



# Frontiers in Finance

Issue #65

Market insights and forward-looking perspectives for financial services leaders and professionals.

**Articles include:**

**Opportunity knocks:** unlocking more value through financial services transformation

**Unleashing potential:** Exploring generative AI's role in banking

**AI in insurance:** A catalyst for change

**GenAI:** Private Equity's Next Big Leap

**Innovate or stagnate:** Creating value from technology and innovation in asset management



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# A quantum leap for financial services

## Harnessing technology for innovation

Welcome to the latest Frontiers in Finance on the theme of technology and innovation. This edition underlines why I think it's such an exciting time to be working in the industry — and why this could potentially be the quantum leap for financial services we have been waiting for.

I say potentially because while game-changing technologies like AI are already at our fingertips, others such as quantum computing are only just emerging. These tools are evolving rapidly, demonstrating their potential as catalysts for innovation, transforming processes, and enhancing productivity, efficiency, and performance. More importantly, the data required to feed these new technologies is still on a journey and this is a vital foundational element critical to success.

The articles here highlight the possibilities to reimagine markets and products and move to seamless operating models and customer experiences. With AI and any tech-enabled change for that matter, there are always new barriers and challenges. So, this edition looks at upsides and downsides of this technology-innovation story.

### Data is the cost of entry

While AI's potential is phenomenal, the cost of entry is data. All the articles, on banking and capital markets, private equity, insurance, and other sectors, reiterate that AI depends on high-quality, well-organized data, backed by a robust data strategy and governance best practices. These are non-negotiables just to compete in the market.

Much like a New Year fitness program, effort and commitment needs to be sustained. Managing data

must be continuous to get into good habits. Today's volume and variety of data creates a pressing need to build a strong culture of data in financial services. Sorting through the data problem can be costly and usually show minimal return in the early stages, but there's a significant and long-lasting stream of benefits.

### Why the 'why' matters

With financial products already digital, the focus intensifies on faster market delivery. As discussed in the previous Frontiers in Finance, platforms are paramount. Your current model might not be your chosen model for the future. Have you got designs on becoming a primary consumer touchpoint or distributing via intermediaries, such as InsurTech and comparison sites? Could you pivot to a digital-first or digital-only provider or choose Finance-as-a-Service that's integrated on other digital platforms? Can you embed products into ecosystems, leveraging technologies like IoT, voice control and augmented reality?

This array of models and channels presents a paradigm shift in how people interact with financial brands and buy products. As the velocity of business increases, I'd argue it's more vital than ever to work out the 'why' — why your business is unique, the value you offer and how best to deliver it.

Ultimately, if we assume a world where everything is tech-enabled, your value proposition will be your only differentiator — not the smart tech you're using or your ultra-efficient processes. It is business-critical to know your real value and to combine it with the right go-to-market model for your brand.

### About the author



#### Karim Haji

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Karim is Global Head of Financial Services, KPMG International, leading the largest industry practice for KPMG firms. Karim has in-depth experience in the Financial Services industry, with a multidisciplinary focus on global bank audits and significant advisory engagements across risk, compliance, governance, regulation, finance, and business transformation. He is passionate about technology, innovation, and using the latest fintech solutions to help propel success for clients. In addition, Karim realizes the value of a strong alliance ecosystem and has experience in utilizing these alliance relationships. His rules for success include bringing-out the best of the diverse and ESG minded teams, to help solve the needs of clients.

## Where best to invest?

AI is a red-hot topic right now, attracting interest at boardroom level as well as increased investment. In fact, it tops the list of technologies in the KPMG global tech survey 2023 — 3 in 5 respondents say that AI (including machine learning and Generative AI) will be the most important technology in achieving their ambitions in the next three years.

For financial services clients KPMG member firms strive to act as a bridge between technology, the business, and the most important aspect — the specific problem you want to solve for. Starting at the nub of the problem gets to the answer more quickly, because once you identify the issues, choosing the right technology mix becomes easier.

I view technology costs and investment in three ways. First, the costs of maintaining and managing legacy technologies and systems not fit for the future. Next, there's the cost of the specific upgrade and considering what else needs to change. For instance, the expected returns from a new CRM system are achievable only if the sales organization also adopts a more data-driven approach — culture and technology change go hand in hand and must be factored in. Lastly, what's left behind? When changes are next needed, how easy can you maintain, upgrade, integrate and evolve without adding technical debt. It's got to be simple for today and simple for tomorrow too.

## The right resilience equation

Alongside data, models, and costs, I would underline the challenges of resilience which is an ongoing CEO priority. AI is being used to launch such a high volume of fraud and cybercrime attacks that I'd argue it's now virtually impossible to avoid — an event targeting your organization is not 'if' but 'when'.

While the clean-up costs of attacks and breaches have risen sharply, that's only starting to be reflected in the level and type of

security investments. Spending is shifting from defense to detection and response. As AI and high-performance computing can be used to filter, detect, and flag issues in real time, the industry will be better equipped to deal with critical questions: how to recover quickly and ensure business continuity.

Some of the articles also show how ecosystems and platforms add extra complexity and risk to the resilience equation. KPMG's 2023 research highlights the evergreen issues of fraud detection, recovering from cyber-attacks and driving efficiency around reporting and compliance issues. It also evidences a skills shortage. So, part of the technology investment is reskilling — creating homegrown talent in the cybersecurity fraud space.

## AI, innovation and employee experience

Amid any period of rapid innovation, it's vital to have a heightened awareness of how people may be affected. Thinking about employee experience like customer experience is especially true in the era of AI — it could be a big disincentive to innovate in your role if an outcome is that your job no longer exists. Innovation needs guard rails. So, giving everyone an AI co-pilot and asking them to create something cool will probably just generate chaos.

To find the balance, be clear about the boundaries. Get people focused on what they could do to make their work smarter, faster and more efficient. Instead of making assumptions, ask people: what do you want and what tools do you need? Some of the answers might be very different to what you imagined and employees just don't get asked enough.

At all levels of an organization, I'd encourage a culture where people seize opportunities. In particular, encourage those with the greatest potential to grow and learn — there will be no shortage of learning opportunities in the years ahead, of that I am certain. ■



I view technology costs and investment in three ways. First, the costs of maintaining and managing legacy technologies and systems not fit for the future. Next, there's the cost of the specific upgrade and considering what else needs to change. ”

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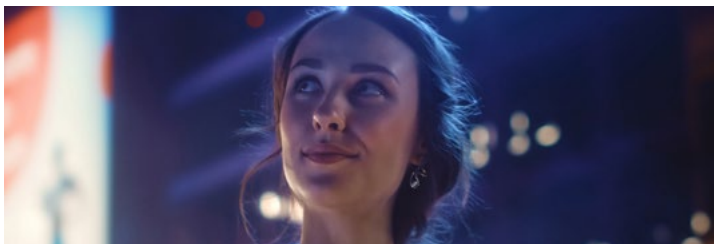
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# Unlocking more value through financial services transformation

**Paul Henninger**, Head of KPMG Global Lighthouse, and Head UK Connected Technology, Partner, KPMG in the UK



# Financial services firms are performing better as a result of their technology investments, but now they need to fine-tune their digital transformation journeys.

Digital transformation has improved the bottom lines of financial services companies, but new KPMG research finds there are opportunities to go much further. How can new technologies truly drive business model change in the industry?

In the [KPMG global tech report 2023](#), which is based on a survey of 2,100 executives in 16 countries and nine different industries, most of the financial services executives say that their businesses have boosted performance and profitability over the past 24 months thanks to digital transformation. They say that the greatest improvements have come from investment in data and analytics and anything-as-a-service (XaaS) tools.

## Frustrations flare in certain performance gaps

But financial services lags behind in places. In comparison to the average across all sectors surveyed, the financial services industry is less likely to have seen gains from some of its investments:

- 40 percent of financial services companies have not yet seen any increase in performance or profitability from their investments in cyber security initiatives over the last two years.
- 43 percent have not yet seen any increase in performance or profitability from their investment in low-code and no-code innovation in the last 24 months.

According to Paul Henninger, Head of Connected Technology at KPMG in the UK, many financial services companies are at a crucial stage of digital transformation journeys. “The sector is in a very strong position, having invested heavily in technology over the past five years, but this is also a moment of potential frustration,” says Henninger. “Firms have modernized and are now running on top of a more contemporary set of technologies, but this has not resulted in a spontaneous change of their businesses — there is still work to do complete the change required to realize the value of all of this new capability.”

Henninger suggests that to secure greater value from all areas of technology investment, financial services companies now need to articulate or re-articulate exactly what their business goals are — a transformed experience for customers, say, or the launch of new products and services. “Now that we can see how these contemporary technologies work, we can understand what our strategy is going to be,” he says. “There is an opportunity for excellent financial services leaders to decide what is important for how the business is going to run, and then to harness all this capability behind that strategy.”

