

Asset Management: *Transformation Is Already Here*

The Industry's Data-Driven Future Has Arrived



Digital Imperatives Dominate

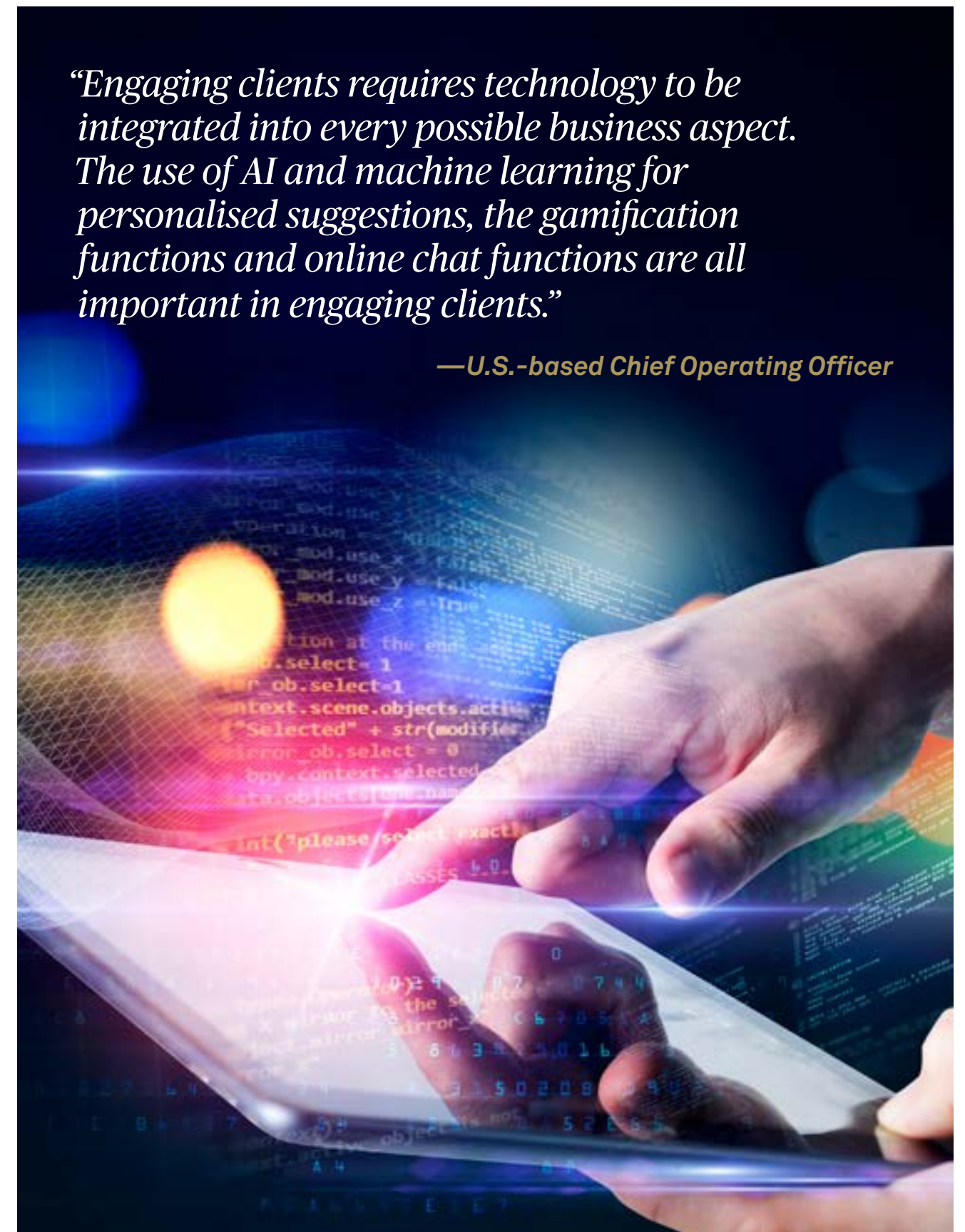
Digital technologies enable organizations to drive top-line growth by transforming the client experience. How can asset managers meet these digital imperatives to find organic and inorganic growth?

In the Data section of “Asset Management: Transformation is Already Here,” we discussed how as the sources and types of data have proliferated, the ability to interpret and convert it into usable, relevant information has become a key differentiator in the asset management industry. We also showed how having a mountain of data and being able to utilize it effectively are two very different things.

Data management fits into a picture of broad digital imperatives that the asset management industry must address. The need for better investment outcomes has driven the industry towards digitization for some time, but COVID-19 accelerated the trend. Business continuity and resiliency rapidly became urgent and critical, going from a sensible planning exercise to a means of keeping businesses running day-to-day. The pandemic brought the connections between better investment outcomes, better data and transformed operations starkly into the foreground.

We asked our survey participants a range of questions about digital capabilities to put a data-driven future and a crisis-influenced present into context. They identified several foundational technologies and organizational obstacles they see on the path to improved investment outcomes and the operational transformation needed to deliver them.

