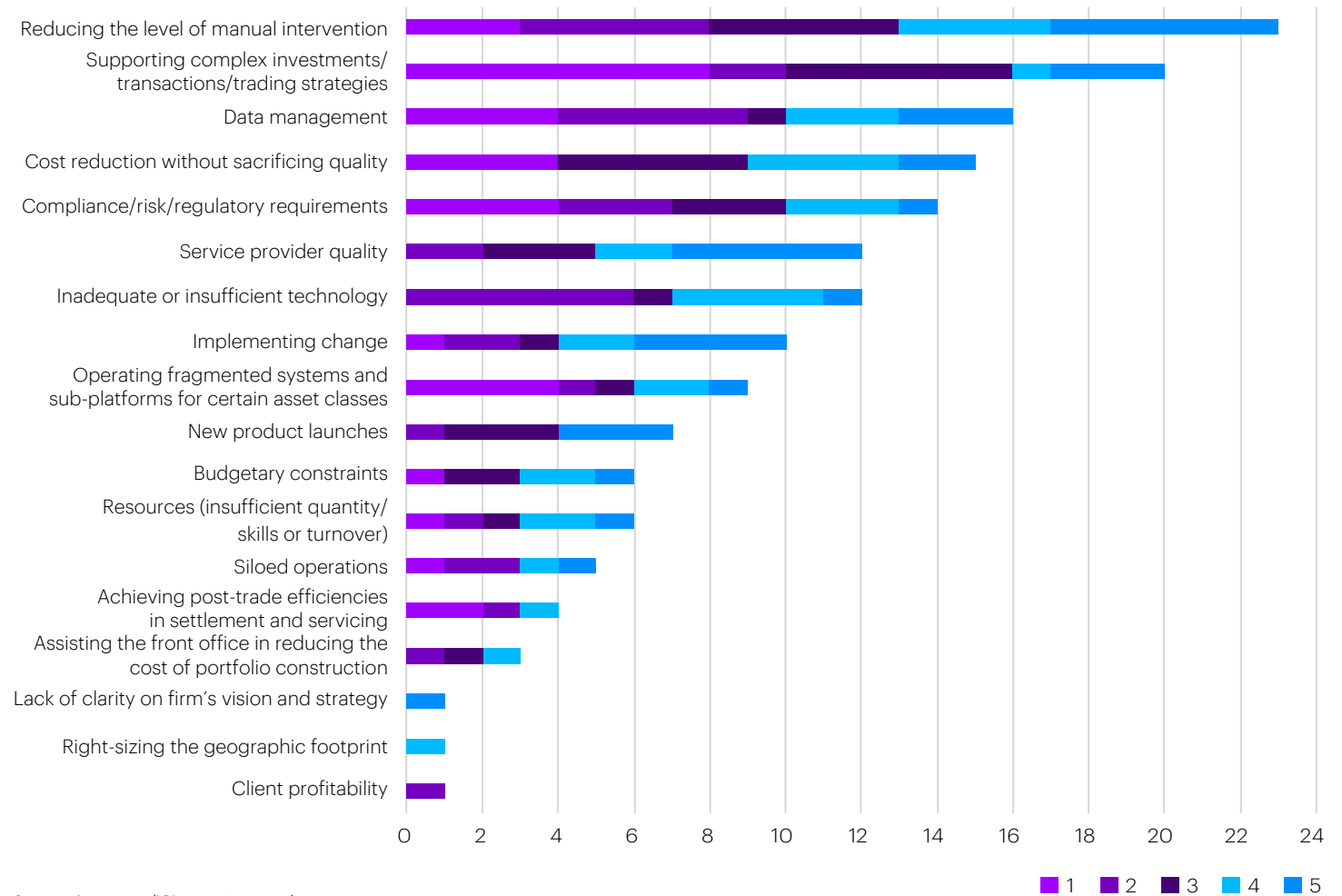
Looking across the top operational challenges faced by the industry, the study identified several common themes (see Figure 4). The three operational challenges most frequently cited by respondents are related to supporting complex investments, data management and addressing the limits of legacy technology across the investment lifecycle.

