

Act now on innovation as disruption revolutionizes the rules



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Investment management organizations are struggling to keep up with the unprecedented disruption of their markets and business models. The immediate need for strategic new approaches to innovation that will keep today's businesses on a competitive path to future growth and success has perhaps never been greater.

In the 2016 KPMG Global CEO survey of 73 CEOs from the investment management (IM) industry, nearly half of the IM CEOs surveyed, 47 percent, said they expect their organization to be 'transformed' into a significantly different entity over the next 3 years.

The IM industry is one that, traditionally, has not invested heavily in new technology, but as the rules of the game evolve so dramatically, businesses can no longer sit back and rely on the status quo. The need to address transformative innovation is rapidly rising to the top of the agenda for many organizations and their boards as they realize that the immediate challenges ahead are immense and unprecedented.

Redefined business models and new competitors continue to fuel a major push toward advanced automation

involving cognitive processes and artificial intelligence to improve operational efficiency and deliver improved products and services. The impact of digitization in all sectors, meanwhile, is raising customer expectations everywhere — including IM — for instantaneous, around-the-clock access to services and information. On the regulatory front, there's the need to anticipate and respond to continuing regulation changes and compliance issues.

CEOs are voicing worries about customer loyalty

The KPMG global survey shows that CEOs in IM are certainly expressing concern over how to solve issues that will define their future. About 90 percent are concerned about customer loyalty, and nearly all, 92 percent, are worried about the impact of millennials on their business. Meanwhile, 87 percent are concerned that regulations could inhibit future growth,

and 85 percent are concerned about integrating basic automated business processes with artificial intelligence and cognitive processes.

The vast majority are also worried about: competitors' abilities to take business away (84 percent); keeping up with what's next in services and products (82 percent); keeping up with new technology (81 percent); and the quality of data used in their decision-making (81 percent).

Having remained largely focused on its traditional products and processes, today's IM industry does not appear particularly well positioned for what lies ahead as digitization shifts the focus toward customer expectations and the customer experience.

The status quo no longer works. And while businesses recognize the current trends driving the need to reshape the industry, many are clearly struggling to intelligently address their immediate need to innovate and transform.

Strategic innovation will need to integrate technology, people and processes in order to deliver transformational benefits and revolutionary advancements that include:

- A vastly improved customer experience and greater customer retention overall as the competition to keep current customers and attract new ones grows fierce amid the proliferation of new players, products and services. Innovating to improve the customer experience via D&A, for example, will enable firms to better identify, respond to and eventually predict customer expectations and behaviors in areas such as service and products, delivery channels and around-the-clock access to information and accounts.
- Enhanced control of the flow of funds outside of the organization, including enhanced authentication and identity management to create a secure and trusted online experience for customers.
- Productivity and efficiency gains via automation of lower-value repetitive tasks.

— Improved oversight, quality and consistency of data to drive smarter decision-making and precise reporting for clients, investors and business partners, plus improved reporting to regulators amid increased scrutiny. Innovation in this area also positions firms possessing highly accurate and reliable D&A capabilities to eventually automate their decision-making in revolutionary new ways as regulations evolve.

- Eventual automation of data-based decision-making, via cognitive processes and artificial intelligence, in order to also enhance: operational efficiencies, service, deployment of talent, risk management and the ability to respond to customer needs and expectations.
- Improved cyber security that provides a continuous understanding of the immediate cyber-attack/financial fraud threat environment, and the ability to respond quickly by matching the firm's controlled operational environment to the current threat environment.

Given the critical benefits that innovation is expected to deliver in terms of cost and operational efficiencies, customer experience, compliance, risk management and overall competitiveness, most CEOs should be saying to themselves today: 'I can't afford NOT to innovate.'

The ultimate threat for companies that are not boarding the innovation train now could be consolidation that's already taking place in the industry: Companies that are acquiring will be the ones that are ahead of the change curve, and those being acquired will be the ones behind the change curve. There is clearly no time to lose in defining who the winners and losers will be in the race to innovate and transform.

