



Getting digital right

**How asset managers can deliver
more value from digital**

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Introduction

Digital technologies are changing the world in which asset managers compete. A confluence of significant technological changes has created new opportunities that, in turn, create new customers and new competitors. And those customers and competitors are driving innovation across the front, middle and back office. As the industry faces significant challenges from new competitors, shifts in preferences toward lower-fee passive investments, and the rising costs/complexity of maintaining regulatory compliance, getting digital right just might be an existential issue for many firms.

To succeed in the digital world, asset managers must not only provide superior experiences for consumers, customers and employees, but deliver their brand promise in a more secure and more nimble way. The opportunities are immense, but the challenges of going digital are not to be underestimated.

The true potential of 'going digital' lies in leveraging a broad suite of technologies to, among other things:

- Enhance client experience
- Improve visibility into business performance
- Support more innovative proposition development
- Increase efficiency and controls through process automation.

Clients now expect asset managers to deliver digital experiences comparable to those they enjoy supporting in other parts of their lives. Many banks, for example, have invested heavily in improving how they engage and interact with customers and have developed core propositions that are delivered in a seamless way across multiple channels, 24/7. Asset managers (AMs) have some catching up to do to match this level of service.

We expect that 'getting digital right' will sort the winners from the losers in asset management. Indeed, our research indicates that over the past 3 years, digitally mature organizations have delivered 25 percent higher revenue, 31 percent higher EBITDA, 11 percent higher net promoter scores and significantly shorter time to market for new products.¹

That said, getting good at digital seems far from easy to achieve in practice. According to parallel research conducted jointly by KPMG International and Forrester, only one-third

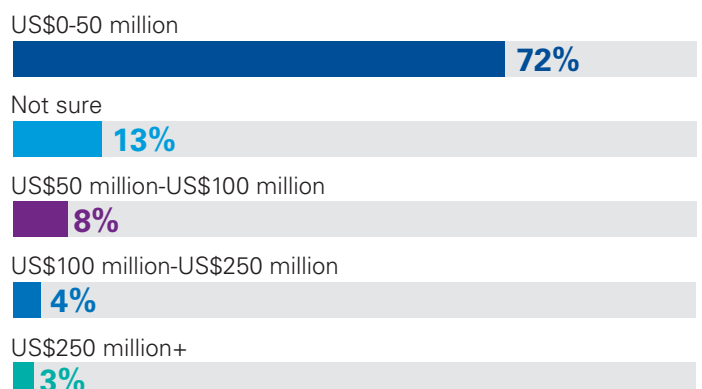
of asset managers consider that they are good at deploying digital architectures and solutions, equipping employees with enabling tools, and keeping vital client information secure.²

In addition, when it comes to achieving expected outcomes, research we have recently conducted with CTOs suggests that investments in digital and technology are falling short of firms' expectations.

- Only one in five CTOs said their organization is very effective at using digital technologies to advance their business strategy.
- Fewer than one in five said they are very effective at maximizing value from the data their firm holds.

Putting aside for a moment the critical topic of benefits realization, it is clear that asset managers are not only devoting significant investment dollars toward their digital efforts but also most are anticipating their investment to increase in the near term.

How much would you estimate your company has spent on digital efforts across the firm in the past 3 years (in US\$)?



¹ A commissioned study conducted by Forrester Consulting on behalf of KPMG, January 2019

² 2019 Harvey Nash and KPMG CIO Survey

How do you think your spend on digital programs will change in the next 12 months?

Increasing 10% or more

69%

No change

21%

Not sure

8%

Down 10% or more

1%

Knowing that asset managers are spending big on digital, we wanted to dig a little deeper and understand:

- Where are asset managers investing in digital?
- Are they getting the payoffs from their digital bets that will allow them to compete and win in the years ahead?
- What are the secrets of success and where are the bear traps to avoid?

To answer these questions, KPMG International has undertaken extensive research into the digitization strategies, priorities and processes of over 70 of the world's leading asset managers. We asked senior industry executives for their views about their digital initiatives, the associated success factors and challenges. At the same time, we sought insights into the world of digital from KPMG's asset management leaders across the globe.

The results of this research are summarized in this report. We also highlight leading practices and winning strategies that can help firms boost their ROI on digital investments.

Our goal is to stimulate debate, share perspectives, challenge thinking and, ultimately, help you better understand how to deliver value from going digital.



