funds europe

THE NEXT FRONTIER

HOW THE FUNDS INDUSTRY VIEWS NEW TECHNOLOGY

A Funds Europe survey in partnership with Metrosoft

Change management: the technology dilemma

AN INTRODUCTION TO THIS YEAR'S SURVEY

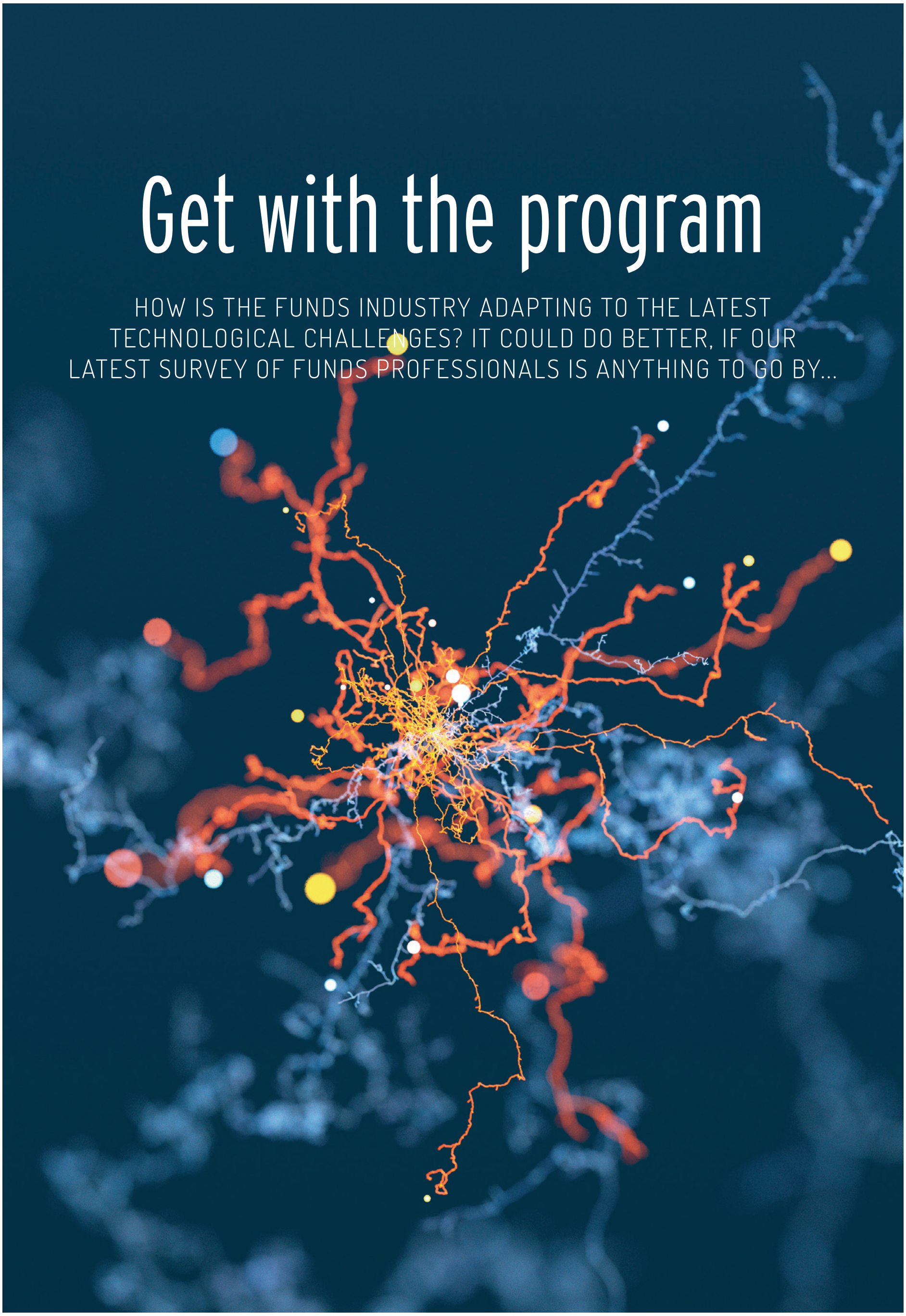
Highlights

Artificial intelligence, robotics and blockchain are among the technologies that promise to revolutionise fund management. But how well is the funds industry prepared for these changes ahead? *Funds Europe*, in partnership with Metrosoft, surveyed the industry to assess how well it is equipped to manage technology changes – and what the priorities are for improvement in this area.