### About the author



#### Paul Henninger

Head of KPMG Global Lighthouse, and Head UK Connected Technology, Partner, KPMG in the UK

As Head of Connected Technology, Paul leads all UK Technology teams including technology advisory, data and analytics, cloud and application engineering, automation, and our enterprise platforms teams across major platforms including Coupa, Oracle, Salesforce, SAP and others. He works with clients, alliances and universities, and teams across the UK firm to understand how data-driven and digital technologies become business technologies. This takes the form of fully formed AI and ML solutions, data, analytics and digital strategy and transformation programs and implementations, and problem solving with technology in many forms.



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## Employee productivity is the top digital transformation prize

Workforce participation will be a crucial part of any strategy to make the most of new technologies. The financial services executives in KPMG’s research say that increasing employee productivity is the top reason to launch digital transformation projects.

Many in financial services have already seen good results. The relative majority (46 percent) of financial services executives in the research say that improvements in employee productivity generated by recent

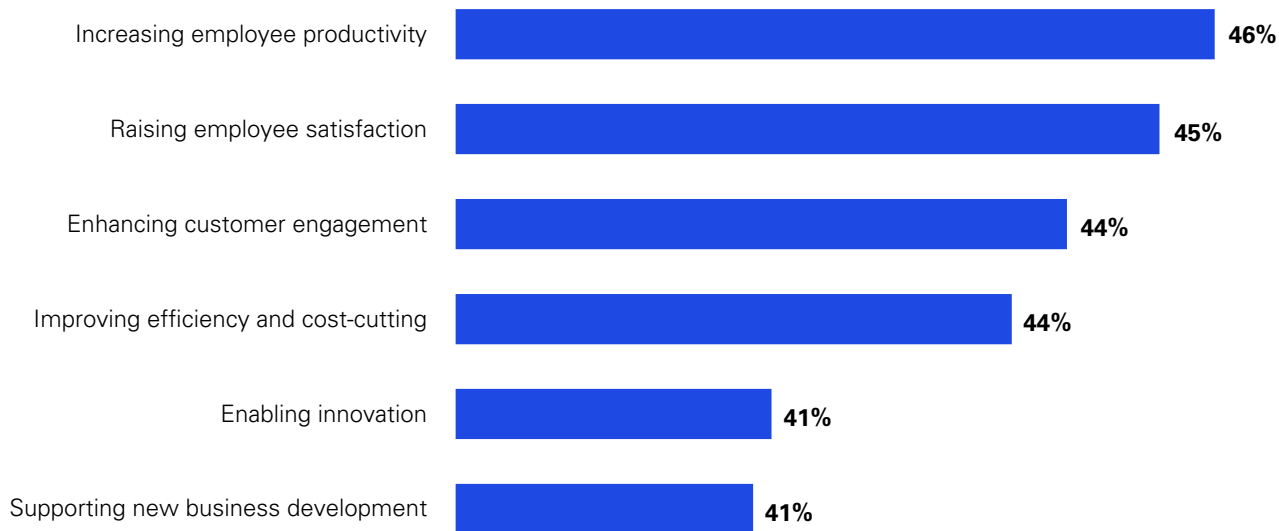
digital transformation investments have exceeded their expectations. And 45 percent report greater-than-expected improvements in employee satisfaction, which could give them a critical advantage in today’s battle for talent in the sector.

Financial services companies now need to build on these results by putting their people at the heart of innovation. Reducing costs by improving productivity without a plan to generate new value is likely to lead to job losses. Instead, technology-driven increases in productivity should free up the sector’s workforce to focus on creating new value.



The sector needs to use this as an opportunity to transform what it offers, the services it sells, the customer experience and the way in which it helps people to manage their lives. ”

### ‘Above expectations’ digital transformation investment



Source: KPMG International, “KPMG global tech report 2023” (September 2023).



## Many are placing their bets on quantum computing

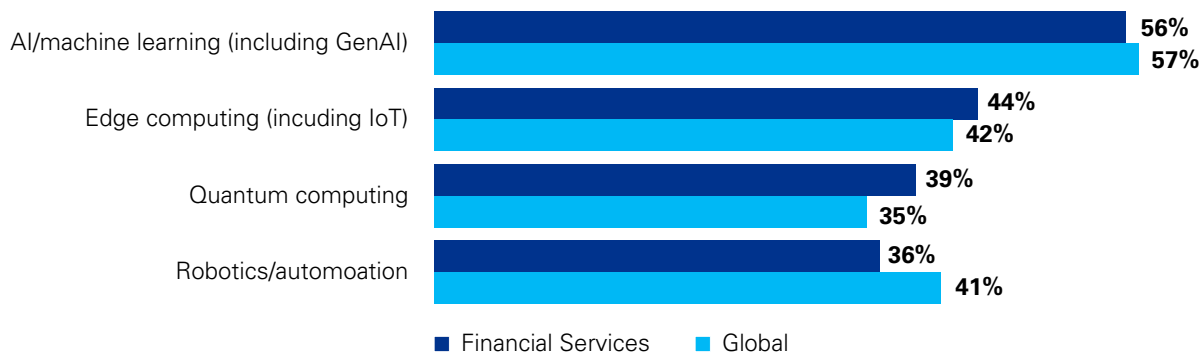
Emerging technologies have the potential to also open up new routes to greater success. Financial services companies are particularly excited about the potential of quantum computing — they now see it as

a top-three technology priority for investment. Across all the sectors surveyed by KPMG, quantum computing fell outside the top three technologies needed for meeting short-term ambitions.

Many financial services businesses are seeing others in the industry

pressing ahead with quantum computing investment and are trying to catch up: 56 percent are prioritizing this technology because leaders in their market have already embraced quantum computing.

## Technology important to achieving short term ambitions



Source: KPMG International, “KPMG global tech report 2023” (September 2023).

The accelerated processing speed provided by quantum computing allows financial services businesses to make better use of data and analytics tools and build on their early experiments with artificial intelligence (AI). Complexity in areas such as investment decision-making has limited the implementation of AI tools, but the speed at which quantum computers can work through even the largest and broadest datasets will unlock new opportunities to automate complicated tasks.

So far, the sector’s use of quantum computing has been relatively low-key. Proof-of-concept work in distributed networks and cryptography is under way at banks, and investment managers are starting to use quantum computers in areas such as the back-testing of performance indices.

Henninger predicts that these initiatives will now proliferate and accelerate. “Speed can change everything,” he says. “Quantum computing is one of the technologies that in terms of magnitude of impact is most likely to change the world.”

The challenge for the financial services sector will be to harness that potential to drive innovation — and to finally achieve the business model upgrades promised by digital transformation plans.

To set you on the right path here are three suggestions for how financial services business can move further forward with digital transformation:

### Patch up performance gaps through intentionally targeted digital transformation.

While many firms have updated their technology, in most cases, this has not fundamentally changed the way they do business. Having cleared out a bulk of their technology debt, the next stage is to put these new capabilities to work more holistically, closing any final gaps standing in the way.

### Focus on quantum computing initiatives for speed rewards.

Quantum computing will hugely accelerate the speed at which financial services firms work, particularly as they look to harness their extensive data. This can help

to open up new use cases — for instance the launch of services that harness a combination of complex features in areas such as alternative investments, for example.

### Leverage productivity gains to drive value rather than just counting the cost savings.

Improved productivity could enable reduced headcount, but firms will make bigger gains where they instead use freed-up resources to drive transformation of products and services. It will be important to recognize the economic impact of digital transformation on the organization in all respects, including the allocation of value, for example, transfer pricing purposes, to technology. Ultimately, the revenue gains for organizations that become true partners to their customers will dwarf the value of cost savings. ■



# Exploring generative AI's role in banking

**Paul Greenan**, Global Lead Digital Transformation, KPMG International and Partner, Financial Services, KPMG in the UK



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# Banks are keen to understand how generative AI (genAI) can help their businesses. The secret is to look past the use cases and focus on transformation. Here’s what you should to know and three tips to get you started.

Banking executives have always been quick to embrace new technologies. First, it was the internet and quickly created online banking services. Banks turned smartphones into mobile banking solutions. Cloud allowed them to collaborate with clients and colleagues in real-time. Now, they see genAI emerging and are asking themselves (and the rest of the business) how this new and disruptive technology might change their world for the better.

Bank executives are clearly very bullish about the potential of genAI. In fact, in the [KPMG global tech report 2023](#), 61 percent of banking technology leaders said they believe genAI, AI and machine learning will be critical to enabling the business to achieve its short-term ambitions. Conversations with bank technology leaders suggest they are inundated with requests from the business for genAI support.