About the research

- We sought the views of 72 top executives with asset managers in over 20 countries.
- The firms represent a wide spectrum of the industry from boutiques to global players, and from traditional asset managers to real estate, private equity and wealth managers.
- About 40 percent of the respondents came from firms with over US\$50 billion in assets under management (AUM).
- We also sought the views and insights of KPMG Asset Management practitioners from across our International community.

Why are asset managers going digital?

Where are they investing and how are they organizing their efforts?

Asset managers' views on the benefits of 'going digital' are wide-ranging, but broadly, they are seen under the following three target outcomes.

Improving client engagement

Digitizing processes with a view to improving connectivity and strengthening relationships, primarily with clients but also with suppliers and employees. For example, using biometrics to identify clients, thus avoiding the need for them to go through clunky, password-driven recognition processes.

Improving efficiency and controls

Reengineering current processes and leveraging technology to drive lower costs, efficiencies and increase margin while improving risk management and controls effectiveness. For example, deploying digital technologies to collate all of the information required for client investment reports and then delivering the reports via a secure digital portal.

Improving business management

Harnessing structured and unstructured internal and external data to empower strategic insights, increase visibility into client behavior to support more rapid and robust business decisions. For example, using advanced analytical techniques and tools, managers can ingest large, complex data sets in near real-time and deliver insights or 'nudges' via mobile devices to field sales staff, identifying which advisors in their territory are most likely to be receptive to a sales pitch about a particular product.

Where are the digital dollars being spent?

In terms of the allocation of their digital spend, most asset managers are choosing front office over back office.

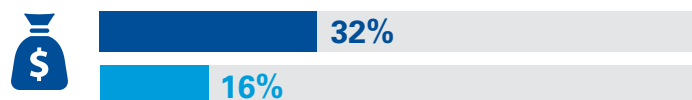
Front office functions were the biggest focus of digital investments, with 35 percent of respondents giving top

priority to marketing, sales and distribution and 32 percent to their investment activities. By contrast, just over one in five respondents put the most effort into digitizing back office control and support functions (e.g. risk, compliance), and even fewer gave priority to middle office functions (e.g. operations).

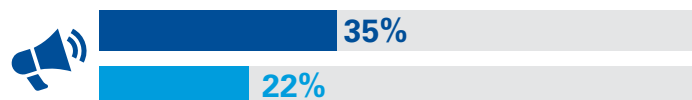
Interestingly, firms with US\$50 billion or more in AUM are focusing more effort on marketing, sales and distribution functions, while smaller firms focus more on middle office investment operations.

What is the focus of your digital efforts?

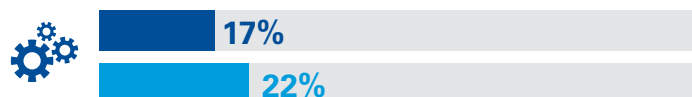
Front office (investments) (n=62)



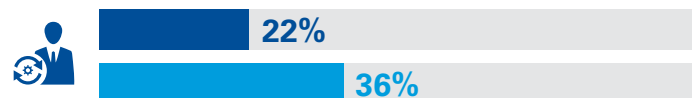
Front office (marketing/sales/distribution) (n=65)



Middle office (investment operations) (n=64)



Control and support functions (risk, compliance, HR, etc.) (n=69)



■ Most effort ■ Least amount of effort

How are digital programs being resourced?

When asked about their firm's organizational structure for digital program delivery, half of those surveyed say they use a mix of in-house resources and multiple third-party service providers.

Far fewer respondents rely solely on in-house resources or on a single service provider, and only a handful outsource their

digital programs entirely. Within this minority of respondents, only larger firms use just in-house resources, while only smaller firms partner with just a single provider.

This result is not surprising. The key is ensuring that the right capabilities are available. Larger organizations have a greater capacity to build capability in-house, while also being able to access specialists when required.

How would you describe your organization's structure for delivering digital programs?



More than half of the asset managers we surveyed are using in-house resources and multiple third party providers, whereas only 4 percent are fully outsourcing to a single third party provider.

But of course, it's not just about how programs are being resourced, but how they are being led.

In many other industries, companies have appointed chief digital officers to communicate, champion and lead the organization in implementing their digital strategy. Among the asset managers we surveyed, however, only one in 10 report having a chief digital officer in place.