- 40% said that the most important step to better change management is to improve communication within their business.
- 24% said that better change management will result from long-term incentives based on achievement, rather than short-term goals based on profit.
- 43% said the single biggest threat to the funds industry is rising costs and shrinking margins.
- 72% said that suitable technology is currently available to support effective change management.
- 74% said this technology is available at affordable prices.
- 40% said that responsibility for managing change must be spread across employees within the company.
- 35% said that the largest obstacle to change within their business is a lack of resources.
- 39% identified a lack of end-to-end understanding of what change involves within their business.

Get with the program

HOW IS THE FUNDS INDUSTRY ADAPTING TO THE LATEST TECHNOLOGICAL CHALLENGES? IT COULD DO BETTER, IF OUR LATEST SURVEY OF FUNDS PROFESSIONALS IS ANYTHING TO GO BY...



NEW WORLDS – Technology disrupts the status quo, producing numerous opportunities.

TECHNOLOGY IS BECOMING ever more embedded in modern life. If you doubt it, watch the ease with which a child of four can navigate the home screen of a tablet computer. Some educators even question whether it is worth teaching children to write longhand any more, given that so much of their lives will be spent communicating on digital channels.

The funds industry is no different from the rest of modern life in that it is being forced to adapt to a world in which technology both enables and disrupts the status quo. The opportunities are manifold. Technology can streamline and simplify, accelerate and distil. In sum, technology changes things.

But is the funds industry well equipped to manage technology changes? In this survey, we canvassed industry opinion regarding how good the industry is at change management, whether it has the tools required to implement change and where it can realise improvements in this area.

Transformation

In the survey's first question, we go to the heart of a dilemma facing the industry. Our survey put it like this: "The fund industry uses today's technology to automate, streamline and lower the cost of existing processes. Does the industry need to go beyond automation and transform the way it operates to remain relevant in the future?"

The response was overwhelming. A large majority, 90% of respondents, said transformation was required. Only 6% said the industry was doing fine and the remainder said they didn't know. This finding sets the tone for our research. There is a recognition among informed professionals across the industry that dramatic

Fig 1: Does the industry need to go beyond automation and transform the way it operates to remain relevant in the future?

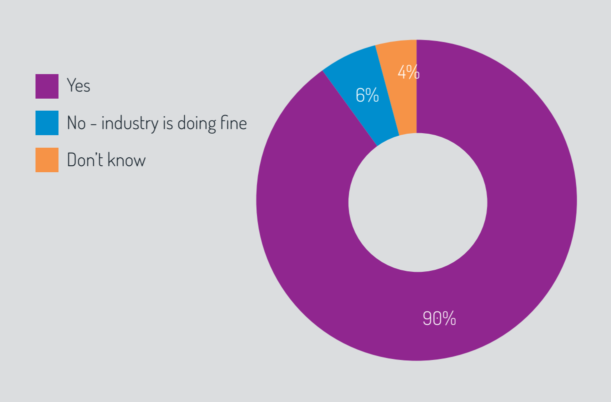
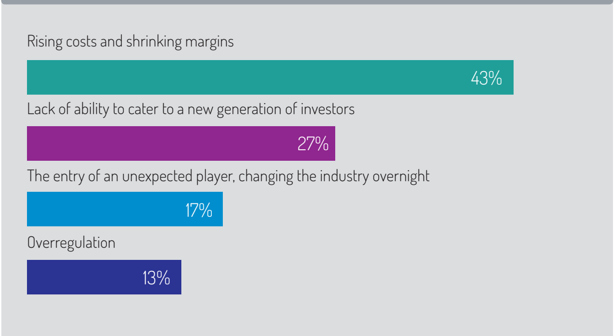


Fig 2: What is a single biggest threat to the fund industry?

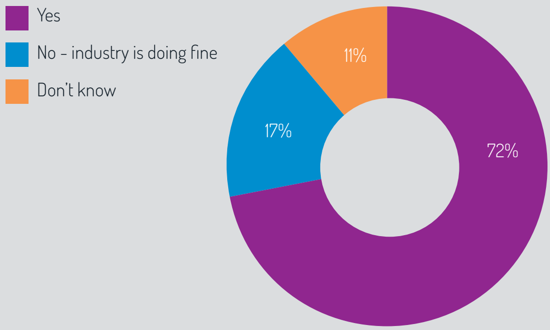


"INFORMED PROFESSIONALS RECOGNISE THAT DRAMATIC IMPROVEMENTS TO OPERATIONAL MODELS ARE NECESSARY."

improvements to operational models are necessary.

