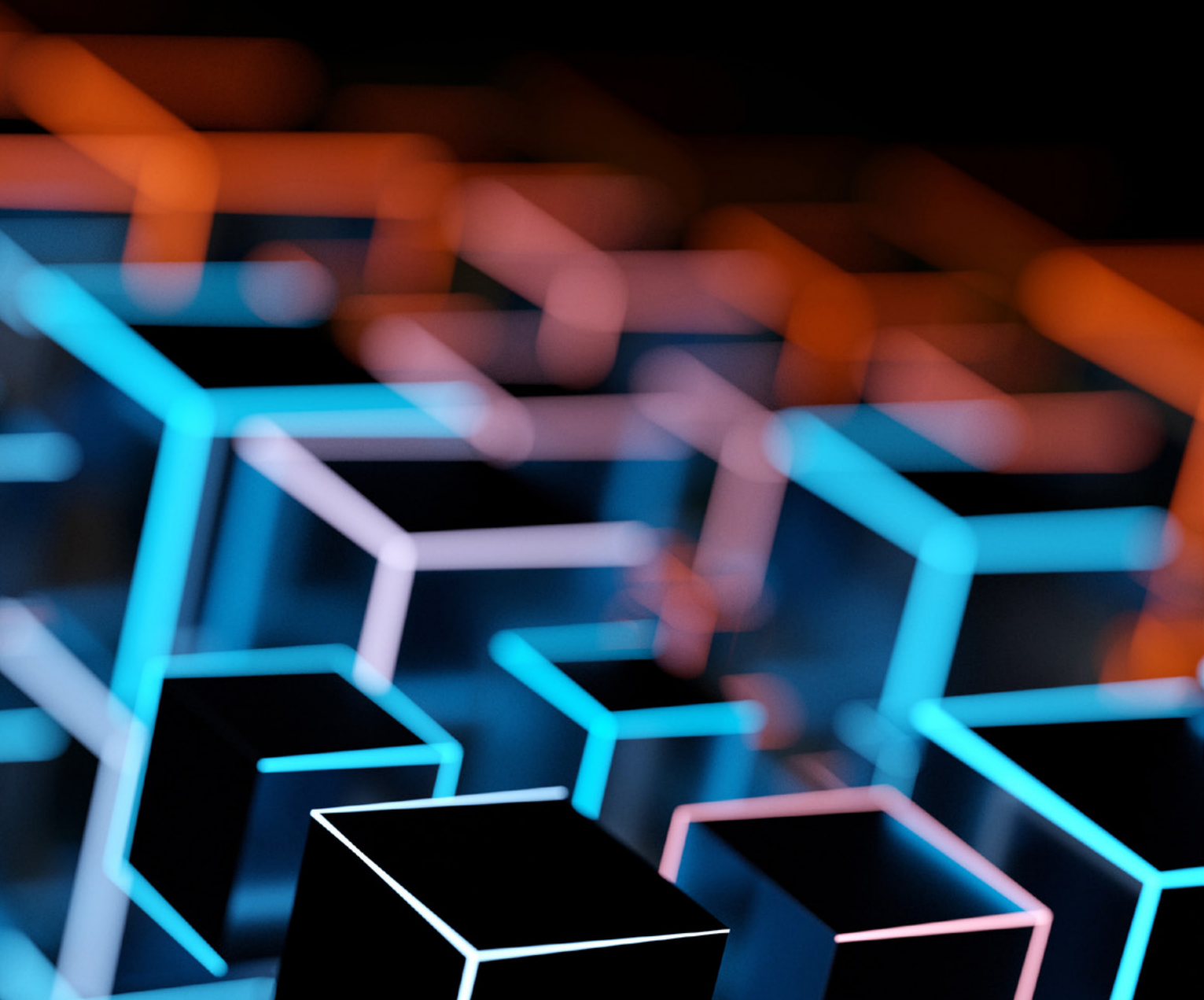


It's a long way to the top if you wanna digitise

Digitisation is one of the key ingredients to innovation in asset servicing, but to reach the nirvana state of innovation, asset managers must overcome a number of hurdles

Maddie Saghir reports



Innovation opens the door to new opportunities and can help asset managers foster a competitive advantage over their competitors. Digitisation — converting information into a digital format — is a crucial element of innovation and many firms in the industry are working towards this.