## Seeing past the hype

Rarely has a new technology garnered so much attention. When ChatGPT launched in late November 2022, it took just five days to attract 1 million users. Consumer media ran with the story. Executives spent the holiday season playing with it. And by January it was estimated to have reached 100 million monthly active users.<sup>1</sup> Bankers poured back into the office with dreams of massive productivity improvements and — perhaps — a bit more free time.

However, it is worth taking a step back from the hype to really understand what genAI is, what it can do, and the risks and opportunities involved. It is not the silver bullet to every banker’s problem. It is a key part of society in which people and machines work together.

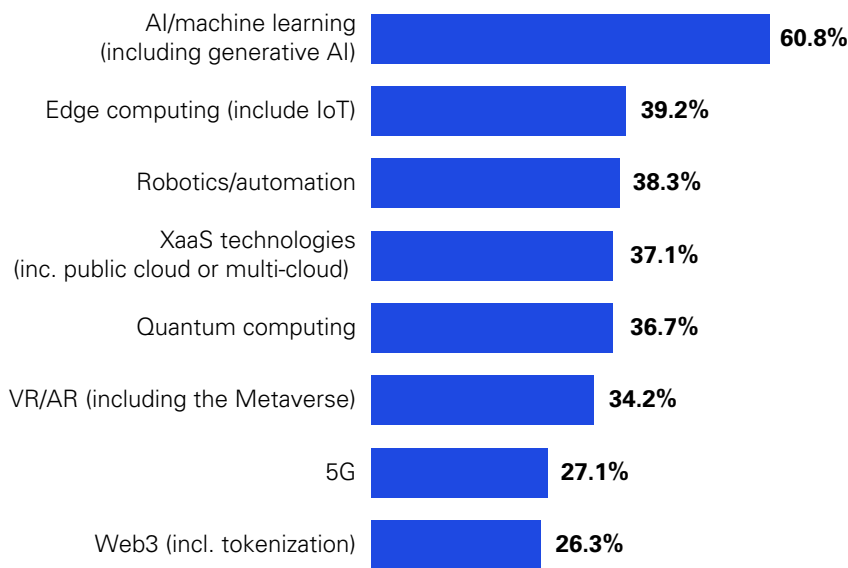
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Paul leads the Digital Transformation in Banking offering globally, with particular focus on EMA Banking region. Paul has nearly 20 years’ experience of consulting, risk and change management in Banking, with a proven track record of delivering large scale and complex change. He leads KPMG member firms major digital transformation programs, ranging from building new digital propositions, digitalization of processes, through to using digital solutions to improve productivity and reduce cross in front line banking teams.

## Technology important to achieving short term ambitions



Source: KPMG International, “KPMG global tech report 2023” (September 2023).

<sup>1</sup> “ChatGPT sets record for fastest-growing user base — analyst note.” Reuters website, 2 February 2023.

At this point in its development, genAI can be categorized into five main buckets:

- 1. Content generators:** GenAI can be used to write routine documents and communications, such as emails or announcements, or to generate images. For example, a bank may use a content generator to create the first draft of a marketing email, thereby allowing bank employees to focus on editing rather than writing.
- 2. Information extractors:** Bankers might use genAI to summarize and analyze larger documents, in short and long-form — this could be particularly useful when looking for anomalies across a range of similar documents like employee benefits contracts, for example, or supplier terms and conditions.
- 3. Smart chatbots:** This would be an upgrade to the traditional narrowly programmed chatbots most banks use today, using genAI to enable conversational interactions that are based on a defined logic. They will likely be deployed internally at first (for example, to allow employees to find out how many vacation days they have remaining), before being adopted into higher-risk client solutions.
- 4. Language translators:** GenAI tools make fantastic language translators and are able — to with a high level of reliability — translate and build new content in multiple languages simultaneously. This should allow banks to add a new level of personalization to their client and employee communications.

**5. Code generators:** Somewhat related, genAI can convert text and natural language into code for various programming languages. This could be particularly useful for banks seeking to update their old Common Business Oriented Language (COBOL)-based programs using new-generation coding skills or for those seeking to enable low-code/no-code business solutions.

### Moving quickly but carefully

Banks are innovative. But they are also (rightfully) risk averse. For now, most applications of generative AI and large language models (LLMs) that you may have seen in banks have been limited to lower-risk internal purposes.

Some chatbots have been deployed to manage employee queries about product terms and conditions, for example, or to provide details on employee benefits programs. KPMG professionals have helped banks pilot genAI as information extractors to find anomalies within contracts or flag potentially fraudulent transactions. GenAI has also been used to quickly create bits of code that allow legacy systems to interact with new technologies.

There are thousands of potential use cases for genAI in banking. A recent report, *The generative AI advantage in financial services*, by KPMG in the US, found that 76 percent of executives plan to use generative in fraud and prevention, 62 percent in customer service and personalization and 68 percent in compliance and risk.<sup>2</sup> Yet, for now, most banks are moving cautiously — using internal experimentation to learn iteratively and building proof-of-concepts around external use cases.

## Potential banking genAI use case:

GenAI can assist in loan underwriting by analyzing a customer financial data and helping to reduce the risk of default. With a better understanding of their customers' needs and wants, genAI can help create personalized product recommendations, such as credit card offers, and cross-sell new products to existing customers.

Source: KPMG in the US, "The generative AI advantage in financial services" (August 2023).

<sup>2</sup> KPMG in the US, "The generative AI advantage in financial services" (August 2023).



## Looking behind the curtain

To be clear, banks have every reason to be cautious when it comes to AI — generative AI in particular. The biggest concern is around bias. AI is only as good as the data it is trained on. If the model receives biased data, it will make biased decisions. Large language models and generative AI systems are trained on massive amounts of data, leaving significant room for bias to creep in.

Tied to this are concerns around explainability. AI often operates within a 'black box' that even its developers don't always understand, which means that the decisions being made by the model aren't always auditable or explainable. True: you can ask genAI to justify its decision, but those justifications are also based on a generative model, creating an eternal loop of inexplicability. Until the explainability piece is solved, banks will likely remain hesitant to unleash AI in some higher-risk areas.

Bank CEOs are also concerned that genAI might be a double-edged sword when it comes to cyber security. On the one hand, most seem to believe that the technology could dramatically increase their ability to detect and predict attacks. But, at the same time, they worry that the enterprise adoption of a new technology might create new attack vectors.

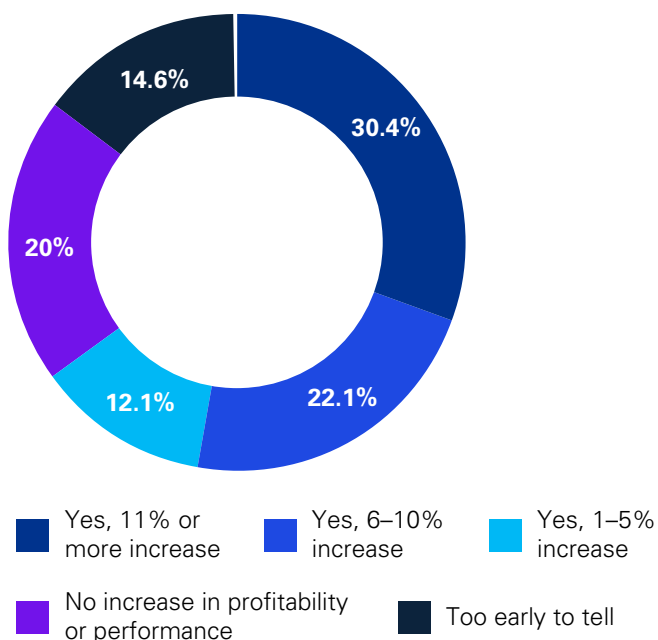
## Understanding the cost

The [KPMG global tech report 2023](#), suggest that banking technology leaders are already seeing the positive benefits of AI and automation more broadly. More than three-in-ten leaders say it has likely increased their profitability or performance by 11 percent or more. However, the research also suggests they are increasingly worried about the costs that the technology may bring to the business.



Large language models and generative AI systems are trained on massive amounts of data, leaving significant room for bias to creep in. ”

## AI and automation positive increase in profitability and performance



Source: KPMG International, "KPMG global tech report 2023" (September 2023).





There are two cost buckets to consider. The first is the implementation costs — building out new apps, training them, integrating them into existing systems, testing them, putting them into production and so on. That all takes massive amounts of computing power, loads of data and access to highly skilled people. Centers of excellence may help balance that cost in the initial phases but will likely slow adoption in the long run.