1. Supporting complex securities and transactions

From transaction execution to confirmation, accounting, valuation and lifecycle support, complex securities and transactions test the limits of many back and middle office operations.

Legacy technology that may have been built or configured to handle equities and bonds is usually improvised to support derivatives and/or alternatives. The accompanying offline, manual processes cause residual issues with metadata or divergences from downstream systems. This issue will not go away: just over 50 percent of firms in the study indicate they have initiatives underway to support new products and new geographies.

Figure 4: From a middle and back office operations standpoint, what are the five most pressing challenges you face today?



Source: Accenture/ICI operations study

2. Data: good governance and clean data enable analytics and automation

Firms aggregate, analyze and deliver data, but the most important thing a firm can do with data is trust it. As firms aggregate and use data from a growing range of sources, the recurring challenges of data management—quality and accessibility—are heightened. Good governance and clean data can enable analytics, automation and robust reporting for downstream consumers, not to mention instilling confidence. Unorganized data requires manual intervention and produces faulty analysis, as well as creates reputational risks. It is not surprising then that 55 percent of firms said they have a data management initiative underway that aims to enhance governance and data quality.

55%

of firms have a data management initiative that aims to enhance data governance and quality.

3. Legacy technology's role in disruption

A major challenge for many firms is dealing with legacy systems that limit growth and scalability due to manual processes. It is no surprise that many firms are busy at work replacing these systems with new interoperable platforms; 42 percent of survey respondents indicated that they have a back or middle office system consolidation or conversion initiative in place.

42%

of operations leaders have a back or middle office system consolidation or conversion initiative underway.

Process disruption across the investment lifecycle

While operations leaders continue to work diligently to address the challenges we have highlighted within the constraints of their current technology, the study shows they are simultaneously leading the calls for disruption across large swaths of the investment lifecycle. For example, 66 percent of operations leaders identify data management—including reference data—as the top area worthy of being completely disrupted.

Additional areas for disruption included collateral management—22 percent—and clearing and settlement—18 percent. Disrupting these areas will require active industry collaboration with the entire ecosystem, including service providers, exchanges, broker-dealers and fintech companies.

However, true disruption also demands an internal focus on generating a “capacity for innovation” and the ability to conceive new ways of operating and delivering outcomes. For example, firms should stop assuming disruption in data management means that someone else disrupts data and makes it available at a lower cost, or even free. Instead, it could mean they themselves become the disruptor by thinking about how they can more systematically monetize the rich—but as-yet largely unmined—data sets they operate on, both within the boundaries of their own firm and across their ecosystem.

66%

say data management is the area of their business where complete disruption would be most appropriate.

SOLUTIONS TO RESHAPE MIDDLE AND BACK OFFICE OPERATIONS

As firms refine and reshape their middle and back office operations, the study highlights how they are reviewing a number of solutions that can help reduce risk, increase speed to market and create operating leverage.

While each of the individual initiatives addressed here is at a different point on the adoption curve, the first wave of companies experimenting with some of the newer technologies—the likes of robotic process automation (RPA), artificial intelligence (AI) and distributed ledger technology (DLT)—to drive differentiation is already here. AI and DLT hold particular promise. Of the two, AI will probably affect the industry first; the significance of DLT will take more time to emerge but will likely cause bigger changes over the long term.

Outsourcing continues to gain traction among asset management firms that are looking to streamline operations and gain efficiencies. Another major challenge that operations leaders are focused on is having a robust Investment Book of Record (IBOR) system to support the front office, and being client oriented by adding the voice of the customer in any process redesign.

In the study, firms cited several initiatives that they felt provided the maximum long-term benefits, including the creation of an IBOR, moving to the cloud, front office support initiatives and retiring legacy technology.

1. Artificial intelligence: reaching critical mass

AI is already being used at scale in the front office. That's just one area of rising use: some funds are being managed using AI, while other asset managers are interrogating big data to forecast events such as election outcomes and to develop related investment ideas. While AI-at-scale is not yet the case across the middle and back offices in general, the study shows that the larger firms (more than \$500 billion) tend to have AI initiatives completed or underway in their middle and back offices. Also, operational leaders have high expectations for AI, with 70 percent expecting it to deliver the next wave of cost reductions to the industry.

