

Revolutionary change demands speed and agility in the Asset Management industry

The 2016 Investment Management Forum hosted by the European Fund and Asset Management Association (EFAMA) in Brussels in November featured a timely panel discussion titled *Distribution in a Digital Era: Technology Drivers for the Asset Management Industry*. The panel, moderated by Camille Thommes, Director General of the Association of the Luxembourg Fund industry, included Franck Guiader, Head of FinTech, Innovation and Competitiveness, Autorité des Marchés Financiers (AMF); Graham Kellen, Chief Digital Officer and Global Head of Distribution Technology, Schroders; Jaime Pérez Maura, Director, Business Development, Allfunds Bank; and Tom Brown, KPMG Global Head of Asset Management and the author of this article, which looks at insights and solutions he shared as the panel addressed digital innovation in today's Asset Management (AM) industry.

To remain viable and competitive, the time is now for AM businesses to demonstrate a true sense of urgency and agility in response to incredibly rapid advances in technology that are reshaping the entire industry. Future success will require radically different ways of thinking and a vastly new approach to doing business in a digital world.

Certainly, we are seeing some firms pursue an agile approach. Yet in many cases, even these firms are replacing specific hard deadlines for innovation and digitalization with more-fluid timelines that treat change in today's — and tomorrow's — environment as an endlessly evolving journey. Others have been forced to take a step back and fundamentally reassess their entire strategy. Meanwhile, the overwhelming pace of change has many firms questioning the wisdom of developing 3- or 5-year business plans that the digital wave will likely render obsolete before long.

There is no time to lose. As hard as it might be to fathom, we are reaching what experts call the point of 'singularity' — the point at which artificial intelligence matches that of human intelligence. Consider briefly what the future holds, not only for the industry but society at large.

In our lifetime, computers will possess the ability to learn and create new knowledge without human assistance. Specifically, it's predicted

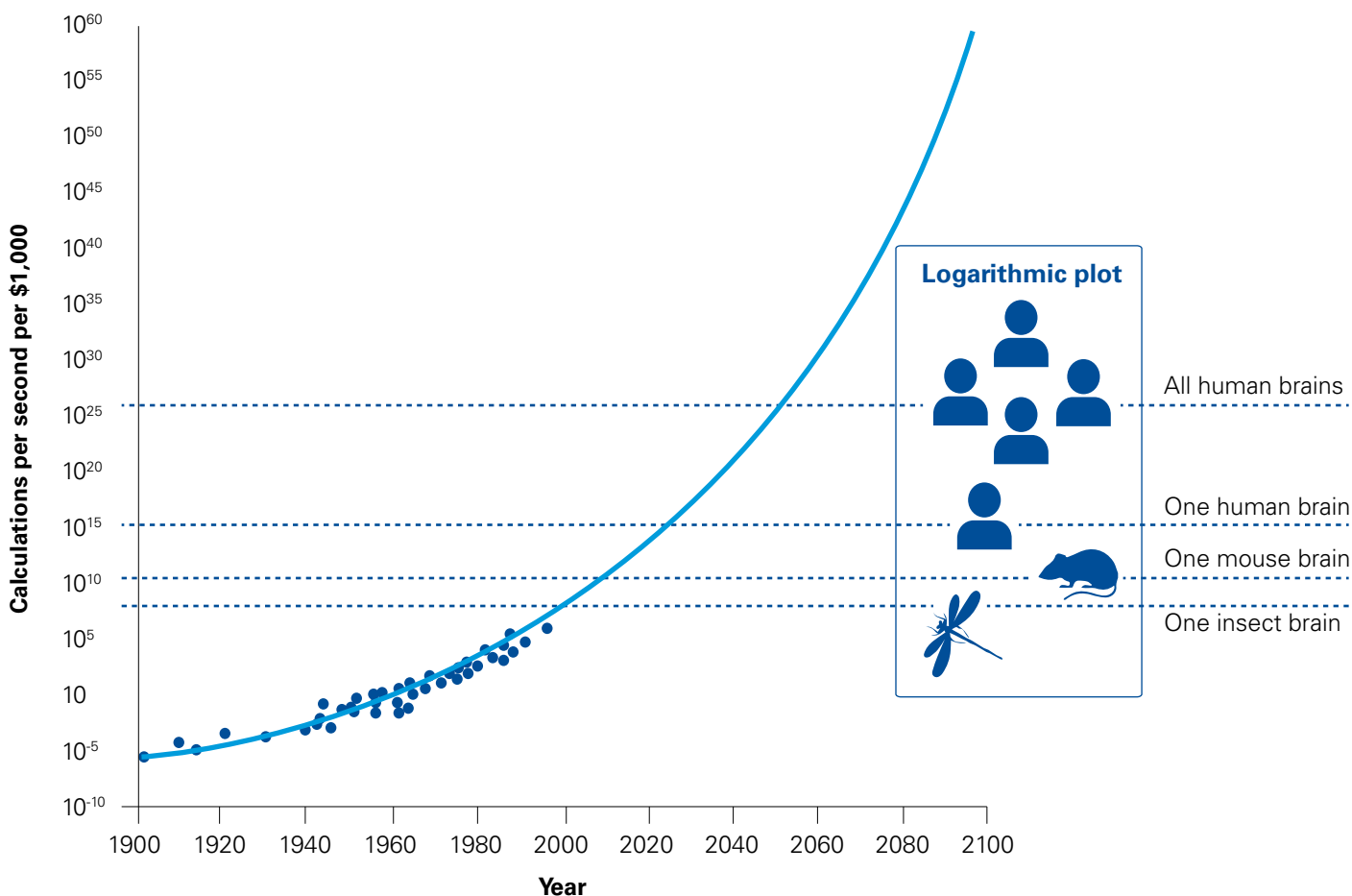
that with the accelerating pace of technological change, computing power will actually surpass human brain power by 2023. By 2029, the computing power of a typical US\$1,000 PC will be 1,000 times more powerful than the human brain. And by 2045, computers will surpass the brainpower equivalent of all human brains combined. The numbers and predictions are at once staggering and alarming. What does the exponential growth in computing power mean for the AM industry? Nobody knows and nobody can reliably predict! What we do know is that, *digital matters and it matters now*.