The second cost bucket is operational. As much processing power, computing and energy as it takes to create a model, it takes multiples of that to maintain it. Spin up thousands of different models across the enterprise and the costs rapidly multiply (as do carbon emissions). While the efficiency of existing models is rising and the cost of deploying LLMs is dropping, the market continues to see newer, larger and more capable models being deployed.

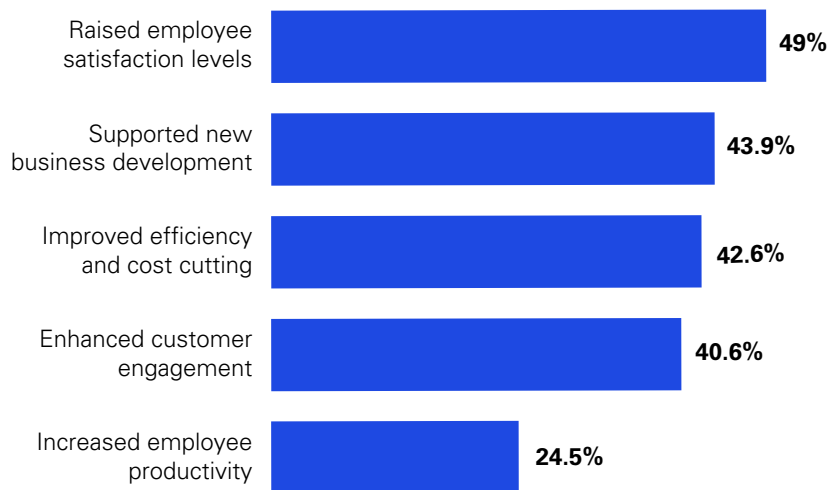
Some might suggest that headcount reductions will rapidly offset these costs. Yet this might be a somewhat optimistic view. Everyone thought desktop computers would lead to mass redundancies. But they didn't. Nor did spreadsheets, process automation or email. What they did do, however, was allow people to focus on the more value-adding parts of their jobs. GenAI is expected to do the same.

Indeed, the survey of bank technology leaders indicates that the biggest benefit most banks see from their use of AI and automation is raised employee satisfaction levels. KPMG professionals have talked with employees who are delighted about the increased level of customer service they can provide thanks to automation and AI. Others say they are inspired by working on higher-value tasks and activities.



While the efficiency of existing models is rising and the cost of deploying LLMs is dropping, the market continues to see newer, larger and more capable models being deployed. ”

### Benefits of AI and automation for those that saw an increase in profitability or performance



Source: KPMG International, "KPMG global tech report 2023" (September 2023).

## Focusing on transformation

Rather than considering genAI as a cost or productivity play, bank leaders should think of it as a growth and transformation play. That means going beyond use cases and siloed productivity gains to focus on broader processes and holistic outcomes instead.

Think of it like this: A siloed implementation of genAI into a particular workstream could, perhaps, garner a 5 percent productivity gain. And, when multiplied a hundred times, it can certainly make a cost difference.

What's better, however, is when you can integrate genAI across a broader process. Take a risk process, for example. Policies are based on a set of laws. Controls are put in place to ensure compliance. Quality control is used to drive improvements. Apply genAI across the process and you can start to run the various steps in parallel. QC findings trigger updates to policies in real-time, for example. And these kinds of applications could deliver productivity gains of, say, 75 percent.

Where it gets amazing is when it starts to fundamentally change 'the possible'. And this is the world of 500 percent productivity gains. It's where the productivity gains get to a point where you can start to do things you never thought possible. Take financial close as a limited example. With genAI and a host of other complementary technologies applied, one could theoretically start to run a continuous close. Hook some visualization tools up to that data, and CEOs and decision-makers could tap into a real-time dashboard of key financial, compliance, risk and cost metrics, for example.

The point is that — if banks were to focus purely on individual siloed use cases and cost outcomes — they would be missing the big opportunities that genAI can deliver. Those only come when you think holistically and focus on outcomes rather than costs.

## Three takeaways

Around the world, KPMG banking and technology professionals have been hard at work helping clients think through the opportunities, risks and implications of genAI. And while there is still a lot to learn, there are three key themes that continue to resonate.

1

### Tackle your biggest problems.

Don't implement genAI for the fear of missing out. This is about helping the business address big problems — speed to market with new products, for example, or risk processes. Understand the business outcome you want to achieve and then consider how you can use genAI to help solve those problems.

2

### Go for transformation.

All hype aside, genAI is creating fundamentally new approaches and models that can have a truly transformative impact on banks. Executives should be looking for big impacts at an enterprise level rather than focusing on siloed use cases and productivity gains. This is an opportunity to fundamentally rethink the way the business operates.

3

### Experiment responsibly.

Right now, experimentation and innovation are critical. Given the pace of change, this is no time to fall behind. But it must be done within the framework of smart governance and risk management. The desire to move quickly must be balanced against the risks. GenAI can help unlock massive benefits, but only when it is applied smartly, responsibly, and holistically.

“

Think of it like this: A siloed implementation of genAI into a particular workstream could, perhaps, garner a 5 percent productivity gain. And, when multiplied a hundred times, it can certainly make a cost difference.”



## KPMG Trusted AI

KPMG firms are excited about AI's opportunities and equally committed to deploying the technology in a way that is responsible, trustworthy, safe and free from bias. [KPMG Trusted AI](#), is our strategic approach and framework to designing, building, deploying and using AI solution in a responsible and ethical manner so we can accelerate value with confidence.

## How KPMG professionals can help

The KPMG global organization of banking professionals works with clients to set their vision for the future,

execute digital transformation and deliver managed services. KPMG people combine deep industry experience with extensive technology capabilities to help you achieve your organization's goals.

Global, multi-disciplinary teams of professionals strive to deliver successful outcomes in the banking sector. KPMG professionals use close connections and their understanding of key issues, with deep industry knowledge to help drive successful and sustainable technology and business transformations. ■

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# A catalyst for change

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The insurance industry is poised to harness the latest technologies, including artificial intelligence (AI), to innovate and shape the future.



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### About the author



#### **Simona Scattaglia**

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Simona has over 25 years' experience in the design and implementation of IT architectures and solutions mainly in the insurance and banking industries. She has experience in delivering many complex finance and risk transformation projects and currently with the IFRS 17 catalyst wave of change on insurance contracts. She is also the KPMG Global Accounting Change Implementation Lead Partner.



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Ilanit has over 25 years of experience specializing in the areas of; Basel III and Solvency II advisory services, including QIS reviews. Ongoing audit supervision of information systems, actuarial calculations and risk management for insurance related companies, pension funds, provident funds and banks. She has led various IT projects in Israel's largest financial institutions (banks, insurance companies, etc). Ilanit provides consultation services to many companies in the process of purchasing new IT systems.



#### **James Henderson**

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James has spent the last 15+ years in senior marketing and customer growth roles - both client and consultancy side with clients ranging from global FS and CPG corporations to consumer retail tech start-ups. He has a significant marketing and media industry network and is a regular public speaker on marketing effectiveness.

The insurance sector is built on the ability to manage risk and forecast the future. While many organizations are already transforming to meet the expected demands of both regulatory requirements and consumer needs, new and emerging technologies could offer a host of potential benefits to those that are willing to embrace change. Integrating these technologies could further enable precise predictions, manage customer interactions and expand the personalized service and product lines with unprecedented accuracy and speed. So, how prepared is the insurance industry to harness the latest technologies to help shape the future?

Many successful insurance companies are riding this wave. Some are adapting their product offerings and distribution methods — think comparison sites, Internet of Things (IoT) and usage-based policies. Artificial intelligence (AI) isn't new in insurance — existing use cases are seen across risk modeling, data forecasting, claims handling and contact center operations, with an abundance of potential opportunities in the pipeline.

Simona Scattaglia, Global Insurance Technology Lead and Partner, KPMG in Italy, highlights the promise and wide impact, "CEOs recognize that

AI and Generative AI are technologies with huge potential for their business, because they touch on so many core aspects of what insurers do. AI models can simulate future scenarios, enhance the accuracy of risk estimation and drive better pricing. They can also identify false claims more effectively. There are powerful AI applications for the insurance industry and it will likely force innovation in many areas."

Yet, a reliance on legacy systems poses a challenge to innovation. While existing technologies provided the level of support previously required, and gave stability during the global pandemic to



help insurers weather macroeconomic pressures, the same systems could now be holding them back. And with several tech giants intent upon disrupting the insurance market, it's clear that traditional insurance products are struggling to keep pace with emerging customer lifestyles.

By integrating AI, innovation in insurance could find another gear. For many, the journey starts with centralizing data and transitioning outdated systems to cloud architectures. Aligning tech stacks and operations with the evolving needs of businesses, customers, partners, and distributors is ongoing, but the level of effort and investment are further signs that insurance products and services are ripe for innovation. However, insurance leaders should also be aware of the associated challenges and risks that accompany the technology and look at how to protect both the organization and consumer, by developing an understanding of the risk and action required to overcome these.