They also highlighted the importance of service providers sharing this path with them. They recognize the need for robust services that help them navigate complex changes to their firm’s strategy, investment management approach and operations.



Covid-19 Put *Theory into Practice*

Many asset managers had already embarked on digitalization before the pandemic. Business continuity has long been part of the conversation. However, the arrival of COVID-19 amplified the need to adopt and integrate new technologies.

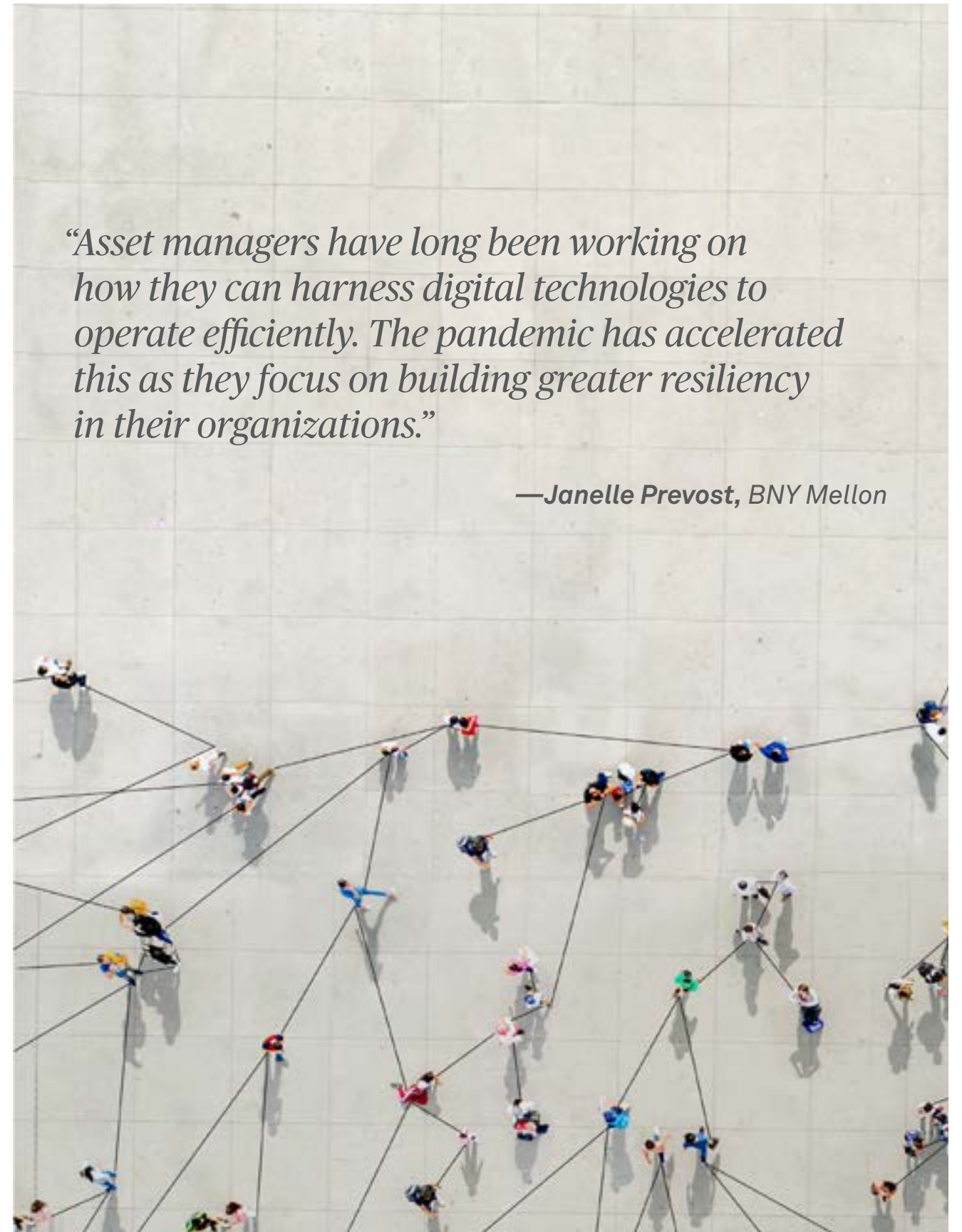
Many of our survey respondents commented on the impacts of COVID-19. Market volatility increased the need for faster responses to rapidly changing conditions. Remote working exposed the shortcomings of relying on manual and paper-based processes. The ongoing pandemic resulted in extended needs for social distancing and remote work, making growth more difficult to achieve. Above all, it highlighted the importance of business process resiliency and the kind of agility that enables asset managers to respond to—or even predict—new opportunities and risks.

“After COVID-19, there is a real need for accelerated adoption of new tools that will drive inorganic growth and innovation. Digital technology will provide asset managers with a competitive edge if they can offer unique solutions.”

—Spain-based CIO

“Asset managers have long been working on how they can harness digital technologies to operate efficiently. The pandemic has accelerated this as they focus on building greater resiliency in their organizations.”