Why is such a significant shift required? Because the funds business faces threats. In figure 2 (previous page), we asked respondents to say which of four factors was the single greatest threat to the funds industry. Naturally, some respondents might have been tempted to pick all four, but, when forced to make a choice, the largest group of them (43%) opted for "rising costs and shrinking margins". This was more popular than "lack of ability to cater to a new generation of investors" and "the entry of an unexpected player, changing the industry overnight". Interestingly, the least popular answer was "overregulation", a result that was perhaps surprising, given that regulation is often presented as a major challenge to fund firms. We speculate that the regulatory frenzy that overcame

Fig 3: Is technology available that can support the required transformation?



the industry in the wake of the financial crisis has begun to abate, and fund professionals are now turning their attention to commercial challenges.

But what about the technology itself? We have established that transformation is required, but, in figure 3, we asked our respondents if they believed there was technology available

"IT'S REASSURING TO KNOW THAT THE RIGHT TECHNOLOGY IS OUT THERE AND IS NOT PROHIBITIVELY EXPENSIVE."

to support the required transformation. Our respondents came out strongly in the affirmative, with 72% saying they thought the right kind of technology was available.

The results of the next question (figure 4) added a further cause for optimism. Another large contingent, 74% this time, said that the right type of technology was affordable. These two findings ought to provide some reassurance to fund companies. The right technology is out there, and it is not prohibitively expensive.

Fig 4: Is this technology affordable?

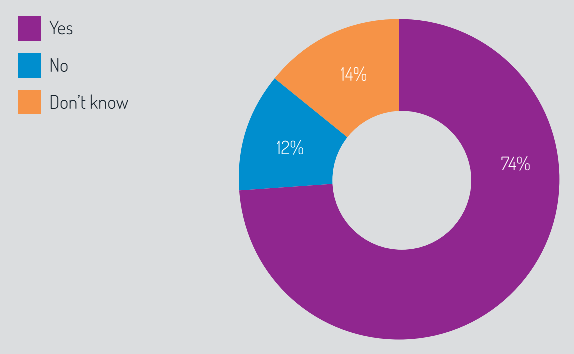
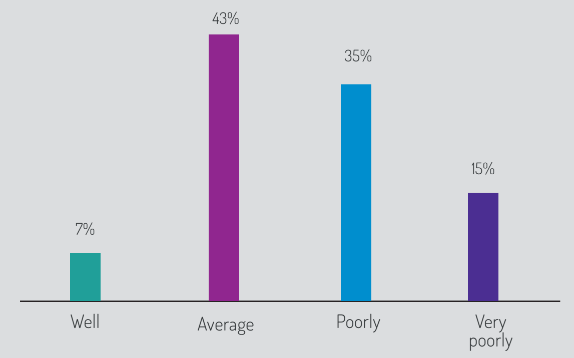


Fig 5: How well does the funds industry manage change?



The hurdles

However, there are problems. According to our respondents, the funds industry is not good at handling change. Figure 5 shows that only 7% of respondents thought that the industry was capable of managing or adopting change well – and no one stated that the industry did this "very well". In contrast, half of the respondents said the

Fig 6: Who is responsible for managing or initiating change?