Reassessing leadership's role in driving innovation

Where to begin with a strategic approach to innovation? Firms should be asking themselves exactly where they expect to fit in as the playing field beneath them changes, and who will they be competing with in the future?

Businesses first need to quickly figure out how they will effectively make intelligent decisions regarding their own operating

model and the changes that they cannot ignore amid what is a constantly shifting field of decision points.

Secondly, firms need to quickly establish what the right capabilities are for the organization going forward. That includes potential changes to traditional infrastructure, as well as exploring new partnerships with third parties, such as Fintech, that can provide new services and solutions quickly and cost-efficiently.

As a result, some are starting to organize innovation strategies and initiatives, whether acquiring Fintech, or coming closer to accelerators or, at the very least, learning more about viable options and potential solutions that Fintech can offer.

Organizations should be re-examining various leadership responsibilities within the business, in particular what boards and senior executives should be doing to proactively drive more strategic discussions on innovation and disruption. Senior leaders will increasingly need to act as 'agents of change', constantly driving innovations that keep their business model current and competitive.

KPMG firms typically see a 'disconnect' today between leaders and their IT function that results in insufficient analysis of future business needs — including cyber security. Firms need to create new levels of alignment and collaboration between senior executives and their IT function in order to begin treating disruption and innovation as significant business opportunities rather than as 'IT problems'.

This will require senior executives to develop a much greater understanding of the unprecedented impact technology and digitization is having on businesses overall, including cyber security. As the survey revealed, many CEOs admit to feeling uncertain about how well-prepared their business is to respond to a cyber-security breach. An increased understanding of the impact of technology among senior leaders and boards can drive more informed and sophisticated dialogue across the organization on the nature of new and unfamiliar threats that could disrupt entire processes and operations.

Beyond sharpening their focus on how technology is accelerating the need for

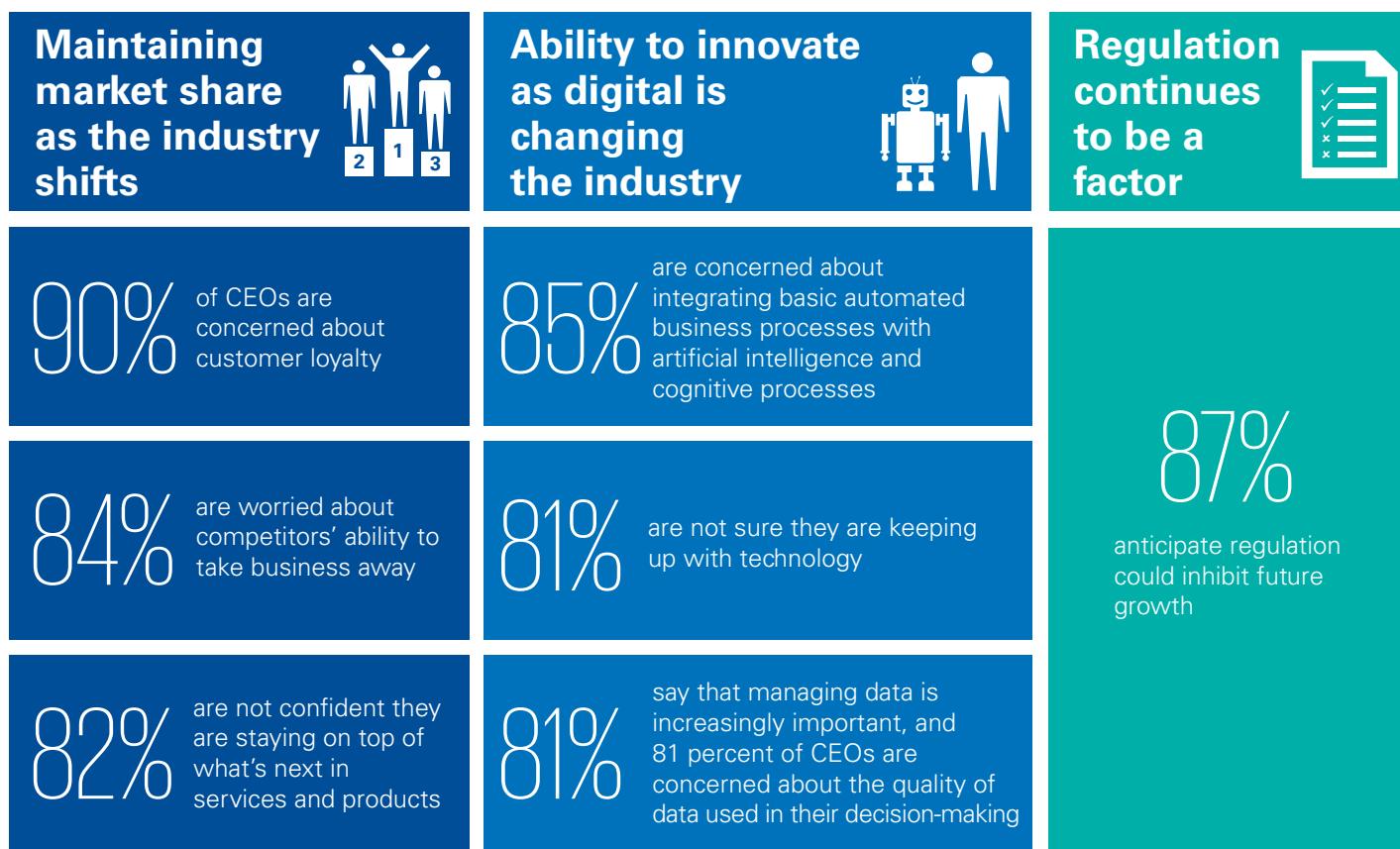
Investment managers have no time to lose on innovation