The COVID-19 pandemic has accelerated the adoption of new tools that are set to drive inorganic innovation and growth in the asset servicing space, allowing industry participants to build better products and services for their customers.

“Many asset managers are already on the right path with the digital transformation programmes already implemented — from upgrading core operating platforms to becoming cloud-natives and reinventing the front-office,” observes Jason Baldesare, vice president, strategy and solutions, management, capital markets, FIS.

He adds: “COVID-19 sounded the alarm to accelerate our digital experiences. While executives were not asleep at the wheel, their transformation programmes were too incremental to keep pace with the level of change brought by the pandemic.”

It is important for asset managers to digitise and innovate their products and distribution models because investors of all shapes and sizes, from retail to the largest institutional investors and everyone in-between, expect a highly digitised experience. This can range from initial interaction with the asset manager in sales and onboarding, to reviewing portfolio performance and making decisions on where to invest next. Both retail and institutional investors have the expectation that the products they are buying are simple to understand and that the data is transparent and easily accessible for them to make decisions.

According to Baldesare, with competition increasing, the rise of retail brokerage accounts, and institutional investors favouring the most predictable and cost-effective route to alpha, managers must identify ways to build product appeal and retain investors. A robust digital experience is a key driver.

There are many other key drivers of innovation. Asset managers face an array of challenges — from regulatory scrutiny to changing client expectations and working cultures — that require them to innovate in ways that ensure their competitiveness and even survival in the digital era.

“Asset managers are increasingly realising the need to embrace advanced technology and scalable connected models that unlock the use of data and improve the relationship with clients”

Ovidiu Campean, global head of product management, Tora, suggests that the biggest priority for the asset manager right now is unifying processes and technologies with a view of reducing operation burdens and cost to free up resources to focus on alpha generating strategies.

“Asset managers are increasingly realising the need to embrace advanced technology and scalable connected models that unlock the use of data and improve the relationship with clients,” says Campean.

Adam Cottingham, corporate actions, SmartStream, comments: “A lot of asset managers are dealing with legacy system challenges and manual processes. They are looking to decrease manual processes and increase automation. Operationally critical processes like corporate actions are receiving attention in both large and small firms because they need to be digitised.”

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Although the drivers for innovation are clear, there are barriers in the way.

Many new technologies exist to make a digital transformation for asset managers more of a reality than even just a couple of years ago but challenges still remain.

For example, FIS' 2021 Readiness Report, published in July, found that only 35 per cent of firms surveyed feel their data integration capabilities are well equipped to handle future client demands.

According to Baldesare, there are several measures asset managers can take to mitigate the risks and challenges of implementing new technologies in the face of increasing competition, client demands, and regulation.

Firstly, he suggests, they need to develop a comprehensive digital and advanced technology strategy. He elaborates: "Without this, firms will make siloed or misinformed decisions about technology choices and areas for internal investment, and lack the playbook needed for successful implementation. A strategy also supports that digitisation becomes everyone's responsibility, not just the chief digital officer."

"Secondly, asset managers need to embrace the cloud — this is more than a destination for data and applications to drive down costs or to create elasticity."

"While those are remarkable attributes, it is also a platform for enterprise business transformation. Cloud platforms can deploy new digital technologies in days rather than months and can support analytics and tools that would be too costly or unattainable with traditional platforms. The cloud is a potential game-changer for how asset managers and other financial services institutions will operate in the future," Baldesare comments.

Finally, they need to focus on talent. Baldesare highlights: "For asset managers, talent in the front-office — the ones generating the alpha for clients— remains a top priority. However, managers cannot ignore the talent needed to successfully implement a digital transformation."

Neil Sheppard, global head of business development asset servicing at SmartStream, says: "The barrier we see is an attitude towards change. People have manual processes but are using elements of a system that have been there for a while. Some people are scared of integration; so our job is not only to quote past examples of our track record, but to demonstrate how automation — when you look at our solution as a platform — works."

SmartStream helps clients re-process and re-engineer to really understand their business and even potentially set up their business slightly differently, with automation as the backbone.

If you want innovation

If you want innovation, technology is key. Asset managers want technologies that are open and scalable. The technologies that are driving the digital experience are in the areas of sales and distribution, account onboarding, and front-office portfolio analytics and decision making. For example, digitalisation can speed up the decision-making process and allows an organisation to reduce time for the task at hand. It can mean relocating staff to different roles.