### Leaping into the known unknown of AI

AI is evolving at pace, and there's a lot to learn. That isn't deterring insurers as revealed in the [KPMG global tech report 2023](#) where 52 percent of respondents picked AI (including machine learning and GenAI) as the most important technology in helping them achieve their ambitions over the next three years. The [KPMG 2023 Insurance CEO Outlook](#) also highlights a significant degree of trust in AI with 58 percent of CEOs in insurance feeling confident about achieving returns on investment within five years.

One reason for the rapid adoption of AI is an abundance of use cases. From back office to front office, insurance functions can see potential benefits in automating claims handling, enhancing fraud detection, and optimizing agent and contact center operations. For now, these tend to be human-in-the-loop processes — with potential to fully automate.

Ilanit Adesman-Navon, Head of Insurance and Fintech at KPMG in

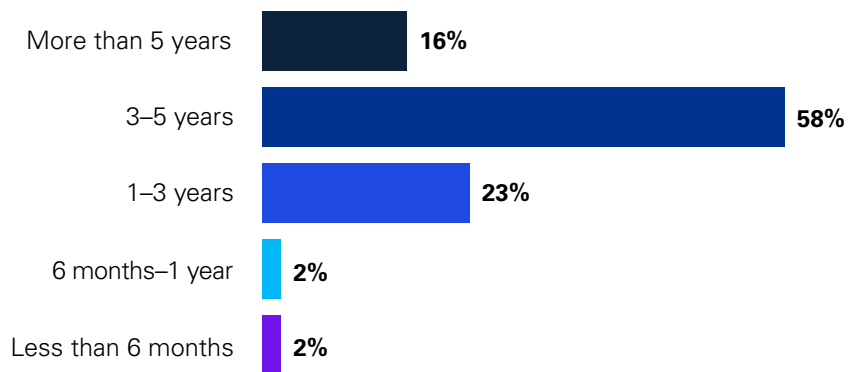
Israel, highlights how AI can be used to guide 'next best offer' in more sophisticated ways. Ilanit says, "AI is a step up from just prompting agents to answer queries. AI can be trained to understand sentiment, empathize with the customer situation, then guide agents to the most relevant, personalized offers — all of which could be done in real time".

AI adoption also benefits from the ease of use and accessibility. The insurance workforce is already accustomed to using low or no-

code apps, so it's not a massive leap to see them using AI to augment tasks through AI colleagues and co-pilots. For instance, AI-driven chatbots and virtual assistants are streamlining customer queries and claims processing, providing quick and CX-friendly responses 24/7.

Increasing customer convenience and engagement are key to loyalty in an industry where personalized experiences are most valued. But how AI will ultimately enhance productivity and performance, and

### Return on investment in the implementation of gen AI



Source: KPMG International "KPMG 2023 Insurance CEO Outlook" (December 2023).

### Case study: Driving customer experience

KPMG in Israel assisted a large insurance company to develop a customer contact solution. By utilizing a variety of AI techniques to reduce the number of calls from customers, the organization aims to improve customer satisfaction and increase the efficiency of agents.

Using a using Natural Language Processing (NLP) and a classification algorithm, KPMG helped the client to analyze and then categorize calls to the support center. Many were insurance policy-related questions that represent quick wins. For example, queries about policy dates and whether children are covered. Overall the analysis showed that many of the queries

could be handled more effectively through a self-service solution.

KPMG professionals are working closely with the insurance business to consider how an AI-based solution will enable customers to simply ask a virtual assistant questions like "what is my life insurance coverage?" and "is my family covered?" to get answers quickly and conveniently. This provides a cost-effective way to answer queries the first time, while reducing call volumes and improving customer satisfaction. Waiting times for queries that require human input will likely be reduced and customer service agents can focus on customer queries that require human input.



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deliver the benefits and ROI are still being understood.

Some of the unknowns include an equally game-changing emerging technology: quantum computing is the next frontier. This could revolutionize data processing and analytics. Matching its unlimited processing power with Generative AI learning could see insurers make complex calculations, solve problems, analyze data, assess risks and personalize products in real time.

Some insurers are even deferring investment as they believe AI might leap again in less than a year. It's a dynamic picture and KPMG has a measured approach to technology investment that focuses on gaining momentum: Think big, start small, scale quickly. As James Henderson, Customer Insurance Director, KPMG in the UK, explains, "We help clients strike the balance between imagining the enterprise-wide possibilities and not biting off more than they can chew. Setting clear KPIs and success metrics up front are critical steps to get the most out of each AI use case — seeing the potential and pitfalls up front."

### Insurance and technology risks

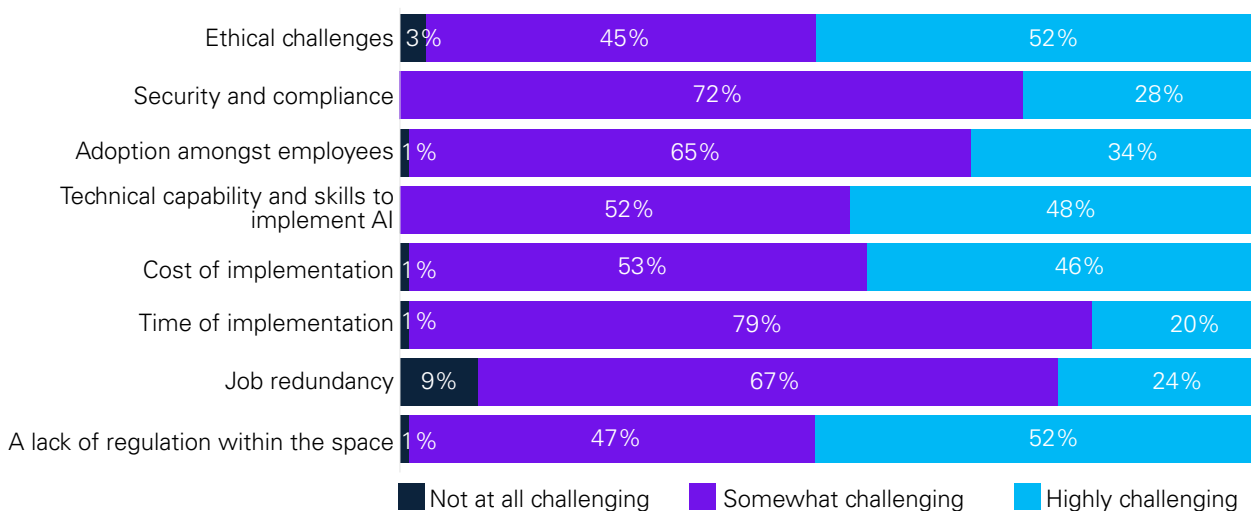
Risks and challenges accompany each new technology. As a balance to AI's huge potential, KPMG research reveals that CEOs are acutely aware of the hurdles. Ethical issues around AI decision-making and the absence of robust regulation are the most prominent concerns. [KPMG's 2023 Insurance CEO Outlook](#) highlights that 52 percent of CEOs see these as highly challenging. And the tech report reveals that nearly two-thirds (64 percent) of respondents say that complex regulatory and tax developments have to some/greater extent made them feel less confident about investing in new technologies.

Over 72 percent of CEOs agree that AI regulation should parallel the rigor of climate commitment regulations, which have seen a steady increase in detail and volume. As Mark Longworth, Global Head of Insurance Advisory at KPMG International and Partner at KPMG in the UK, emphasizes: "A robust regulatory framework for AI is needed that's proportional to the risks. Regulation should not stifle innovation but safeguard usage."



Some insurers are even deferring investment as they believe AI might leap again in less than a year. It's a dynamic picture and KPMG has a measured approach to technology investment that focuses on gaining momentum.

### The biggest challenges for implementing genAI



Source: KPMG International "KPMG 2023 Insurance CEO Outlook" (December 2023).

Cybersecurity is another major concern for 85 percent of CEOs. Its evolving sophistication is reflected by the third of CEOs (32 percent) who are worried about increasing threats and the quarter (24 percent) who highlight vulnerable legacy systems. The [KPMG global tech report](#) also highlights that 63 percent of respondents either agree or strongly agree that improving cybersecurity and privacy will help them provide a loyalty-winning customer experience.

Successful AI implementation hinges on high-quality data. Again, the KPMG global tech report reveals that better data management and integration have been the top benefits for 42 percent of respondents. They're aware that data quality before cloud migration is key to effective AI applications, and that clean, well-organized data is essential for AI to ensure accurate, transparent and fair decision-making. This also links back to regulation as insurers with unstructured or fragmented data will face significant challenges in meeting new legislation and building trust in the market.