Digitalization will be absolutely critical in enhancing and ultimately redefining the customer experience in ways that will allow AM businesses to attract, retain and grow customer relationships in a uniquely fierce competitive environment. Success will rely on meeting customer expectations for instantaneous, personalized digital interactions — from anywhere and at any time — within a secure and trusted environment.

Second, digital automation applied intelligently through the whole value chain will eliminate significant costs for the industry — one already facing immense pressure to reduce costs and improve efficiencies. Digital automation will streamline processes and automate tasks to increase productivity, heighten accuracy and lower costs.

Exponential growth of computing

Twentieth through twenty first century



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The future will be defined by the customer experience

No matter what sector or segment of the marketplace you care to focus on today, digital indeed matters. According to a recent global survey of more than 70 investment management CEOs, for example, 47 percent said they expect their organization to be transformed into a 'significantly different entity' within the next 3 years. In a recent global survey of high-net worth individuals, 64 percent said they expect their financial management relationships to be largely digital in the next few years, offering the ability to instantly engage with their firms through a digital channel for advice or service.

The retail industry, where customers today are highly empowered and supported by technology, has demonstrated how digital technology can create a dramatically new and efficient customer experience. For AM businesses, the key to success on the client front will be understanding which digital offerings, services and products matter to each client segment and then tailoring an approach that delivers on those client expectations, while simultaneously reducing costs, complexity and client pain points.

Robo-advisors are already infiltrating the marketplace and reshaping the customer experience, of course, offering automated financial advice and product offerings. However, their growth has been somewhat limited to date, as clients continue to expect human involvement regarding matters of personal wealth and financial dealings. Trust is a critical part of the success formula for the digitalization of the customer experience anywhere but particularly among clients making decisions and transactions involving life savings or significant amounts of capital.

Given such concerns, that segment of activity may well shake out as more of what I call a 'cyborg strategy' — one that essentially combines elements of human and machine interactions. That hybrid approach is already proving to be more accepted and successful in today's market and its need for an exceptionally secure and trusted environment. Clients appear to be more comfortable making major financial decisions by talking to a human being. At the same time, digital technology will play a significant new role and drive benefits in reducing cost and risk.

Assuming that the transformation trend also drives consolidation in the industry, we see a decreased number of large players and a range of niche specialists

within 5 years. The remaining large players will likely go direct to clients as well as offering direct-to consumer platforms supported by a wealth manager.



A pressing need to drive down costs and improve efficiency

We continue to see a remarkable amount of inefficiency today among AM businesses that continue to rely on paper documents, complex spreadsheets and manual labor to perform dated processes. The opportunity for digitalization and automation to reshape business operations toward improved efficiency and lower costs that will dramatically improve competitiveness and profitability is absolutely unprecedented.

Part of the improved efficiency continuum will involve the application of 'digital labor' in the form of robotic process automation (RPA). As the industry struggles to shake off its heavy reliance on legacy technology, platforms and processes, RPA offers the ability to connect current systems and services more effectively, while automating and optimizing many of

today's manual processes and operations, such as client onboarding and client reporting. RPA will also play a key role in generating crucial data and analytics capabilities. Quality data, generated on a timely basis can be used to not only transform operations improve cost efficiencies and generate alpha but also improve agility of firms in their ability to identify and rapidly respond to customer needs, while enhancing the overall customer experience.