This percentage is well below the percentage of firms that report being satisfied with their ROI from their digitization efforts, so it appears the role itself is less important than a broad-based commitment from firms' senior leadership, as demonstrated by a clear digital strategy with broadly understood benefits and outcomes.

Where asset managers have appointed chief digital officers, they most commonly report to the firm's CEO (61.1 percent).

Over a quarter report to the firm's chief technology officer, mostly in larger asset managers.

Again, it appears that the optimal reporting structure varies from firm to firm. What's important is having a consistent tone from the top that communicates clear benefits and outcomes from the pursuit of going digital.

About two-thirds of the asset managers we surveyed finance their digital programs through centrally controlled budgets. For the remaining third, the budget is devolved to business or functional owners. Smaller firms are more likely to report having centralized budgets for their digital endeavors, while a federated structure may be more efficient to manage for the larger firms.

Our research has uncovered a range of different governance models for 'going digital'; we can find, however, no correlation between any particular model and the perceived success of a firm's digital program.

Do you have a chief digital officer?



If yes, who do they report to?



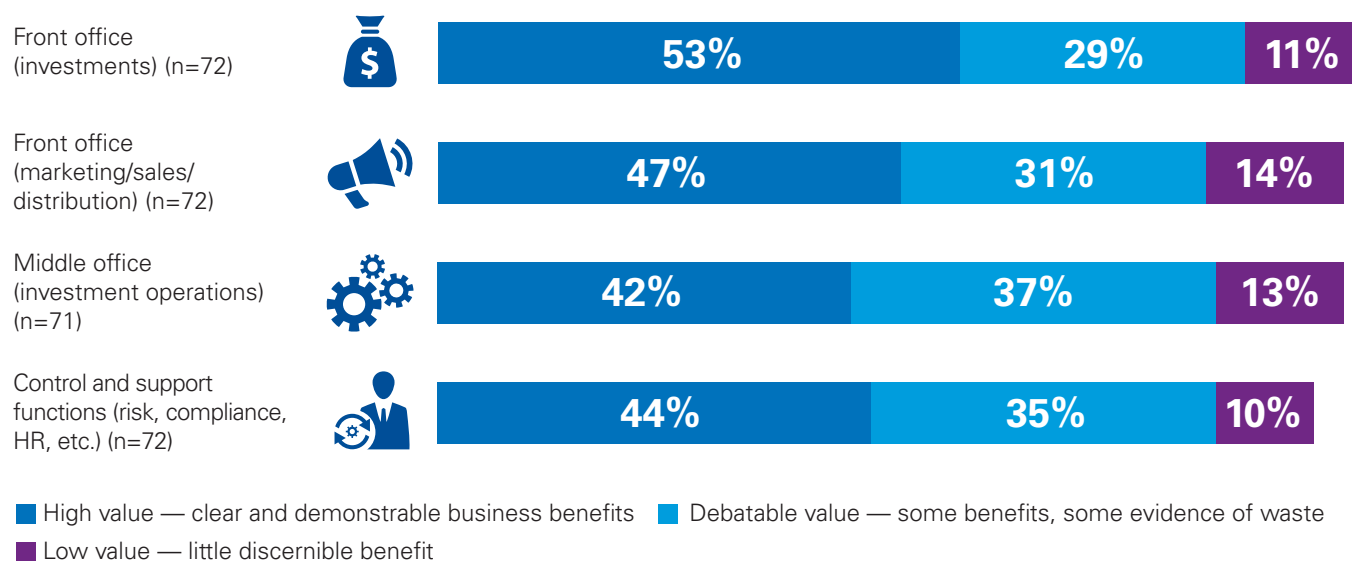
Are asset managers getting value for their digital dollars?

What drives success and what are the critical barriers to achieving that success?

Do asset managers believe they are delivering successfully the benefits they envisaged?

While many respondents are seeing value from their digital investments, it is telling that a significant percentage are reporting 'debatable' or even 'low value'. This is worrying given the importance of the programs and the investment being made.

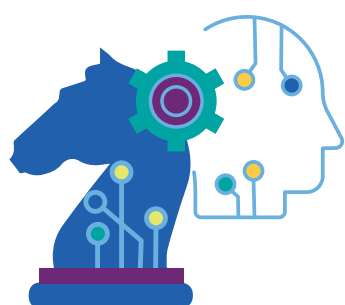
How would you rate the value of your digital investment in each area?