Lastly, insurers face risks around failing to collaborate with InsurTechs. Embracing ecosystems and platforms can help insurers adapt to market changes and even reduce the risk market disruption. The interplay between traditional insurers and InsurTech firms is vital for fostering sector-wide innovation and expanding coverage to underserved segments. Collaboration could also help steer insurance toward a more inclusive, customer-centric, data-driven and tech-enabled future.

## People are the heart of innovation

As much as technologies reshape the world, people are the true drivers of change. Creating a culture of innovation is not just equipping teams with the right tools but also inspiring them to think creatively about how to use them. As insurance companies look at how best to leverage new technologies, part of the focus should be on talent management — developing a team with the

right technical capabilities while empowering existing colleagues to upskill and help the workforce adapt.

Framing AI as a colleague, rather than a new technology, may help to remove the fear associated with roles being removed. For example, an underwriting virtual assistant could handle cases at a significant pace compared to the speed of a underwriter not using AI — and with potentially even greater accuracy. Integrating these AI roles alongside human colleagues will likely enable insurance functions to better manage complex tasks and focus on delivering additional value to the business.

Innovation cannot be the domain of specialized teams alone — making it part of the organization ethos is key. In practice, this could be setting up systems where feedback loops are integral and inform continuous improvement and adaptation.

It could also mean making transparency the norm or simply asking people what they need and encouraging everyone to contribute ideas. At the very least, it's investing in training and development that help employees understand how to apply these new technologies effectively to benefit both personal and organizational productivity.

Insurance companies are already transforming their operations, exploring new technologies and in some cases leading the charge on AI. They also know that innovation is a journey that requires ongoing effort, investment, and most importantly, a willingness to embrace change at all levels of the organization. And beyond, to get closer to customers and build new business partnerships.

While there are risks to every technology wave, the biggest risk could be missing the opportunity to shape what's possible in insurance.

## Best practices and next steps

KPMG firms have built best practices into a range of tools designed to get the most out of AI — all geared towards helping drive efficiencies, speed up

time-to-value and better connect technologies to business goals.

In a nutshell, these are our recommendations:

### Sprint to save faster

First, build internal and external confidence in AI and tap into KPMG firms' experience to identify a process that's ripe for change. Our technology alliances can help you quickly create a working example of AI in action. Plus, we can help you figure out savings, revenue and customer-experience KPIs.

### Upgrade to accelerate delivery

If your transformation plan is up to three years old, it will need updating to keep control of costs and manage risks. Review current plans thoroughly and see where AI can add the most value while reducing the risk of failure. Adjust these plans to find extra cost paybacks and in-flight changes to delivery plans.

### Re-imagine achieving value faster

Re-imagine your enterprise for a future where AI reduces costs and delivers value. Be prepared to disrupt and radically rethink structure in search of savings and new value sources. With the guidance of KPMG professionals and pre-built tools, create a step-by-step plan that will help speed up time-to-value.

### KPMG Trusted AI

KPMG firms are excited about AI's opportunities and equally committed to deploying the technology in a way that is responsible, trustworthy, safe, and free from bias. [KPMG Trusted AI](#), is our strategic approach and framework to designing, building, deploying, and using AI solution in a responsible and ethical manner so we can accelerate value with confidence.

Contact your local member firm to talk through insights from this article, or to discuss your unique technology and AI requirements. ■



# Private Equity's next big leap

**Per Edin**, US Board Committee Chair and AI Go-to-Market leader, KPMG in the US  
**Chris Coulthrust**, Senior Solution Architect, Microsoft



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The meteoric rise of Generative Artificial Intelligence (genAI) has propelled AI from a quantitative tool to board priority in 12 months. How will this impact private equity (PE) firms? How can they thrive in this wave of innovation? What can they do now to gain an edge?

To comment on the changes ahead, we interview Per Edin, Board Committee Chair and AI Go-to-Market leader at KPMG in the US and Chris Coulthrust, Senior Solution Architect at Microsoft — for their views.

## Surfing the next wave of disruption

AI is potentially a game-changer for PE firms seeking advantage in an ocean of data. If widely and responsibly deployed. It can help unlock incredible value previously unobtainable. “While most companies will be affected by AI, PE firms are likely to be facing the greatest opportunities and risks,” according to Per, “and will also have to be the best and fastest at navigating this disruption.”

On one hand, genAI creates a bounty of opportunities for private equity (PE) firms and their assets. It holds the potential to make their deal-making knowledge workers more effective, it can create an additional driver of upside potential for every bid, it can make the integration process more effective, and can offer new levers to improve the performance of their assets before exit.

At the same time, Chris points out, “Harnessing the power of genAI requires technical capabilities that many funds and their portfolio companies lack. It also brings a slew of new operational risks to be managed. Ranging from legal exposure to cyber risks. In addition, genAI raise strategic uncertainties for deal-makers — for example, how to value current assets, how long they should be held, and how much to bid for new.”

This creates an interesting market dynamic. Where some firms are aggressively seeking advantage

### About the author



#### Per Edin

Board Committee Chair and AI Go-to-Market leader KPMG in the US

Per leads the build-out of strategy services for the Technology, Media & Telecommunications (TMT) sector, as a partner in the US firm’s Advisory Services team. He advises corporate- and private equity clients on strategies to drive growth, increase profitability and transform business models. He has 20 years of experience with transforming leading technology and telecommunications companies globally, by helping the C-suite, shape strategies and execute strategic initiatives to accelerate growth, improve operations, and build key capabilities.



#### Chris Coulthrust

Senior Solution Architect Microsoft

Chris possesses deep knowledge of AI, combined with expertise in application development and business operations, which enables him to guide customers towards developing corporate Data & AI strategies, upskilling development teams, and bringing AI solutions to production—all with a holistic perspective on enterprise-scale AI operations and strategy. With over 20 years of experience in financial services, Chris is passionate about developing technical and business solutions to transform business. At Microsoft, he works closely with capital market firms to operationalize AI and Data Governance within the enterprise and has shared his expert insights at various conferences and workshops.



by being early adopters, others are taking a fast-follower stance to avoid being disrupted — and all are trying to influence their portfolio assets to do the same.

## Unlocking new sources of value

Used appropriately, AI can make humans more productive, by freeing up time spent on tasks that AI tools can do better. It can also accelerate human creativity by re-investing this time to discover new sources of value and competitive advantage. As Chris sets out, “AI won’t replace portfolio managers, but one using AI may eventually replace one who isn’t.”

Per sees at least three major opportunities for PE firms to create value with genAI. The first is to apply it within the fund itself to improve speed and quality of deal process. As Per explains, “when you see that work that previously took days, can now be done in seconds with a simple prompt, you realize how magical this technology can be”. According to the [KPMG global tech report](#), 57 percent of companies believe that AI and machine learning, including generative AI, will be important in helping them achieve their business objectives over the next three years.

The second opportunity is to apply genAI post-close, both during integration and across all portfolio companies during the hold period. As Per says, “If most portfolio companies can use genAI to free up say a third of

all knowledge worker hours, this could unlock incremental exit value in the order of several billions of (US) dollars for a medium-sized fund.”

The [KPMG global tech report](#), however, reveals that only 24 percent of PE firms are using AI this widely and effectively. “We’re looking at untapped productivity enhancements across the board,” continues Per, “not just by reducing cost, also by driving more volume with the same cost, selling more effectively and making products more attractive”. We expect this to be the focus for many PE firms in 2024.

Finally, AI may affect what type of assets PE firms prioritize for investment in the future and how much they are willing to bid. Per explains, “A previously attractive target could rapidly drop in price if now deemed exposed to disruption by competitors leveraging AI. Similarly, an asset with untapped AI potential could attract a bigger bid premium if the buyer is confident both in the diligence and its ability to capture the incremental up-side.”

## Navigating the obstacles of success

While AI brings many opportunities, there are costs, risks and barriers to overcome before its potential can be realized. A major obstacle that Chris emphasizes is the foundational role of data to enable high-value use cases, “Moving your data to the cloud is just the entry ticket. Feeding AI models with high-quality, contextual, indexed, and searchable data is key to unlock

full value. This requires a robust data cloud modernization program not yet in place for many PE Firms.”

Another obstacle that Per calls out is the ‘last mile challenge of AI’. This is often overlooked, as Per says, “Even if AI can help knowledge workers free up a third of their time in studies and pilots, this only translates into real productivity gains if all knowledge workers adopt the tools and re-invest hours saved into something more productive — for example, taking on more volume or higher value-add tasks.”

Per continues, “These are major behavioral changes that cannot be ignored if PE firms are to deliver the productivity gains that AI promises. Success will require a carefully crafted transformation program with a portfolio of actions that hit all behavioral change barriers simultaneously. Solving this, at scale, may be the biggest value-creation challenge genAI will face, and not a muscle well trained in prior technology-driven disruptions.”