70%

of operations leaders expect AI to deliver the next wave of cost reductions to the industry.

From an application standpoint, respondents indicated that the top five functions where they believe AI will have the most impact are:

- Reconciliations
- Transaction management
- Risk management
- Data management
- Compliance

Respondents expect that the tax function, which is historically a less automated function, will be the last to benefit from AI.

Bottom line: momentum is starting to build; use cases are available that showcase how firms are capturing the AI opportunity.

2. Distributed ledger technology experimentation

Many players in the capital markets industry are experimenting with DLT or blockchain infrastructure, yet very few firms identified DLT as a top technology initiative. DLT has many potential applications in the industry, ranging from issuance (putting deal processes on a distributed ledger, redefining syndicates, etc.) to asset and wealth management, where it could be used to update reference data and create fractional and digital asset vehicles. However, firms seem to be taking a wait-and-see stance toward these opportunities. In fact, respondents indicate that DLT and smart contracts were among the least mature technology initiatives in the industry.

That said, the operations leaders participating in the study display a comprehensive knowledge of the potential of DLT in the asset management industry—a fact evidenced by the findings on where asset managers expect it to have the greatest impact. Transaction management, collateral management, derivatives processing, reconciliations and data management are all expected to benefit from DLT's immutability and ability to take securitization into the digital world by efficiently distributing traditional and new asset classes with enhanced investor transparency.

3. Robotic process automation uptake

RPA—often viewed as the entry point on the continuum that ends with AI—creates a virtual workforce able to emulate the human execution of repetitive processes with great accuracy. RPA adoption by asset management firms has grown significantly. Only two years ago, the number of firms using RPA barely registered during a more informal sampling of asset managers. Now, 52 percent of respondent firms said they have incorporated RPA into their operations, with reconciliations, data management, transaction management, report generation and cash forecasting named as the top functions/tasks to which RPA has been applied. What’s more, an impressive 82 percent of respondents indicate that RPA has delivered the expected results, which include increasing accuracy in some functions and freeing up employees to do more meaningful work.

52%

of firms are using RPA in their operations, and...

82%

say it has delivered the expected results.

4. Outsourcing of back and middle office differential

While nearly all firms in the survey say they outsource their back offices to an external service provider, most continue to perform their middle office functions in-house. Interestingly, the survey revealed that hybrid approaches are common for fund administration tasks such as financial reporting and tax. While 91 percent of respondents are satisfied that the strategic goals that led them to the outsourcing decision were achieved, 48 percent of respondents have considered bringing a function back in-house—including collateral management, derivatives processing and tax services—with service provider quality cited as the primary reason.

Meanwhile, firms continue to expand the scope of outsourcing using non-bank partners such as technology firms and professional services firms.

5. “Voice of the customer” initiatives

Operational leaders are increasingly launching formal “voice of the customer” initiatives to ensure their internal customers, such as the front office, are receiving the service and data they require. These initiatives aim to refine service standards and facilitate high-velocity closed-loop feedback to ensure service issues do not recur. Today only 45 percent of firms have such an initiative in place.

45%

of firms have a formal “voice of the customer” initiative in place.

6. The Investment Book of Record

No discussion of investment operations is complete without a discussion of IBOR. When asked to name the initiative that resulted in the greatest benefit, many firms pointed to their IBOR initiative, but they also stress that it had not been an easy journey.

Two-thirds of firms said they used an IBOR and defined it as tradeable cash and positions, and 86 percent of respondents pointed to the IBOR's primary benefit of ensuring all systems are using the same data across middle and back offices. Most firms use the IBOR to refresh their order management system and other downstream systems. Only 24 percent have outsourced the creation of the IBOR, which tracks the percentage of asset managers who have outsourced middle office.

In an outsourced situation, it is important to clearly delineate who owns the IBOR. Generally, the asset manager owns the IBOR, even when it is outsourced. When there are custom requirements, such as enrichment or reconciliation with other books of records, the asset manager can enlist the assistance of a service provider to perform those tasks. Of course, a service level agreement with clear responsibilities should be in place.