We identified a number of success factors

Perhaps not surprisingly, three-quarters of respondents say their firm has a strategy in place for guiding its investments in digitization. Our research shows, however, that the quality and clarity of a firm's digital 'strategy' and, more importantly, how well it is integrated into its core business strategy is critical to a firm's success in going digital; the two can no longer be treated separately.

How would you describe the strength, clarity and alignment around your digital strategy?



38%

Digital vision and strategy is **well articulated, highly integrated** across the firm and contains short, medium and long term

36%

Digital vision and strategy **exists for the short term but lacks organization-wide integration and alignment**

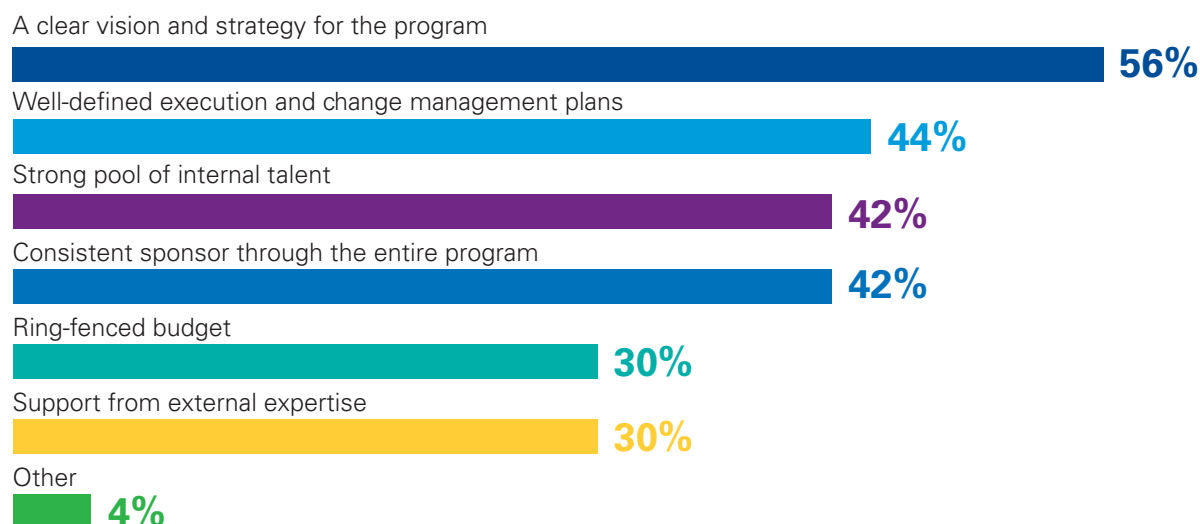
26%

Digital vision and strategy is **not well articulated, documented nor well communicated**

The numbers don't lie here. When asked what factors drove the success of their digital strategy, "Having a clear vision for the program" was, at 56 percent, by far the most common answer provided by our survey respondents. Next up in terms of driving success were: having well-defined implementation plans (44 percent); a strong pool of internal talent (42 percent); and consistent sponsor support (42 percent).

Crucially, given the importance of a clear strategy, only around half of our respondents believed theirs to be well-articulated, highly integrated across the firm and setting a course for the short, medium and long term. The other — perhaps less successful — half say their digital strategy focuses only on the short term and lacks organization-wide integration and alignment. This does not bode well for many firms' digital programs.

What are the defining factors that drove success in your digital strategy?