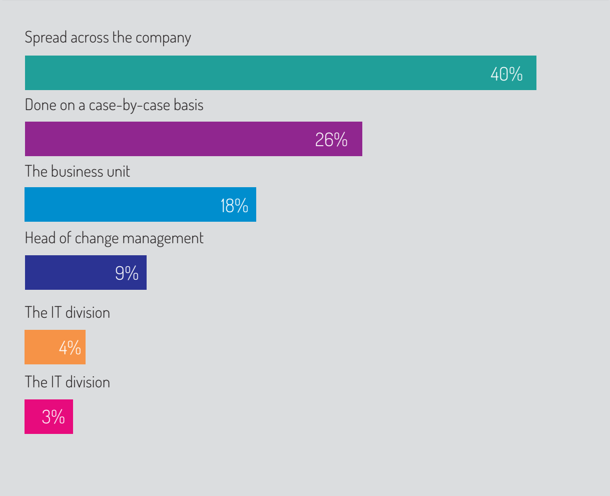
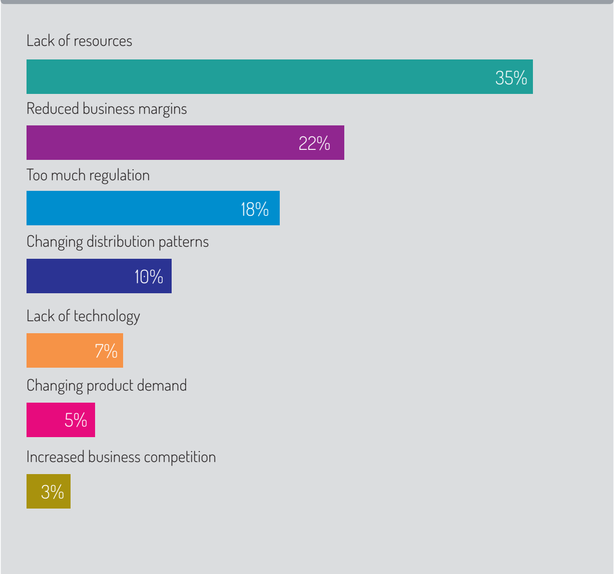


Fig 7: In recent years, what has been the greatest impediment to adopting change?



industry was either poor or very poor at managing or adopting change. This finding suggests the industry will struggle to achieve the transformation in its operating models that our respondents believe is necessary.

But before handing out admonishment for the industry's failings to manage change, we ought to ask whose responsibility it is. Figure 6 helps to explain why this issue is so difficult to resolve. When presented with the question, "who is responsible for managing or initiating change?", the largest group of respondents (40%) said responsibility was "spread across the company". The second-most popular answer was that responsibility was allocated "on a case-by-case basis" (26%). Our respondents believed that change is the shared responsibility of everyone, which is an admirably democratic sentiment. Unfortunately, change management is complex. We speculate that the broad

"WITHOUT THE PROPER RESOURCES, EFFORTS TO TRANSFORM THE INDUSTRY WILL STRUGGLE."

distribution of responsibility for such tasks may hinder progress.

Figure 7 sheds additional light on this issue. When asked what has been the greatest impediment to adopting change, "lack of resources" was chosen above other factors by our respondents (35%). The message seems to be that without resources allocated for the purpose, efforts to transform the industry in the changing technology environment will struggle.

Another perspective on this subject was offered in figure 8, which examined the question of data, an increasingly hot topic in the industry. Our respondents were asked, "is data in the industry organised, stored and used in a way that facilitates transformation?" Again, they appeared to take a dim view of the industry's performance. More than three-quarters (77%) said the industry was not managing data in a suitable way to achieve the goal of transforming operational processes. This failing will surely inhibit efforts to prepare for the future.

Fig 8: Is data in the industry organised, stored and used in a way that facilitates transformation?

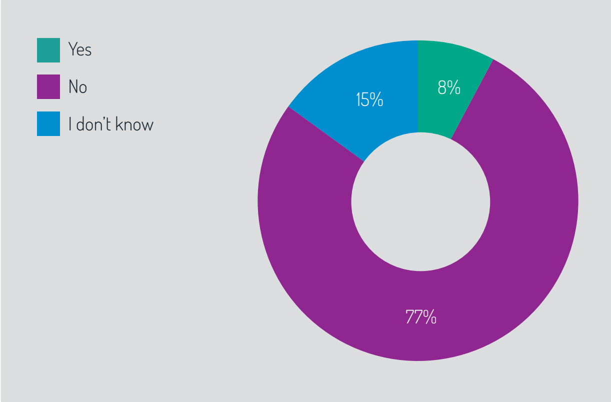
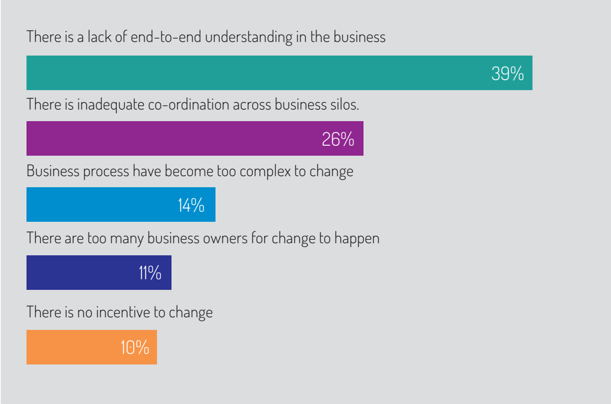


Fig 9: Which of the following represents the major barrier to implementing change in your business?