—Janelle Prevost, BNY Mellon

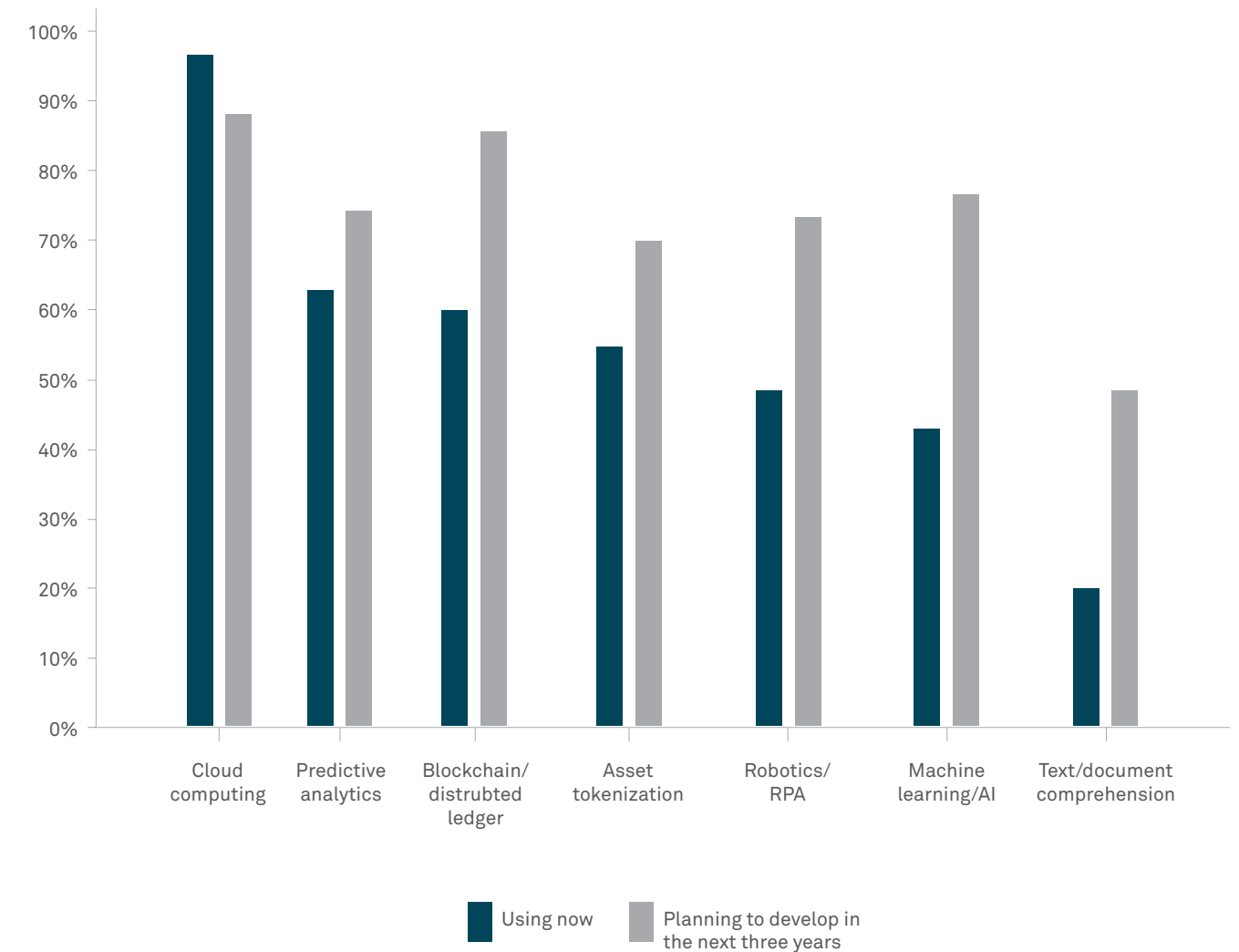


Building Blocks for a *New Client Experience*

Survey respondents said they are prioritizing more established and proven technologies as they continue or embark upon their digitalization initiatives. However, they have not lost sight of an ambitious lineup of technologies that can unlock future innovation.



Which of the following digital capabilities/technologies are you leveraging to drive digital and operational transformation?



Current utilization

Cloud computing dominates today's digital imperatives. Almost all (96%) respondents said they are currently leveraging cloud computing to drive digital and operational transformation. They also rank it as the single most important technology at present.

In fact, cloud computing has become so ubiquitous that the role it plays is also evolving. Using specific cloud-based applications, such as CRM platforms, has become a matter of course. The industry is now moving to using cloud as more than a way to access specific feature sets and save costs.

Because cloud infrastructure provides the building blocks for the adoption of advanced digital technologies, it allows managers to bring new digital services, products and experiences to clients. It also provides the foundation for greater collaboration between staff. In other words, it is delivering advantages in business agility, allowing asset managers to work more seamlessly internally as well as with service providers and other third parties.

Future utilization

Cloud computing still holds a dominant position among asset managers' digital imperatives in their planning for the next three years. Other technologies also rise to a similar level of importance.