Lastly, accelerating the use of AI increases risks, like data privacy breaches, more-effective cyber-attacks and legal challenges arising from intrinsic biases within AI models. This will require a human-in-the-loop for many applications, ‘Trusted AI’ governance frameworks and third-party software. A recent example [from KPMG is the spin-out of Cranium in the US](#), a software platform, offering technology solutions for organizations to adopt and deploy AI models safely.





## Placing your bets today

Prioritizing when, where and how much to invest in your AI transformation in 2024 is complex. Here are five actions Per and Chris recommend that PE firms can take now to keep up the pace:

1

### Unleash the power of your people

Start with a bottom-up approach, make AI tools available for everyone to find their own ways to cut hours from their work. This could prove very effective in freeing up to 40 percent of people's time — even without proprietary data and training.

2

### Pilot high-value use-cases

Launch pilots to demonstrate the power of combining AI models with your proprietary data to build tailored high-value applications for both the fund and select portfolio companies. The aim is to generate a 'flywheel effect' where humans and machines collaborate and amplify each other's performance and learning. For example, analyze the tasks most knowledge workers spend time on, then pick a subset of these where AI can have an impact. Then build these applications instead of selecting use cases that aren't well suited for AI development or offer lower value to fewer people.

3

### Shape your workforce transformation

Most of the near-term value generated by AI will come from augmenting the existing workforce to free up time from a subset of their tasks. To scale broadly will require a carefully designed workforce transformation, with a tailored approach by key roles and focus on behavioral change.

A first crucial step is to carry out a value assessment, based on census data and impact benchmarks by industry, function and role. This aims to size the magnitude of the value at stake, where in the organization this resides, reinforced by actual data from the first two efforts to inform the business case for the investment.

4

### Accelerate data modernization

Data is the essential fuel for the highest value AI applications. In a world where speed can make or break a deal, AI is redefining what's possible, but data access and governance underpin that goal. Not only do you need to have the data but it also needs to be in the right place, making data cloud capabilities vital for all PE firms. In many cases, cloud efforts were started before AI but must now be accelerated and funded to meet shorter timelines and higher expectations.

5

### Launch 'Trusted AI' governance

Given the scale of disruption that AI is likely to create, almost every PE firm will need to take action to minimize risks of widespread adoption. This includes adopting a 'Trusted AI' governance framework, ensuring compliance with emerging regulations and upgrading cyber-protection.

KPMG firms are excited about AI's opportunities and equally committed to deploying the technology in a way that is responsible, trustworthy, safe, and free from bias. [KPMG Trusted AI](#), is our strategic approach and framework to designing, building, deploying, and using AI solution in a responsible and ethical manner so we can accelerate value with confidence.

As Per points out, "Simply banning the use of AI to minimize risks is unlikely to be effective and creates risks of falling behind — not having these safeguards in place creates undue risks even in the near-term."

For those that manage to harness its incremental powers and risks, genAI is potentially a game-changer for private equity firms. To gain an edge, look beyond the hype and start taking a few pragmatic steps now, to help gain advantage in the era of AI-driven disruption.

## KPMG and Microsoft

KPMG and Microsoft are alliance partners working to enable private equity firms to adapt, transform and innovate. KPMG industry and functional experience, powered by Microsoft technologies, empowers clients to thrive in the era of AI. To find out more about the alliance between KPMG and Microsoft, visit [kpmg.com/Microsoft](https://kpmg.com/Microsoft). ■



# Creating value from technology and innovation in asset management

**Dean Brown**, Global Head of Asset Management Consulting and Partner and Head of Asset Management Consulting, KPMG in the UK

**Agnel Kagoo**, Consulting Industry Leader for Capital Markets, KPMG in the US



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Asset management was arguably slower to embrace the transformational power of technology than other financial sectors. Now though, the industry is embracing innovation at pace. Asset management leaders from across KPMG firms spoke with specialist service providers State Street and Snowflake to chart the industry's learning curve and identify next steps.

Asset managers are struggling to deliver sustained, profitable growth. In the markets, investment returns are being disrupted by macro-economic and geopolitical volatility. Competitive dynamics are accelerating, and investors are pushing for lower fees — while also stepping up their service expectations. Furthermore, the need to offer new asset classes to a wider range of global investors is pushing up complexity and adding to compliance costs.

In response, firms are accelerating their shift towards technology-enabled, data-driven business models. The ability to adopt and integrate these models is fast becoming a key factor in determining long-term success.

### What are the greatest challenges asset managers currently face?

**KPMG:** Smart use of technology and data is critical to reducing cost and risk, and to meeting growing demands for personalization and access to digital and private assets. It's also a vital enabler of firms' ability to integrate ESG into portfolios, operations and governance — not to mention ensuring consumer protection and complying with evolving regulations like the EU's Digital Operational Resilience Act<sup>1</sup>.

Unlocking that potential is hard though. Asset managers struggle to integrate new technology with legacy systems, develop the agile infrastructure they want, and maximize the value of internal and

#### About the author



#### Dean Brown

Global Head of Asset Management Consulting and Partner and Head of Asset Management Consulting KPMG in the UK

Dean leads the Wealth and Asset Management Consulting practice in the UK. He has over 25 years of experience in the industry and has led some of the industry's largest transformation programs in the UK, Europe and globally. This has included redesign of operating models, cost reduction and outsourcing, as well as selection and large-scale implementation support of investment platforms. His clients include firms such as asset managers, hedge funds, private equity houses, asset service providers and wealth manager.



#### Agnel Kagoo

Principal, Capital Markets KPMG in the US

Agnel is the KPMG in the US' Consulting Industry Leader for Capital Markets. He has experience assisting leading Asset Management firms to successfully transform their enterprise across front, middle, and back office. He focuses on enabling digital and data driven insights to support strategic business growth initiatives and a connected enterprise. Agnel has breadth of experience from these initiatives along with broad-based skills in technology, data, and analytics which enables him to guide organizations to successfully align their transformation agenda to strategic business priorities.

<sup>1</sup> KPMG International, "Digital Operational Resilience Act: Building a robust digital infrastructure for a resilient future" (October 2023).



external data. And as they extend their reach into new markets, the regulatory and operational landscape gets even more complex. This means that the goal of building a flexible, scalable platform often remains tantalizingly out of reach.

This picture is corroborated by [KPMG's global tech report](#), which shows that

**67** percent of technology leaders felt under pressure to do more with less in 2023 compared to 2022.<sup>2</sup>

As Agnel Kagoo, Principal, Capital Markets, KPMG in the US puts it: "Challenges are magnified by asset managers having to become technology companies and drive more value from data, with all the investment that entails. At the same time, there's a downward trend in the fees they can charge."

**State Street:** These points resonate with our 2023 survey [Capturing the data opportunity: Institutional investors in the age of AI](#), which examined data-related themes among 520 institutional investors.

One major finding was the moving target for data management being created by emerging asset classes such as private assets, and by evolving regulations like ESG reporting.<sup>3</sup> Stacy Belf, Global Head of Consultant Relations at State Street adds, "Generating value from data is a moving target given the abundance of data to be analyzed, normalized and standardized to extract insights. But this work is an essential foundation for gaining a competitive edge and driving growth."

The State Street survey also revealed a worrying absence of holistic data strategies. Two-thirds of institutional investors lack an overarching data

strategy, and this is especially true for mid-sized firms with assets under management of US\$100bn-500bn. Just 40 percent of these firms are halfway through their data transformation journey. The average institution needs to upgrade almost half of its existing technology to meet its data goals - with all the time, cost and effort that entails.<sup>4</sup>

**Snowflake:** The challenges facing asset managers are thorny and well known — but not insurmountable. Technology can play a crucial role in unlocking profitability amid volatile markets, shifting demand, and increasing regulatory burdens.

When it comes to existing technology though, data architecture is often a fragmented affair — a patchwork of best-of-breed service providers. Multiple system providers can create restrictive data silos, making it hard for information to flow seamlessly. As a result, sharing data across systems for analytics involves cumbersome and error-prone processes. As Nathan Attrell, Head of Industry, Financial Services, EMEA, Snowflake explains, "There's a push-pull challenge for asset managers — building capacity and scaling while managing new volumes, velocities and varieties of data."

Too many firms struggling to manage this complexity, becoming truly data-driven at a time when investors' demands are becoming ever more sophisticated can appear to be an insuperable challenge.

### How is the industry using technology to solve these challenges?

**KPMG:** A robust data strategy is the best starting point. Recognizing the critical role of data in driving long-term value, market reach, scaling operations and personalizing products is key. Asset managers are looking for solutions that will

“

There's a push-pull challenge for asset managers — building capacity and scaling while managing new volumes, velocities and varieties of data.”