Problems, problems

In fairness to the funds industry, the challenges ahead are daunting. Within the business, core systems and processes have often metamorphosed beyond their original aims (due to ageing technology, changing regulation and customer demands), making change difficult. In figure 9, respondents were asked to select one of five factors that represent the primary obstacle to efficient change management. The most popular answer, accounting for 39% of responses, was "there is a lack of end-to-end understanding in the business". The second-most popular response was "there is inadequate co-ordination across business silos", with 26%. Both of the answers point to the general problem of managing complex projects in which many different employees and departments are required to implement changes.

To develop this point further, respondents were asked, in Fig 10, to select the single most important factor constraining the fund industry's ability to change (from a list of six options). The most popular choice, accounting

> **"RESPONDENTS SEEMED KEEN TO EMPHASISE THE IMPORTANCE OF INFORMATION-SHARING TO ACHIEVE GOALS."**

for 31% of responses, was "failure to see a broader picture and long-term results". Close behind, with 26% of responses, was "human resistance to change". These findings suggest we should not underestimate the influence of behaviour and psychology in explaining why transformation can be hard to achieve.

Figure 11 echoed an earlier finding by reiterating the importance of resources for change management. When respondents were asked to say what was the greatest barrier to change within their business, the most popular response (27%) was "we do not have the resources". It is perhaps noteworthy, given the competitive pressures

Fig 10: If the industry requires transformation, what is the single most important factor impeding change?

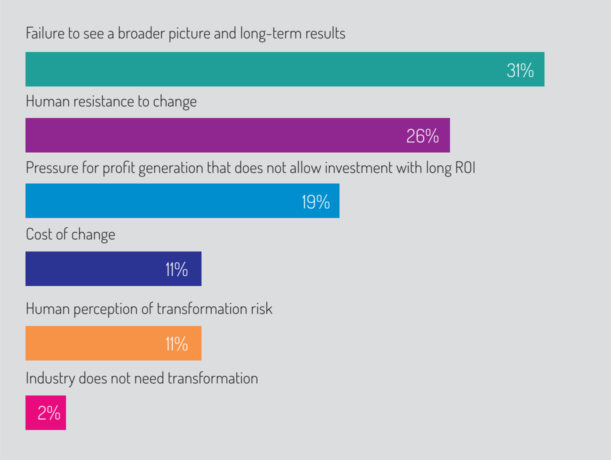


Fig 11: What are the greatest barriers to change within your business?

within the funds industry, that 21% of respondents indicated that they do not have satisfactory incentives to change. A further 19% said that "it is not clear where we are going as a business".

In contrast, 21% of respondents indicated that they did not have significant barriers to implementing change.

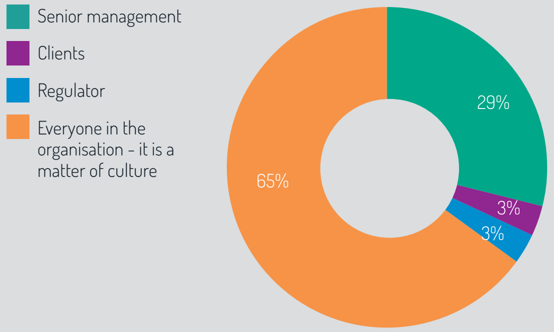
Teamwork

We have examined a lot of the obstacles. What are the solutions? In figure 12, respondents were asked to select, from a list of possibilities, which courses of action would be most effective in helping humans deal with change. The most popular option, accounting for 40% of responses, was "we need better communication within the organisation". The next most popular responses were "we need to identify the new skills we need", which attracted 23% of responses, and "we need clear retraining programmes within the business", which got 15%. Respondents seemed keen to emphasise the importance of information-sharing to achieve common goals.

The next question (figure 13) sought to determine which parties within an organisation should initiate transformation.

Fig 12: How do we help humans to deal with change?

Fig 13: Who should initiate transformation?