“Asset managers that use the latest technologies have a definite market advantage.”

—U.K.-based Chief Information Officer

Using now
(Top Five)

96%

62%

60%

56%

47%

Planning to Develop
(Top Five)

88%

75%

84%

72%

75%

Cloud computing



Predictive analytics



Blockchain/
distributed ledger



Asset
tokenization

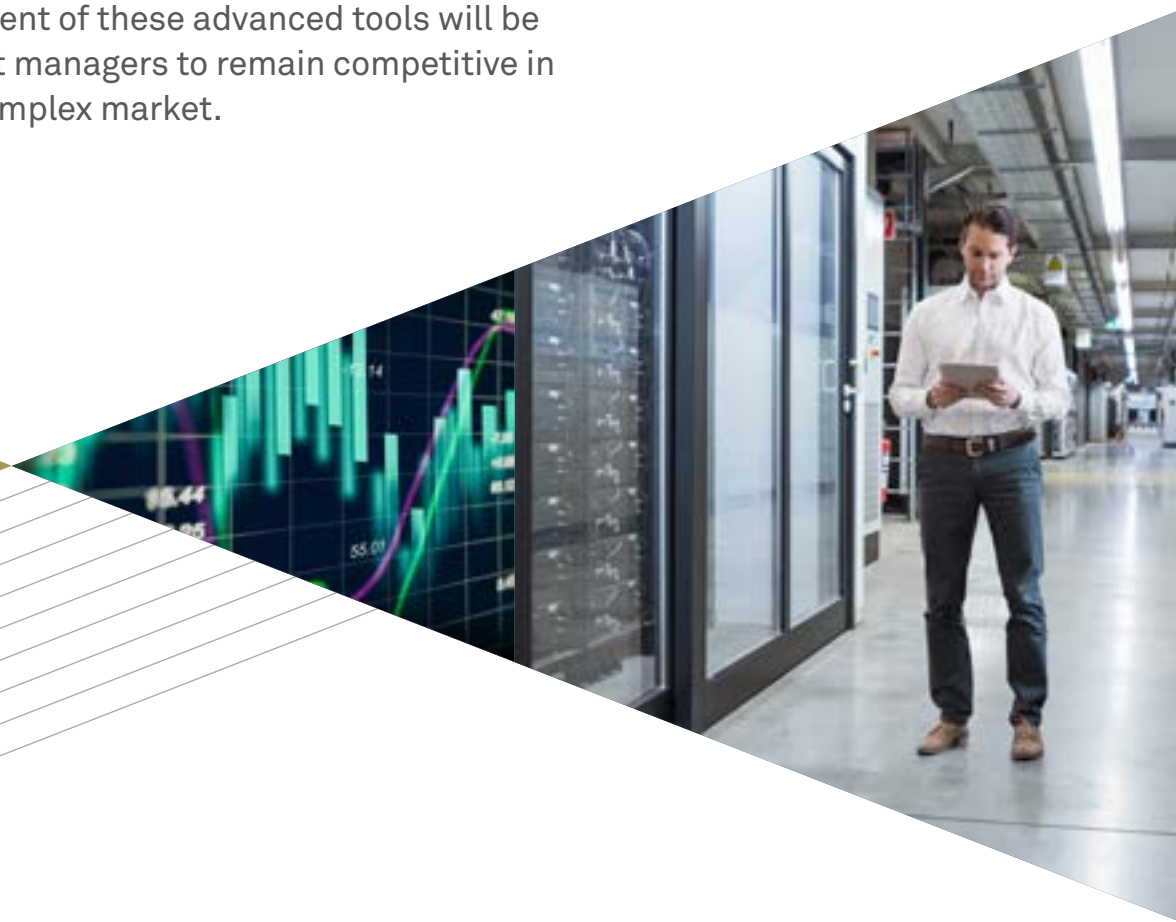


Robotics/
RPA



Looking ahead, 84% of asset managers are planning to develop blockchain and distributed ledger technology to synchronize data and processes. The uptake of blockchain technology goes hand in hand with plans to leverage asset tokenization, with 72% of respondents planning to develop digital assets over the next three years. Together, these technologies could open up product development opportunities and broaden investment options for new pools of investors. It could also offer liquidity to investors in traditionally illiquid investments, such as alternatives.

Technologies that bring additional enhancement to clients' experiences and their investment returns also rank high on the list of digital imperatives for asset managers within the next three years. These efficiency technologies include machine learning and artificial intelligence (78%), predictive analytics (75%) and robotic process automation (75%). Effective deployment of these advanced tools will be essential for asset managers to remain competitive in an increasingly complex market.



“Digital assets are here to stay. Enabled by distributed ledger technologies, digital assets including cryptocurrencies, stablecoins as well as tokenized forms of other assets will be an important part of the financial ecosystem.”