The drive toward cost efficiency is becoming particularly critical today as our clients increasingly voice expectations and demands for lower fees and as regulators join the chorus. A recent UK study, for example, found that margins in the AM industry are very high and that regulators want to see far more transparency on what customers are being charged.



Fintech offers a fast lane to advancement and new models

Where does Fintech fit into the big picture as the industry grapples with unprecedented change? Certainly, the inherent attractiveness of the industry has not escaped the notice of new Fintech players that are rapidly developing smart new business models and innovative offerings. These bold new players springing up from outside of the established industry are unconstrained by traditional thinking or bureaucratic methods.

One advantage they can capitalize on involves the reality that today's established AM sector brands in many cases are neither well known nor strongly trusted in the retail space, giving new entrants the ability to create and establish innovative, user-friendly, trusted brands fairly quickly.

But breaking into the market is not without unique challenges as start-ups take on established players

possessing loyal clients and in some cases strong and well-trusted brands. In many cases, the spirit of competition is giving way to one of collaboration and the forging of entirely new alliances and partnerships between innovative Fintech start-ups and established AM businesses. And given the current state of the industry, these new alliances will no doubt continue to unfold.

The truth is that AM businesses in general lack the agility, skills and technology they require to keep up with changes engulfing them. Established firms can make very rapid advancements given what Fintech can deliver on the technology and innovation side. Fintech start-ups offer a critical new 'gene pool' of intellectual ideas, talent and business models that will positively disrupt AM businesses and position them for success in the future.



Regulators are racing to remain current

While an industry beset by revolutionary change grapples with its own unique challenges in redefining both the customer experience and cost efficiencies, regulators themselves are also working hard to remain abreast of the changing marketplace.

The regulatory framework and the way that firms are supervised remains entrenched in traditional methods and processes that still rely largely on paper-based communications and documents plus face-to-face or person-to-person interaction. Recognizing the need for

rapid innovation, regulators are forging dozens of new initiatives, many unfolding within a 'safe' experimental area known as the 'regulatory sandbox.'

The UK's Financial Conduct Authority (FCA) and the AMF in France, for example, have introduced initiatives that enable Fintech firms and larger organizations to experiment with new business models and that approach is proving constructive in the push to modernize and transform the industry. The European Supervisory Authorities (ESA) governing financial

markets, banking and insurance are also exploring various initiatives to address what the future looks like and how to regulate it effectively.

There is no doubt that digitalization will make for more transparent systems that are better monitored and supervised. At the same time, regulators need

to address crucial issues concerning the unfamiliar new risks arising from their own use — and the industry's use — of unprecedented digital processes and algorithms. The systemic risk that's inherent in an industry undergoing dramatic transformation is something that regulators will be paying extremely close attention to as things progress.

CEOs should be agents of change in solving today's critical challenges

On the continuum of innovation and digitization, today's AM industry is behind the banking sector but ahead of the insurance industry. As noted earlier, while many AM businesses struggle to pursue strategic transformational change, some are indeed moving more rapidly into the 21st century. One area of the industry that's perhaps moving the fastest involves wealth managers facing more immediate demands and expectations from retail customers seeking a more digital experience.

Regionally, many AM organizations are making progress in the US, while in Europe change is also certainly underway, although less rapidly than in the US. We are also seeing much innovation in ASPAC, with China in particular moving quite quickly to digitize services and operations. China has the advantage of being less constrained by cumbersome legacy systems issues and is thus more easily positioned to make the leap to digital.

Yes, there are success stories unfolding, yet many organizations and their leaders continue to face massive challenges that include overcoming organizational complexity, cultural inertia and fears about the implications of radically transforming their

businesses. But digitalization will require nothing less than a culture shift to achieve success and the sooner organizations embrace this reality the better.

One caveat to organizations today is to ensure that the changes they face are being clearly understood not as the latest 'IT problem' but as a critical business issue, one representing an immense and inevitable opportunity for growth, profitability and sustained success. To that end, it's crucial for CEOs and senior leaders to become more informed and proactive, serving as true 'agents of change' to pursue and manage change strategically.

Tomorrow's winners will be those who position themselves to retain current clients and gain new ones by meeting customer expectations as they evolve, while also controlling costs through automation and enhanced efficiency. Modernization in today's world no longer entails piling shiny new things on top of traditional methods and legacy systems. This journey is transformational, demanding businesses to rethink their entire operating model toward redefined customer service, efficiency, reliability and risk management. Welcome to the new normal. There is no time to lose.

Contacts

Tom Brown
Global Head of
Asset Management
E: tom.brown@kpmg.uk.co

kpmg.com/socialmedia



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