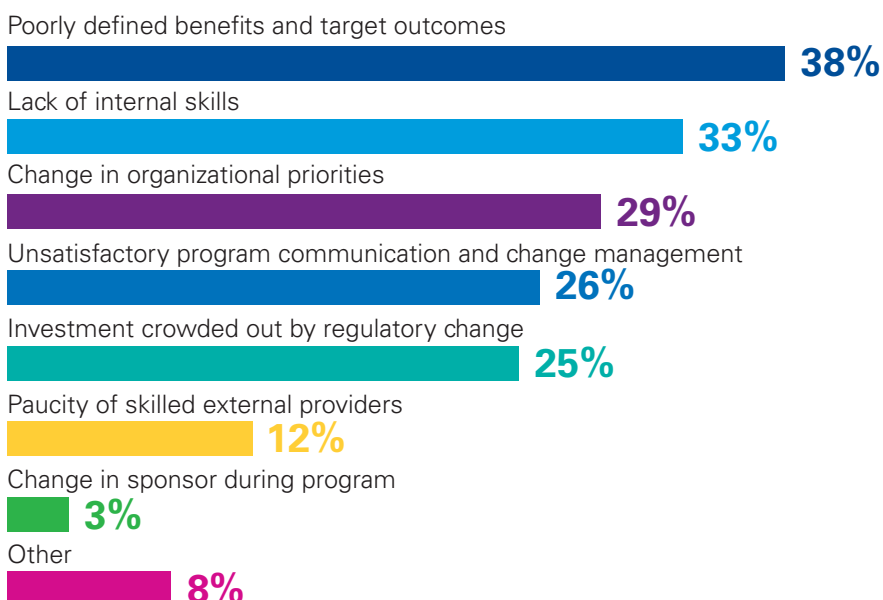
We also identified barriers

On the flip side, vague visions for success, lack of in-house capability and poor change management were seen as factors that limited the success of respondents' digital strategies. Ill-defined benefits and target outcomes were most often called out as the single biggest impediment to progress. Larger firms found this lack of well-defined outcomes as

their biggest barrier to digital success, whereas smaller firms struggle more with finding the right internal talent and coping with shifting priorities.

For firms of all sizes, significant constraint is the impact of regulatory change on digitization efforts, which many respondents said had usurped their firms' investment priorities.

What were the limiting factors to achieving success in your digital strategy?



Takeaways

Road map — The digital journey

Our research and experience also highlights some key factors that greatly improve the chances of successfully delivering a digital future.



1. Understand digital



2. Embed into the business strategy



3. Build a strong business case

1 Understand digital

Understanding the possibilities offered by a digital future starts at the very top. The C-suite needs to get up to speed on the digital zeitgeist. Reimagining client reporting is more the responsibility of the COO than the Head of Client Reporting.

Senior leaders need to constantly demonstrate and reinforce their individual commitment to digitization.

2 Embed into the business strategy

Digital strategy is business strategy today — that seems clear to us as we talk to our C-suite clients across the globe.

For example, if a key plank of your strategy is to move into the 'Investment Solutions' space, then ask yourself how you might do that digitally, stitching together your various asset-class capabilities in a seamless fashion. Similarly, if you're looking to outsource your middle office, then ask yourself how you can digitize/automate to the fullest possible extent the relationship with your provider.

From what we see, the more tech-savvy asset management firms are leaving behind stand-alone technology and

operations strategies and making digitization part and parcel of their broader business strategies.

Asset management CEOs in particular need to embrace the cultural change that 'going digital' brings. Social media streams feeding investment signals in the front office, AI that anticipates advisors' buying behavior patterns, NAVs delivered 'untouched by human hand' — all of these are possible (and happening) today. From compulsory use of tablets at board meetings to digital whiteboards and WhatsApp groups for sharing development tips, the CEO needs to reimagine their firm in digital form.

3 Build a strong business case

Once senior leaders understand digitization's benefits, they need to determine an accompanying investment portfolio; they then need to clearly define and communicate the benefits deriving from that portfolio across the entire organization. Announcing very publicly that you're spending US\$100K to automate a currently painful manual trade reconciliation process will go a long way to not only promote buy-in to the overall program but also sow the seeds of a digital culture.

Review and reflect

We recognize that many asset managers are already on the digital journey. If you are one of those that feels it is not delivering the expected benefits, perhaps it's time to press pause, revisit your strategy, weigh your options and pivot to a new path.



4. Get the right data



5. Get the right mix of skills and capabilities



6. Stay the course, and review regularly

4 Get the right data

The most successful digitization initiatives we know of are founded on high-quality, readily accessible data — whether that's to meet digital tax requirements, monthly fund performance requests from consultants or the evolving needs of portfolio managers. To reap the full benefits of digitization, firms need to invest in improving their data's integrity, standardization, timeliness and accessibility.

The most skillful organizations that we have seen have the ability to 'fix the data' in parallel to upgrading their business processes — it's tough but it can be done.