—Mike Demissie, Head of Digital Assets Unit and Advanced Solutions at BNY Mellon

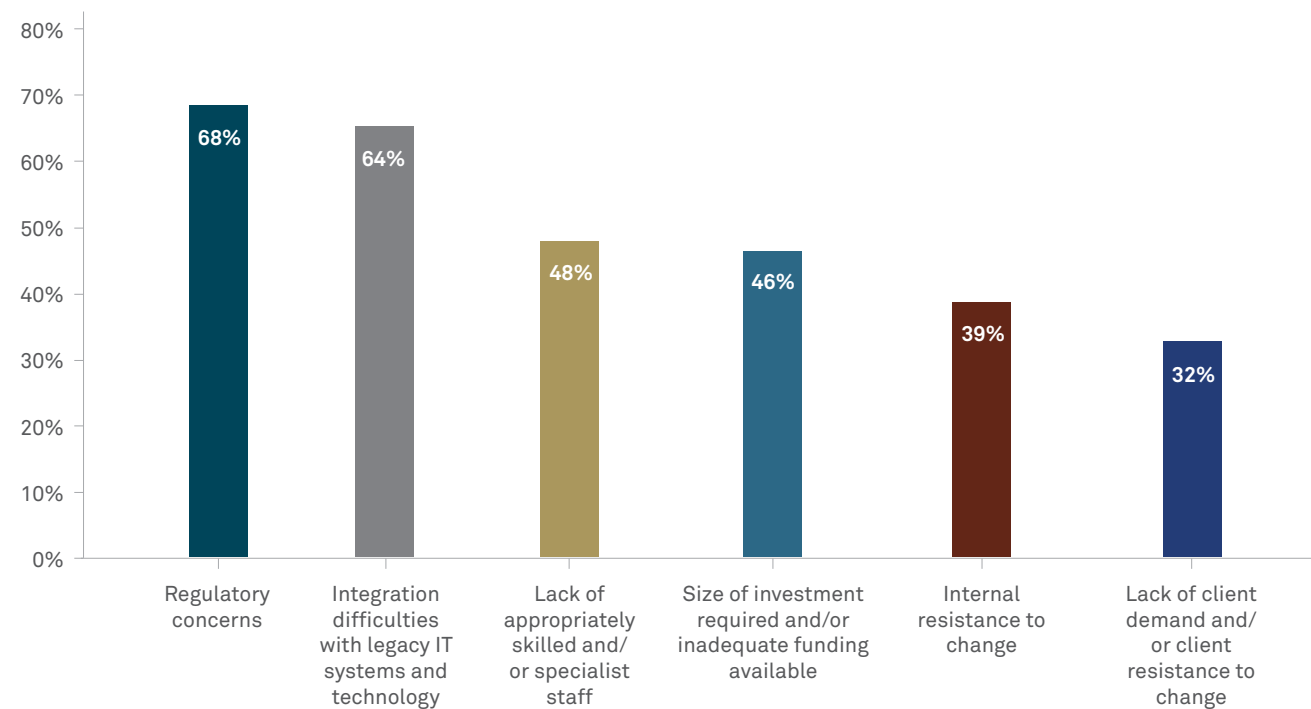


Realism, but *Not Pessimism*

Our research also finds that asset managers have few illusions about the ambitiousness of these digital imperatives for transformation.

Achieving full-scale transformation is far from straightforward given the complexity of many managers' operations, which may span different markets, products and geographies. Internal resistance came up as an implementation challenge for 39% of respondents.

Which of the following factors will pose the biggest challenge to the implementation of digital and operational transformation in your organization?



Respondents view regulatory concerns as their biggest challenge (68%). Implicit in such concerns are issues around data protection, the difficulty of digitizing information and processes across different jurisdictions with differing regulatory requirements, meeting mandated security and compliance requirements, and addressing the need to meet varying quality management standards.

Not far behind is the perennial issue of integrating new technologies into legacy IT systems (64%). Like many organizations, asset management firms tend to operate using various disparate, closed systems installed at different times or locations, for multiple functions, or to meet specific regulatory requirements. M&A activity often exacerbates this situation because merged entities rarely achieve full IT integration.

Such technology barriers create some of the most significant inefficiencies in asset management. When information is unable to flow to different departments, it leads to duplication of effort and unnecessary manual processes. Maintaining multiple separate systems also adds significant cost.

“The top trend will be the integration of new digital technology into various asset management functions. Distribution and client management will come to rely on technology for maximum output.”

—U.S.-based Chief Technology Officer

It Takes *a Village*

Asset managers believe that high levels of collaboration and trust between internal functions and with external providers can help transcend the inherent barriers to achieving digital imperatives.

In the past, many asset managers saw themselves as one firm competing against the world. They often saw themselves as self-contained entities.

Our research shows that view has shifted significantly. More than two-thirds of respondents say they are planning to streamline relationships with a few best-of-suite vendors and providers (i.e., those that can best meet the broadest range of business needs versus those focused on a small subset of use cases). Because of perceived internal skills gaps (48%), many asset managers are looking to outside experts to accelerate their digital transformation.