Next 3 years will be critical

74%

Almost three-quarters of investment management CEOs said that the next 3 years will be more critical than the previous 50 for their organization amid disruptive technologies emerging.

Concerns of investment management CEOs



Organizations are transforming –

47%

Nearly half of CEOs believe their organization will be significantly transformed in the coming 3 years.

innovative solutions, boards and leaders driving change will need to adopt a more holistic, 360-degree view of their business that also includes its people and processes. Assessing future talent needs, for example, will be critical to innovation that drives transformation.

It's crucial that businesses look closely at the talent that's required today to generate innovation and success tomorrow. Effective change needs to be addressed as a continuum combining technology, people and processes and leading ultimately to a culture change in which innovation is built into the DNA of every organization going forward.

The quest for better D&A can improve risk management

Intelligent new risk-management strategies are a key part of the industry's immediate innovation journey. Companies will likely need to dramatically improve risk-management capabilities amid increased scrutiny and pressure from regulators as well as from investors, business partners, customers and other stakeholders. This includes the critical question of how businesses, amid rapid change and innovation, organize and manage data oversight and data quality to ensure their data is consistently reliable for future decision-making. Progress on digital and analytics capabilities represent a crucial innovation area here, particularly as data-based decision-making keeps evolving toward automated decision-making via revolutionary cognitive and artificial intelligence technologies.

Innovative partnerships are contributing to solutions

Until now, investment managers traditionally have been concerned with growing their

business and not overly concerned about competitors or new entrants taking away business. But in today's environment that's becoming a real concern, as the global CEO survey showed, as technology enables new entrants like Fintech to quickly build competing offers.

But there is growing potential to forge innovative new partnerships that offer fast, effective, cost-efficient solutions. The fact is that Fintechs are infiltrating the industry to the extent that they are no longer being viewed as competitors to be feared but as potential partners and allies. As things unfold, it's safe to say that many of them will likely become integrated into existing businesses as the industry increasingly realizes what these players bring to the table.

In many cases, firms are already trying to create partnerships with Fintechs that can drive rapid, cost-efficient transformation of traditional industry infrastructures and position organizations for the future.

Despite progress being made by some organizations, however, the industry needs to show a far greater sense of urgency toward innovation and transformation. The longer that organizations take to truly get involved, the further behind they fall. Successful organizations understand the new reality that massive digital change is underway, that the pace of change is going to increase and that they need to become very strategic about innovation now — and quickly — to remain competitive.

Those businesses that turn today's challenges into opportunities can create critical competitive advantages for their future success. ■

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