5 Get the right mix of skills and capabilities

Our research shows that only one in 10 asset managers has a single C-suite executive to champion their digital strategy. Success seems to depend more on building high-level commitment and support across a broad community of senior management.

To increase the likelihood of success, digitization efforts also need to be implemented and monitored by a central team with 'skin in the game'. The central team aside, you should

look to create a plan to arm your firm with the skills needed to realize your digital strategy. The biggest firms aside, this is likely to mean leveraging external expertise, as well as developing in-house talent.

Furthermore, our research has shown that there is no optimal reporting structure for your digital efforts; the right model will need to be aligned with your firm's unique cultural context.

6 Stay the course, and review regularly

The resilience to resist budgetary and resource pressures from the regulatory change agenda and/or shifting organizational priorities separates digital winners from losers. The risk of waning commitment can be mitigated partially when benefits and outcomes are clearly articulated and broadly understood.

From what we see in the marketplace, the asset managers that are gaining the most from their digital investments have made it a central element of their firm's culture. Going digital is embedded in all their strategic and operational plans. Their leaders have a clear sense of the benefits and prioritize investments accordingly. Digital is woven into people's roles and daily work, so it becomes an inseparable and central component of a firm's culture — these firms just are digital.

Get agile!

Creating new digital capabilities — whether that's in portfolio management or fund accounting oversight — is not done via the multiyear, multimillion dollar projects of yesteryear.

Digital apps are created in weeks, deployed instantly and refreshed/updated in real-time via the Cloud. This can only happen when you get agile. You need to nurture an environment that rewards quick learning and learns from fast fail experiments; pivoting to that mind-set in a regulated industry is not easy but it can be done.

How we can help

With asset managers poised to devote significant funds to their digitization efforts in the next 12 months, it's time to make bold decisions about the right way forward.

KPMG 'gets' digital; it's how our people think about the world and how we conceive our clients' futures.

We can help your business go digital. Whether it's a strategic reset, designing a digital client experience or creating the data and analytics capability to drive sophisticated client

segmentation and targeting strategies, we'll partner with you to achieve your goals.

With a multidisciplinary team drawn from our member firms across the globe, our professionals have worked in every aspect of the asset management sector, including traditional investment management, retail mutual funds, institutional investment, private equity, hedge funds and other alternative investments.

Recent case studies



Back-office automation

KPMG supported an asset manager with the design, pilot and implementation of an RPA solution. Using the Blue Prism automation software, a range of high-volume trading, settlement and reconciliation processes were automated. Machine-learning capabilities were also designed into the automation components to drive ongoing efficiencies. Outcomes from the program included faster processing, lowered costs, higher levels of accuracy and much improved capacity planning to meet peak workloads.



Sales enablement

KPMG assisted a global asset management firm in developing a guided selling platform for their salesforce.

An advanced analytical model was developed and deployed to identify potential client targets and evaluate sale propensities through the selling cycle using historical transactions data, digital interaction analysis and social media inputs.

The initial pilot rollout saw an increase in sales of 25 percent across the selected salesforce.



Advisor engagement

We helped a global asset management firm build an NLP engine to capture and harvest unstructured data to identify and recommend relevant articles that would be of interest and benefit to financial advisors.

After evaluating current process and sources of information used and ideally required, we designed and built an NLP tool and assisted the client in deploying the solution. Adoption was over 63 percent across the advisor network with 70 percent reporting improved quality and accuracy in classifying and recommending articles.

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References

CEO Outlook

Given today's dynamic risk landscape, concerns over global economic growth indicators, and the ongoing pressure to disrupt, CEOs are focused on building a new organizational resiliency. We highlight the insights from CEOs who lead successful, international businesses located around the world. From Japan to Spain to the US, and across a diverse group of industries from insurance to retail to aerospace and defense, we feature a wide array of perspectives.

Check out our 2019 Global CEO Outlook — *Agile or irrelevant* at home.kpmg/ceooutlook

CIO Survey

Now in its 21st year, the Harvey Nash/KPMG CIO Survey 2019 is the largest IT leadership survey in the world, with over 3,600 responses from CIOs and technology executives across 108 countries. The survey provides direct insight into the priorities, strategies and careers of senior technology leaders around the world.

Explore how digital leaders are outpacing their competitors in delivering real business results at home.kpmg/ciosurvey



home.kpmg/goingdigital

home.kpmg/socialmedia



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