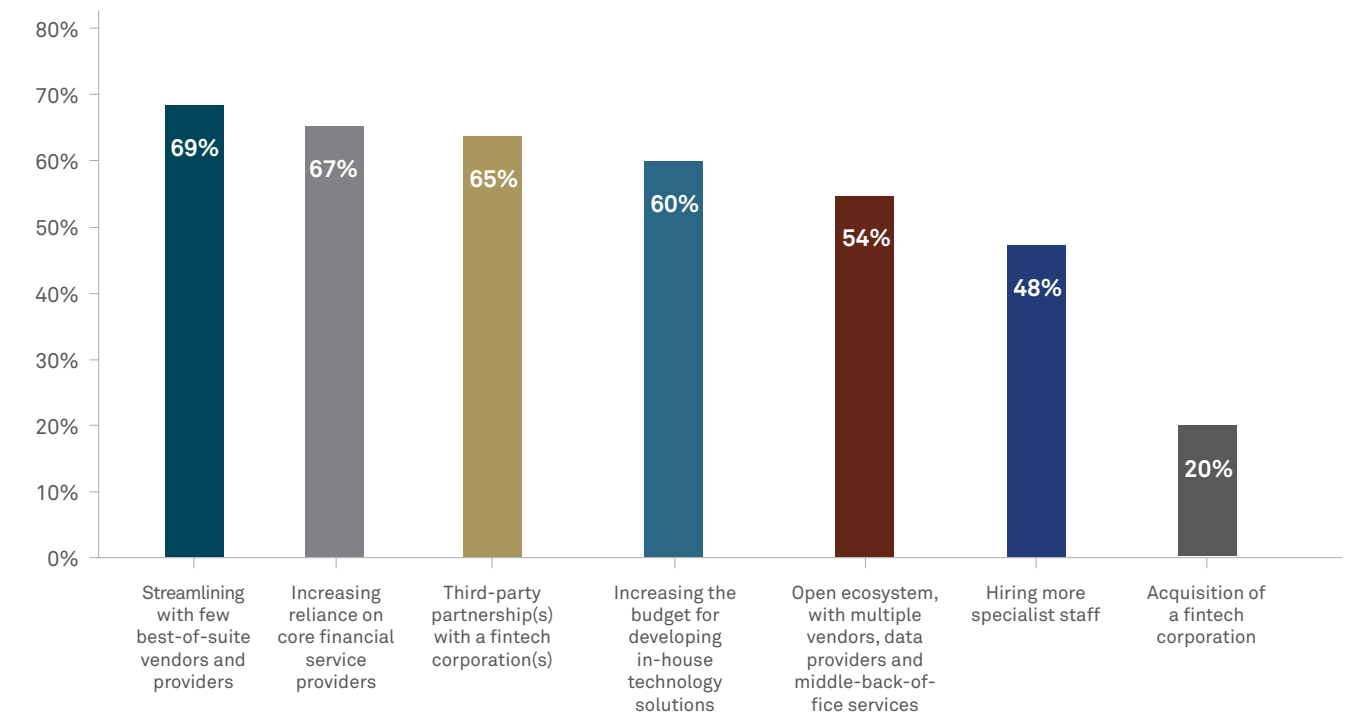
Broadly, asset managers have evolved from a “survival of the fittest” mentality to seeing themselves as part of an ecosystem. As a result, they place open ecosystems (54%) highly in the ranking of ways to accelerate innovation.

This approach to infrastructure creates a balance between choice and openness. It streamlines the ability to integrate various vendor solutions according to their individual needs and strategies.

In addition, respondents showed a strong preference (67%) for relying on core financial service providers. This strategy allows them to take advantage of the investments their providers have made in digital technologies and innovation. It results in a common platform and an ecosystem where they collaborate closely with a handful of vendors and providers.

Balancing choice and openness also creates a stable platform for collaboration with fintech companies, mentioned by 65% of respondents. Such arrangements give them the ability to bring in compelling and pioneering innovations that may be slightly outside the mainstream—without losing the strength of core best-in-suite providers.