The top three challenges noted in compiling an IBOR are:

- Timing of the delivery of the IBOR
- Incorporating cash flows
- Dealing with complex account structures

86%

of those using an IBOR say its primary benefit is ensuring all systems are using the same data across the middle and back offices.

24%

of asset managers have outsourced the creation of the IBOR.

THE FUTURE OF HUMAN CAPITAL

To respond to industry challenges and a changing landscape that is broadening the gap between the employees of the present and the workforce of the future, organizational change is needed to unlock capacity and to develop firms' talent and technological skills.

The study confirms that asset managers are fully aware of the need to transform talent in operations.

Across the industry, headcount has changed—and the makeup of the workforce has also changed dramatically, with a rise in business-focused technology talent. In fact, many firms say they found that moving a dedicated technology analyst to the operations unit enables them to deliver continuous improvements more easily.

Going forward, different skill sets will be required to drive innovation and protect asset managers from disruption. The ways in which data is curated and produced will be reengineered, transitioning from a software development culture to an integrated business and data science team culture. The methods used to recruit, hire and retain qualified talent will evolve as well.

Zeroing in on specific skills, 75 percent of respondents identify investment operations domain knowledge and problem-solving skills as the qualifications most in demand at their firms today. Five years from today, 65 percent of respondents believe that data science and technology development qualifications will be most in demand (see Figure 5). Perhaps surprisingly, problem-solving and operations domain knowledge drop to the bottom of the qualifications list in five years' time.

Respondents also said they expect changes in the recruiting process as firms focus equally on:

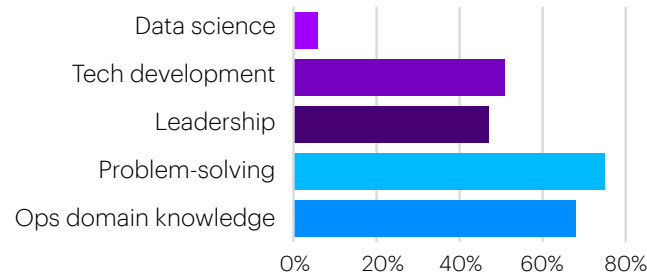
Unconventional recruiting pools—Competing against different, non-financial services employers (e.g., technology giants, start-ups, boutiques).

Simulations and profiling—Making more use of technology throughout the recruitment process, and using simulations to gauge performance in real-world scenarios and team fit.

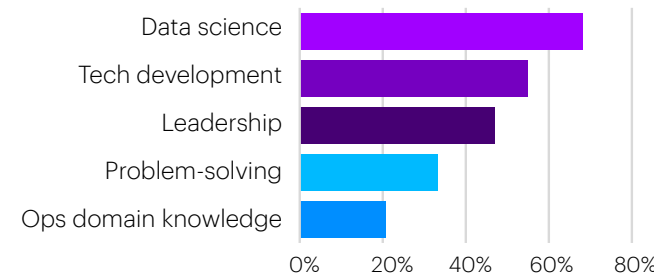
Showcasing the culture—Using well-being as a competitive advantage, and competing on factors beyond compensation, such as lifestyle and office perks.

Figure 5: Which qualification is most in demand at your firm today? And in five years?

Today



Five years from today



Source: Accenture/ICI operations study

75%

of operations leaders say investment operations knowledge and problem-solving skills are the qualifications most in demand at their firms today.

65%

believe that, in five years' time, data science and technology development skills will be most in demand.

CONCLUSION

As asset managers face up to today's combination of sweeping economic shifts and rapid advances in technology, no firm is immune from the epic disruption that these forces create.

In response to these challenges, many asset managers are investing in unlocking their capacity to innovate and grow through a renewed focus on the “four P’s”—performance, price, product and placement—combined with a [“wise pivot”](#) that radically transforms their legacy business, while at the same time seizes new business opportunities. Together, all of this means asset managers are disrupting their legacy operating models and skill sets to reequip their firms to win in a disrupted future. It’s a transformation journey that their service providers—such as the custodians and fund accounting agents—are also undertaking.