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<sup>2</sup> KPMG International, "Digital Operational Resilience Act: Building a robust digital infrastructure for a resilient future" (October 2023).

<sup>3</sup> State Street, "Capturing the data opportunity: Institutional investors in the age of AI" (November 2023).

<sup>4</sup> Ibid.

help to deliver these data strategies. As Dean Brown, Head of Asset Management Consulting, KPMG in the UK, says, “They need providers and advisors who connect front-to-back-office across asset classes and geographies. They want data flowing through investment processes and surfacing the right information at the right time.”

In terms of technology, both the use of ‘low-code’ and process automation can differentiate successful asset managers through their ability to enhance efficiency, scalability and agility — allowing them to provide clients with the information and services they need, and in turn hopefully exceed client expectations.

Lastly, artificial intelligence (AI) tools are increasingly used for driving productivity, performance and personalization. “AI’s impact on the industry is potentially profound in accelerating the delivery of tailored products to market — at speed, scale and with much less manual effort” adds Dean Brown.

**State Street:** Firms are seeking to upgrade their existing technology, with AI emerging as the leading future investment priority. In the next two to five years AI’s most valuable applications will be enhanced cybersecurity, automated investment analysis, advanced customer experiences, risk analytics, and personalized investment advice.

But it’s important for firms to think about how AI fits with other emerging technologies and incorporate AI within a holistic data strategy. “In our survey, firms that reported having a holistic data strategy were already seeing significant economic benefits. Those with a holistic strategy reported on average a 19 percent increase in revenue growth, a 24 percent increase in customer satisfaction, a 21 percent increase in customer retention, and a 19 percent increase in new client acquisition,”<sup>5</sup> explains State Street’s Global

Head of Thought Leadership, Anna Bernasek, who led the research.

The power of cloud computing is improving productivity and efficiency. At the same time, AI’s ability to extract insights from new and unstructured data sets is helping to uncover investment opportunities. AI applications in asset management can be grouped into six broad categories: Chatbots, data governance, parsing documents, image analysis, visualization and software development — where AI can generate code, freeing developers to focus on algorithm development.

“At State Street, we’re applying AI and ML across a number of use cases, from building smarter portfolios to improving data quality and optimizing manual, error-prone middle-office workflows.” explains Aman Thind, Chief Technology Officer of State Street Alpha®

**Snowflake:** Many asset managers made initial steps into the cloud five or more years ago, often driven by a desire to reduce total costs, to exit on-site environments, or by license renewals. However, many firms that made the leap didn’t realize the full benefits of cloud — such service providers often failed to grasp the challenges of a fragmented financial services ecosystem or to solve for the data management problem. Today, newer technologies are enabling the industry to overcome legacy technology challenges with innovative cloud-native data platforms.

Snowflake provides limitless scaling, multi-cloud operations and advanced data-sharing all within a secure, governed data perimeter. Data sharing enables instant access to external data and leading industry applications, without the need for data movement. “This approach simplifies data management, resulting in faster access and analytics, allowing firms to gain insights more rapidly across diverse asset classes,” explains Nathan Attrell.

“

This approach simplifies data management, resulting in faster access and analytics, allowing firms to gain insights more rapidly across diverse asset classes.”



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<sup>5</sup> Ibid.

By removing silos and bottlenecks, data collaboration can transform internal access and self-service experiences — revolutionizing client interactions. It's not one-size-fits-all either. Data experiences vary with client sophistication, ranging from detailed quantitative analysis to bespoke visualizations, all securely shared. This is a potential game-changer for firms seeking to provide tailored client experiences in a rapidly shifting investment landscape.

## Where next for technology and innovation in asset management?

**KPMG:** The [KPMG global tech report](#) shows that digital transformations are delivering, despite economic headwinds and budget constraints. To fully realize the potential of transformation and improve their competitive edge, asset managers will need to combine robust technology infrastructures with highly skilled talent and effective cross-functional collaboration.

Looking ahead, the agility to integrate new technologies into the ecosystem will become critical to transforming asset managers' operations and offerings. AI already has a huge breadth of use cases, and what could be next is quantum computing. Together with AI, that would further revolutionize the industry's use of data. In truth, there will always be new technologies, so focusing investment on the right business outcomes will remain key to successful innovation.

**State Street:** Generative AI is top of mind for business leaders today, with the biggest impacts expected to be felt in customer operations, marketing, software engineering and research. We see generative AI

as not just a tool for efficiency and productivity but as a significant driver of innovation across the board in asset management.

**Snowflake:** We're likely to see more cloud migration, breaking down data silos for greater efficiency and joining-up disparate operations. This will improve client experiences, enable quicker responses and enhance data accessibility. That's good news for investors, and it will free up relationship managers to focus on higher-value tasks.

Meanwhile AI will continue to be deployed, with asset managers rolling out large language models to clients. As it evolves, AI will be at peoples' side, empowering them and providing instant insights. To realize its full potential, firms will need to be laser-focused on governance, training and risk management.

## How can KPMG firms help clients from strategy to execution?

KPMG firms have helped asset management firms across the globe transform their businesses through the better use of technology and data within their business, ranging from strategic and digital foundation design, target operating model development, and platform assessments, through to post merger integration and divestiture support. Working alongside firms such as State Street and Snowflake has allowed KPMG professionals to help asset managers embed market leading tech solutions into their operating models and leverage the power of these solutions to drive efficiency, scalability, and growth on both a local and global scale. ■

## Contributors

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# About KPMG

KPMG's Financial Services network has more than 53,000 partners and professionals across 145 KPMG firms globally, providing audit, tax and advisory services to the retail banking, corporate and investment banking, investment management, and insurance sectors. KPMG professionals bring ideas, innovation and experience from across this network, to the benefit of financial services clients around the world. KPMG firms offer leading financial institutions practical advice and strategies backed by experienced implementation. We believe our commitment to the industry, our sector-specific insights and our passion for serving firms' clients to the very best of our abilities help us stand out.

We welcome the opportunity to discuss how KPMG firms can help you achieve your business objectives. ■



Opportunity knocks

Unleashing potential

AI in insurance

GenAI

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# Awards and recognition

## KPMG recognized as a 'World's Best Management Consulting Firm' in Banks, Insurances and Financial Institutions

KPMG firms have been recognized by Forbes as one of the World's Best Management Consulting Firms, receiving stars in all 27 industries and categories, including Banks, Insurances and Financial Institutions. Forbes awarded KPMG Financial Services professionals with a top five-star rating, for being "very frequently recommended" by thousands of customers and consultants in numerous countries around the globe.

The annual ranking recognizes KPMG for its capabilities in delivering insights-driven consulting services to commercial and public sector clients across the globe. Business leaders rely on Forbes' annual list to help them evaluate management consulting firms as they seek partners to help drive forward their strategic plans. Visit [Forbes](#) for more information and to see the full rankings.

## KPMG named a worldwide Leader in the IDC MarketScape: Worldwide Artificial Intelligence Services 2023

KPMG firms have been recognized as a worldwide Leader in the IDC MarketScape Worldwide Cybersecurity Risk Management Services 2023 Vendor Assessment. The report notes "KPMG has a cybersecurity advisory service and works closely with clients to review, enhance, improve, and optimize various cybersecurity processes and solutions. KPMG's talent pool is made up of professionals skilled in cybersecurity, with deep industry experience, and retains these professionals through a variety of different internal upskilling programs." For more information visit [kpmg.com/analystrelations](https://kpmg.com/analystrelations).

## KPMG named a global Pacesetter (a Leader among ALM Intelligence Pacesetter Research: Digital Transformation & Digital Services 2022-2023)

According to the report, "For KPMG, digital transformation is about solving business problems using technology as a solution-enabler. In this sense, digital transformation engagements for KPMG are "experience transformation projects." KPMG's approach to digitalization is summed up in what it calls the "Connected. Powered. Trusted." organization, where a fully digitally-powered business model utilizes total cross-organizational connectivity, the latest advanced technologies, and laced with embedded risk and compliance frameworks."

Additionally, the report notes "KPMG's focus for clients is on creating digitally-enabled business capabilities, building the tactical building blocks that serve as the foundation for the strategic – the business model."

The report explores how the most innovative professional services providers can effectively connect the dots between technology, process, and people to deliver outstanding client outcomes. ALM Intelligence reviewed 16 innovators in four market segments across five categories. KPMG was named among the top five in four categories — business model, value proposition, service delivery and brand eminence — indicating strengths in adapting core capabilities to evolving client needs and generating quality insights, research, and marketing. Learn more about KPMG's [Digital Adoption and Transformation services](#).



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