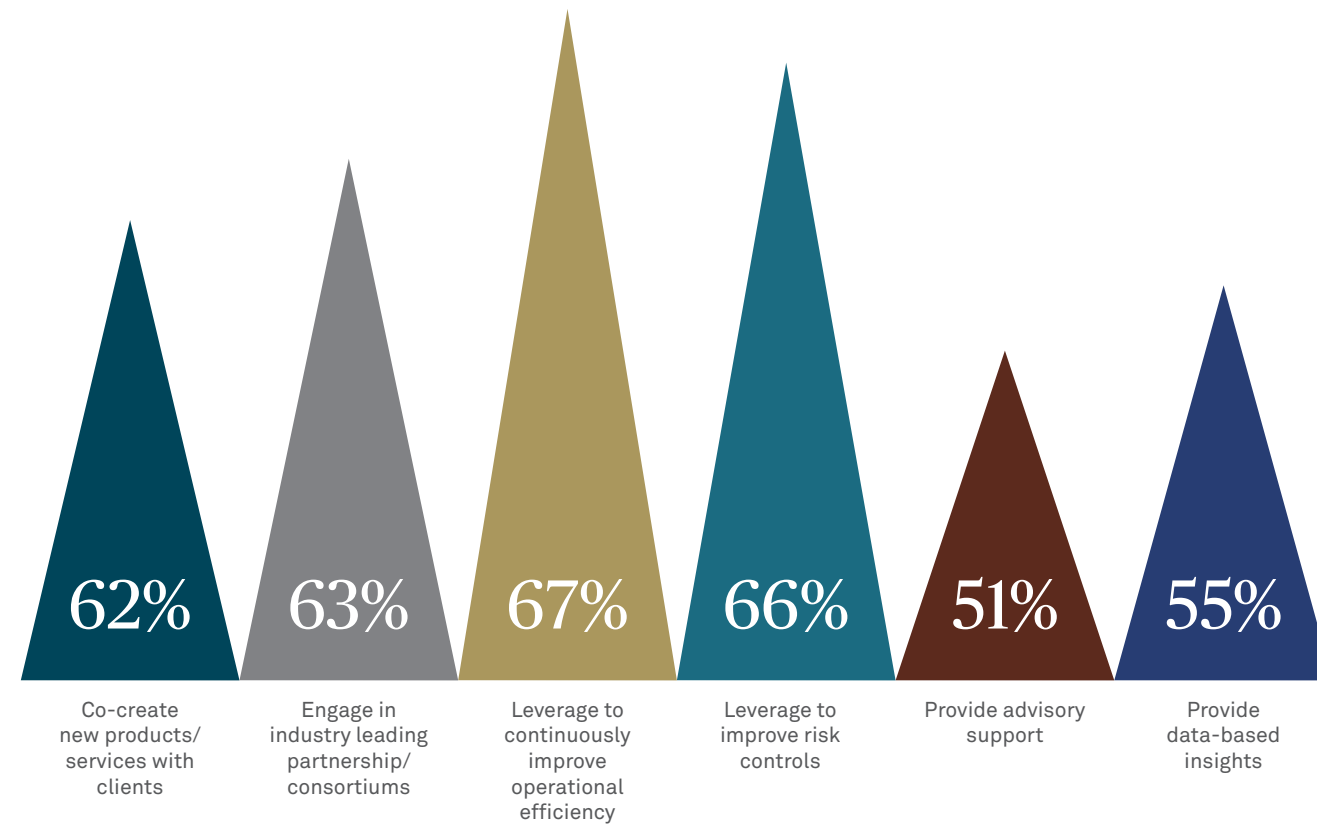
Which of the following strategies, if any, is your company planning to employ in order to accelerate digital innovation?



Asset Managers Have *Strategic Expectations*

Respondents see financial service providers as playing a key strategic role, with 67% looking to providers to improve operational efficiency continuously, 66% seeking improved risk controls, and 63% desiring more engagement in industry-leading partnerships and consortiums in a way that will increase their capacity for innovation.

What is your expectation of what financial service providers can offer to support your digital capabilities?



More broadly, it is becoming clear that asset managers no longer view financial service providers as merely third parties working in the background to process transactional information. Instead, asset managers want to tap into service providers as strategic assets that can help support growth and innovation. The digital imperatives for business transformation call for intensive, high-trust collaboration.

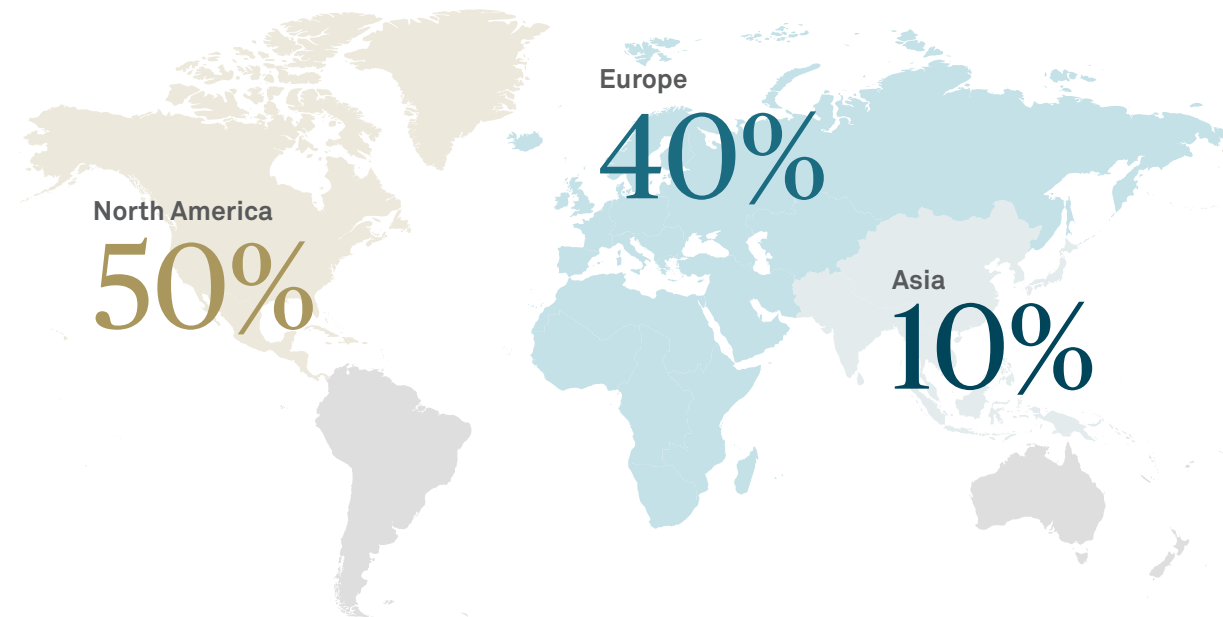
In the next two chapters of this series, we will share more detailed findings about two specific asset management growth drivers - product innovation and distribution. It is precisely the need for more innovative products and new distribution models that makes digitization so imperative. The final chapter will expand on the theme of collaboration across in-house and out-of-house resources.