But what types of technology can create solutions for a competitive edge?

Tora's Campean suggests a cloud platform enhanced with application programming interface (API) connectivity is the right approach since it is flexible and secure but also keeps down cost while firms focus on their growth.

Weighing in on this, FIS' Baldesare adds: "APIs have long been used within financial institutions to exchange data and request certain functions. However, with the rise of RESTful APIs, communication between applications has become simple and efficient, allowing data and digital solutions to become easier to implement."

Additionally, as advanced technologies like machine learning and artificial intelligence (AI) have matured, more applications of these solutions are being observed within the asset management space.

According to Baldesare, whether it is robo-advising, or advanced portfolio modeling and decision making, the additional data and insights that can be provided by these solutions are helping investors and asset managers make better decisions and more effectively manage risk.

Vincent Kilcoyne, executive vice president, SmartStream, notices there is an interesting bifurcation within the buy-side community in terms of the adoption of innovative technologies.

He observes: "They do look at the adoption of advanced and innovative technologies, such as AI, when it comes to product innovation, investment strategy innovation, but not in operational and automation. The buy-side is not focusing on that, they are focusing on the search for alpha and the use of innovative technologies in that

search for alpha. Meanwhile, we have been looking at the adoption, the implementation, the deployment, and the application of different technology stacks to drive improvements in operations, which leads to control and cost reduction.”

According to Kilcoyne, if a buy-side institution can demonstrate cost control, cost reduction and compliance, then they will attract the capital.

“It is about cost control, and capital follows those three, and it is all about assets under management, and return. If you are delivering on those by protecting the cost on the controls then you are appealing to the investment community, and you are also appealing and satisfying the regulatory requirements. So we need to consider bifurcation and the application of the technologies to product innovation versus automation and operational improvement.”

Innovationstruck

Although there are challenges in ramping up technological innovation, industry participants agree it pays off.

For example, SmartStream Innovation Labs offer a dedicated group of technologists and experts that implement new technologies, predominantly around AI and machine learning.

Additionally, SmartStream has created innovation teams within the organisation, which look at how both technologies can drive real benefits to its customers.

“The problem is that organisations want to embrace technology but are unsure about how to do it in a way that drives real benefit. We have created internal groups of people who have been in the industry for 20-40 years, to be able to identify real problems that we can apply the technologies to solve, and then we work with our clients to be able to test and prove those real world examples. So it is all around relevance and benefit. It is a real purpose-driven innovation, rather than innovation, looking for a purpose,” explains Kilcoyne.

Meanwhile, since 2016, FIS has been modernising and transforming every aspect of its business, and has created standards to simplify processes and integrate with emerging technologies including the cloud and AI.

“The problem is that organisations want to embrace technology but are unsure about how to do it in a way that drives real benefit”

Baldesare says: “We decided to invest in our infrastructure and build our own private cloud, and then migrate our applications over time into a private cloud. That timely investment meant we were, and still are, ahead of our competitors as many of our peers still do not deliver something similar at scale.”

“That approach allowed us to standardise our technology stack and create a resilient environment that is a lot more flexible and quick to execute — something which proved crucial when the COVID-19 pandemic hit. Ultimately, embracing technology innovation early has helped us improve customer experience which sits at the heart of our ambition.”

Discussing what Tora has been working on to ramp up technological innovation, Campean says: “We began life as a cloud-based company in 2004. We believe in the power of technological innovation and have always deployed a strategy focused on enabling our clients to grow while also helping them reduce costs.”

Tora offered a unified cloud-based order execution management system platform, which is now fully integrated with its portfolio management system, which is an all-in-one solution that can be used across multiple asset classes, multiple desks and all regions with one single sign on.

“We have always focused on advanced technology to ensure our clients have access to the best in breed platform. We are adopting automated horizontal (spawning new services instances) and vertical (spawning new services hosts) scalability strategies that use cloud managed technologies, alongside automated failover and recovery mechanisms that use distinct availability zones,” adds Campean.

Additionally, Tora is also expanding its AI and machine learning models to provide pre- and post-trade TCA tools for new asset classes, and continuing to enrich the APIs that, it claims, make its platform a truly open system. ■



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