For asset managers, executing this transformation successfully is imperative for long-term success. Many asset managers have shifted their strategic focus to the front office and clients. They need the operational capabilities to deliver on that strategy—with the best technology, a high-performing operating model and top talent. The study shows asset managers are working hard to lay down this platform for future growth through initiatives including scaling up operations, converting data into business impact and radically reducing the cost of portfolio construction and administration.

The goal is to blend profitability with organizational flexibility. To achieve this, many firms are experimenting with AI, partnering with fintechs and making acquisitions. As they navigate this new path, asset managers know that success will likely require a combination of great leadership and world-class change management.

This need raises a fundamental question: how will firms move their people from the “now” to the “future state?” It will not be easy. With strategies mapped out, the next big challenge is execution. Those firms that are committed to progressing from their current state—and that actively embrace disruption to do so—will be the best placed to win.

Some additional highlights from the research

The study covers a wide range of topics and sheds light on how firms are organizing around the challenges and opportunities of the changing asset management landscape. Other interesting findings include:

- Across the industry, transformation initiatives are generally owned jointly by the chief operating officer and the chief technology officer of the firm.
- Operations leaders have a preference for commercially available technology, but homegrown technology is most frequently

deployed in the data management and risk management domains.

- 79 percent of respondents were interested in exploring workflow technology, and a little less than 50 percent were interested in exploring net asset value (NAV) oversight technology. There is also significant interest in cash forecasting applications.
- Firms generally organize their back and middle offices by function, as opposed to by product or location.

OVERVIEW OF RESEARCH STUDY

How it was created

The study detailed in this report was conducted jointly by the Investment Company Institute (ICI)—the leading association representing regulated funds globally—and Accenture’s Asset Management Practice, which provides the funds industry with deep consulting experience in strategy, digital, technology and operational transformation.

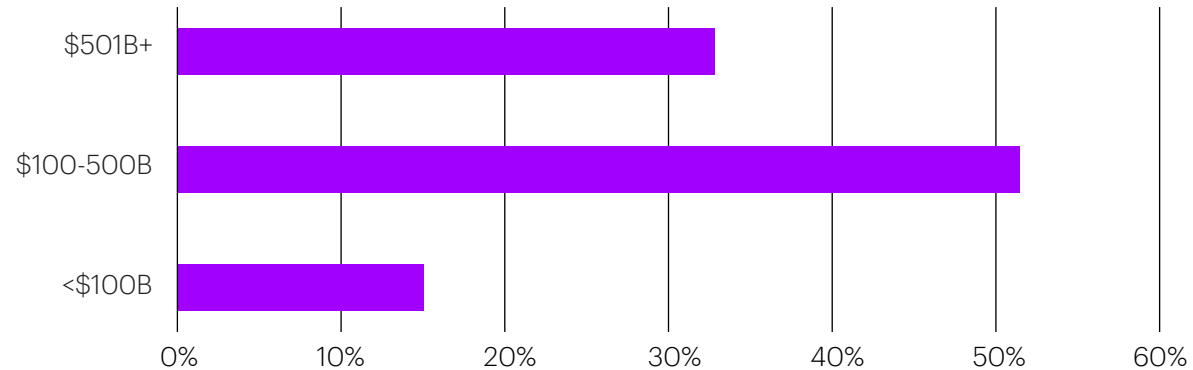
What it measures

Sent to members of the ICI Securities Operations Advisory Committee, which is made up of senior operations leaders, the survey sought to understand the current trends, challenges and initiatives in asset managers’ back and middle offices.

The research sample

The survey received responses from 33 asset managers, accounting for around \$15 trillion in AUM as of December 2018. For analysis, we divided the firms into small, medium and large in terms of AUM as shown in Figure 6.

Figure 6: The research sample



Source: Accenture/ICI operations study

ABOUT ACCENTURE

Accenture is a leading global professional services company, providing a broad range of services and solutions in strategy, consulting, digital, technology and operations. Combining unmatched experience and specialized skills across more than 40 industries and all business functions—underpinned by the world’s largest delivery network—Accenture works at the intersection of business and technology to help clients improve their performance and create sustainable value for their stakeholders. With 482,000 people serving clients in more than 120 countries, Accenture drives innovation to improve the way the world works and lives. Visit us at www.accenture.com.

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ABOUT ICI

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