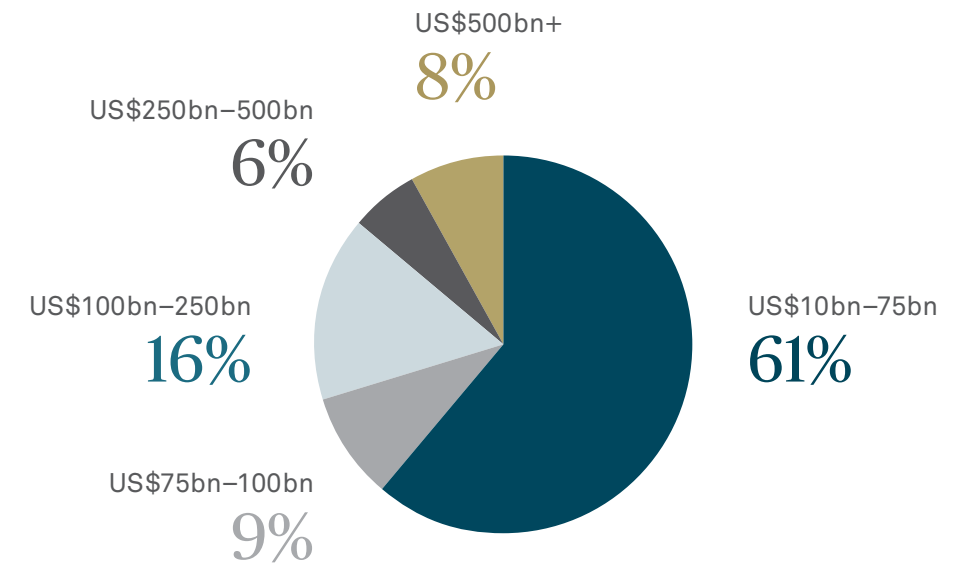
Appendix: Methodology

In the third quarter of 2020, 200 asset managers from around the world participated in an in-depth study of trends and concerns in the asset management space. C-level executives (job titles: Chief Executive Officer, Chief Operating Officer, Chief Data Officer, Chief Investment Officer, Chief Information Officer and Chief Technology Officer) from firms with at least US\$10 billion in AUM participated in the survey. All responses and participant comments are anonymous. Data is presented in the aggregate.

REGION



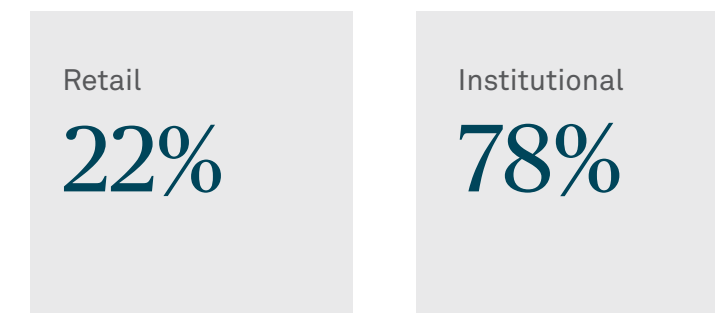
ASSETS UNDER MANAGEMENT



TYPE OF FIRM



CLIENT BREAKDOWN





In Case You Missed It

Here is what we covered in previous chapters of our wide-ranging study.

- **Overview:** Fundamental changes in the asset management industry have been building for some time. Our Overview chapter provides the key findings of our research study covering 200 asset managers around the globe. One clear message emerged – these changes have reached a point of no return.
- **Data Determines Destiny:** Explores the challenges and opportunities presented by data management and analysis, from data mountains to data lakes.

Coming Attractions

Following the overview, data and digital chapters, BNY Mellon will release additional findings from this wide-ranging study. Each chapter offers deeper insights and strategies to help you thrive in a data-driven world.

- **The product lineup is realigning:** Highlights the pressures that are reshaping asset management firms' product lineups.
- **The distribution game has new rules:** Shows how the distribution mix is making it more complex to compete and survive.
- **Focus on the core is key:** Illustrates the industry's most promising future, with streamlined operations and focus on the core.

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