

# Asset Management

Why digital capability has never been more important



I *originally* started writing a series of articles designed to provide a roadmap on digital transformation and intelligent automation for asset management; considering how the executive leadership teams plan to deliver their strategic growth objectives over the coming years, areas of investment in the business, and the critical role of digital transformation in these plans. However, the tumultuous events of the last two weeks following the Russian invasion of Ukraine demands a re-think as global macro factors and market risk and volatility are factors for additional consideration.

At the time of writing, most global asset managers were more or less in sync with the following core themes, identified as areas of focus:

- Digital Transformation
- ESG
- Client Experience
- Diversification and New Product Development
- Alternative Investments & Real Assets

The global macro factors alluded to above cannot be ignored as they will have a significant impact on growth plans. The increase in commodity prices is very concerning as this will continue to exert inflationary pressure on the global economy. A reduction in disposable income will no doubt result in reduced net new growth opportunities in terms of AUM in 2022. As margins are squeezed, technology and intelligent automation will become more important in delivering operational efficiencies and ameliorating the negative impact on operating margins. Asset managers will have to deal with new compliance obligations and financial crime legislation to put in place the checks and systems to comply with the ever-changing sanctions regimes imposed across different jurisdictions. **It is difficult to imagine how checks and balances can be accomplished without automating these processes.**

**Digital Transformation** – This is probably the most critical line item which will support an asset manager’s ability to achieve their strategic growth objectives over the coming years. Digital Transformation is about optimising an asset manager’s digital eco-system and exploiting data-driven opportunities, increasing operational efficiencies, enhancing customer experience, mitigating operational risk, and talent retention by increasing employee satisfaction. In addition, regulatory responsibilities will require asset managers to understand their supplier base to ensure compliance.

The executive leadership teams need to align their strategic growth strategies to meet the expectations of their investors to increase AUM and adopt agile methodologies to take advantage of new opportunities and markets. In a recent survey of 250 asset managers, 95% of executives "agreed that an asset manager's technology, data and digital capabilities will be differentiators in 2025". In a research document, one of the conclusions found that "Accelerating digital and workforce transformation will help boost productivity and enhance the customer experience while driving down costs and strengthening margins".

In conclusion, asset managers know that getting their data strategy right has become a central pillar or driver for change to achieve their long-term growth objectives. Asset managers need to harness and analyse data for insight and generate alpha to deliver better market intelligence for new product development. This can be challenging (especially in the illiquid markets) when managing multiple systems, data providers, legacy platforms, while at times being constrained by legal and contractual obligations. Data is also used to provide essential management information, monitoring and governance for compliance and risk. Digital transformation can only become successful once the enterprise has the capability to exploit the data-driven insights and new growth opportunities and in so doing be able to adopt a more agile management framework.

**ESG** - Over the last couple of years, integration of ESG criteria has become a focus in the investment process and for investors to combat the effects of climate change, human rights, gender equality and social impact. There is a drive towards sustainable investing and investment governance to ensure that strict investment mandates are adhered to. Sustainable investing is typically a long-term play but essential for reducing global carbon emissions to comply with commitments made at COP-26. The aim was to secure net-zero by mid-century and keep 1.5 C degrees within reach by accelerating the phase-out of coal, curtailing deforestation, speeding up the switch to electric vehicles and encouraging investments in renewables.

**Risks:** Over the last two weeks, we have seen the vertiginous ascent of the price of natural gas, Brent-crude and WTI, as well as other commodities such as wheat and aluminium. The list is extensive. We are also now seeing western governments looking to ban imports of Russian oil and reduce reliance on natural gas. A Bloomberg report today suggests that the EU aims to reduce dependence on Russian gas by 80% this year alone. The plan will undoubtedly involve increasing and accelerating the investment in green infrastructure and renewable energy sources. In the meantime, alternative natural gas supplies will be sought, no doubt causing further upward pressure on global natural gas prices already up by 79%. In the event of an escalation, Russia may feel compelled to reduce gas supply to the West in retaliation for economic sanctions. Should this scenario unfold, the unpalatable answer will be to burn fossil fuels like coal to meet energy demands which is an ESG red line, but what are the options?

**Result: ESG Compliance Monitoring and Governance Will Become More Complicated.** We know that different investors will have very different investment profiles and SRI preferences, which in regular times would require the careful monitoring of individual mandates, and these processes tend to be labour intensive. **The solution is to use a combination of automation, workflow, and exception handling to optimise these processes and deliver an agile and intelligent approach to mandate compliance and investment governance.**

**Client Experience** – This is very important as client services teams adopt technology to better understand customer trends and re-design their distribution capabilities. Ideally, CS teams will want to capture, extract and apply analytics on data that can help to hyper personalise client interactions. Investors expect to interact with service providers across low touch digital channels when onboarding and completing basic due diligence such as KYC & AML which are processes that

can be fully automated using intelligent automation. **Enhanced checks such as ultimate beneficial ownership, PEP checks and cross-checking the HMT treasury list (UK) for sanctioned individuals can also be fully automated.**

**New Product Development** - Differentiation is also desirable for an asset manager's strategic growth roadmap. A recent survey found that "85% of asset managers believe that they must restructure and redefine investment operations to focus on competitive differentiators." This can involve developing new products (e.g. alternative assets) and access to other markets to exploit regional growth opportunities, for example, APAC.

**Talent Retention** - Human capital is an important consideration for most employers, and it benefits the organisation to retain talent where possible. One of the benefits of intelligent automation is to reduce the number and frequency of repetitive manual tasks which can be carried out by a digital 'workforce'. **This means that human capital can be deployed to carry out higher-value tasks with automation reducing costs, increasing productivity, and reducing manual error inputs.**

**Real Assets** - The private capital markets continue to see significant growth, and this trend is set to continue as investors seek to diversify their portfolios. We also know that there will be substantial investments into infrastructure and renewables over the coming years to meet COP-26 commitments and now to reduce reliance on Russian energy. Private Equity and Credit and Real-Estate remain attractive to investors and will continue to see significant inflows.

Sourcing data can be a significant challenge in private markets. It is estimated that 80% of available data comes in an unstructured format which is especially true for the private capital markets. **The solution is to use technologies such as OCR in combination with machine learning and NLP for document classification and named entity recognition for intelligent document processing (IDP).**

#### Summary:

Things have changed. The heightened geopolitical risk and market volatility resulting from Russia's invasion of Ukraine represents a significant challenge for the executive leadership teams of global asset management. I have made some very high-level assumptions but nonetheless, we are navigating uncharted waters and I am making the point of having the right digital capabilities in place is now critical to position the business to meet today's challenges. As a strategic partner we can help accelerate business value.



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