Survey respondents suggest that responsibility should not be lumped on senior management (selected by 29% of respondents to this question). Instead, "everyone in the organisation – it is a matter of culture" was by far the most popular answer, accounting for nearly two-thirds (65%) of responses.

Fig 14: At industry level, what needs to be done to encourage change?

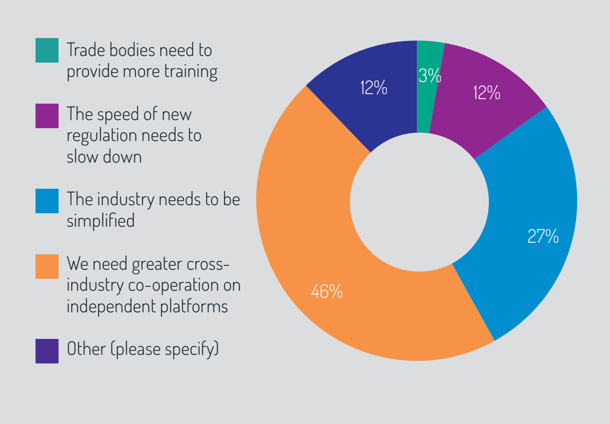
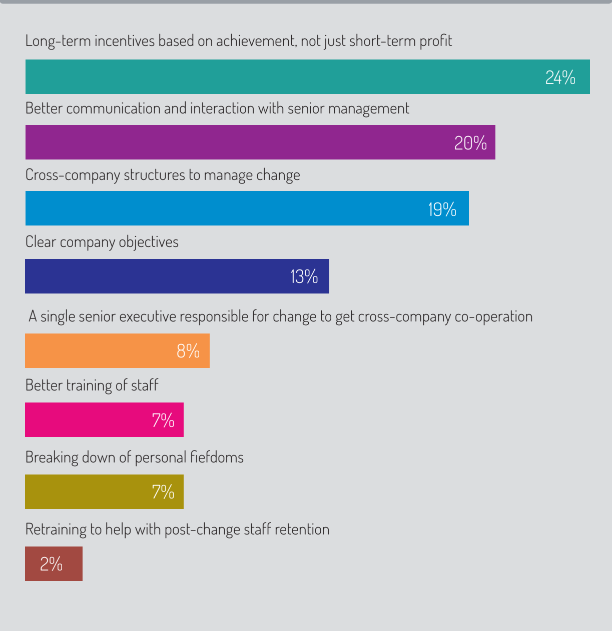


Fig 15: Within your company, what actions would you like to encourage change?



Again, our respondents have highlighted that effective change management within an organisation is a matter of collective responsibility.

What about at industry level? In figure 14, respondents were asked to choose which of several factors would be most helpful to encourage change. The importance of teamwork was underlined once more. Nearly half (46%) of respondents opted for "we need greater cross-industry co-operation on independent platforms", which was the most popular response by a significant margin. Some respondents had alternative suggestions.

"GOOD CHANGE MANAGEMENT IS SEEN AS A MATTER OF COLLECTIVE RESPONSIBILITY."

Those who selected the option "other" were asked to say what they had in mind. Their proposals included "more standards across all fund topics" and "need more transparency to industry metrics to understand where money and opportunity is wasted" (see the appendix for a collection of anonymous quotes from respondents).

It starts at home

The final questions in the survey asked respondents to identify which factors are most important, at business and industry level, in supporting effective change management.

"THERE IS A VIEW THAT EMPLOYEES SHOULD BE ENCOURAGED TO PLAN FAR INTO THE FUTURE."

Figure 15 revealed a preference for far-sightedness. Nearly a quarter (24%) of respondents said the action they would most like to encourage change was "long-term incentives based on achievement, not just short-term profit". Clearly, there is a view that employees should be encouraged to plan far into the future and not work to a cycle of quarterly financial results. The second-most popular response to this question was "better communication and interaction with senior management", which supports the earlier point about teamwork being crucial in achieving effective transformation (20%). In third place, with 19% of responses, was "cross-company structures to manage change". Once more, the importance of co-ordination within and without organisations was emphasised.

In the next question, respondents were asked to consider which factors they would value personally to facilitate change. Echoing the previous finding, nearly half (49%) of respondents said "long-term incentives not simply based on profit" would be most

Fig 16: What would you like for yourself to facilitate change?

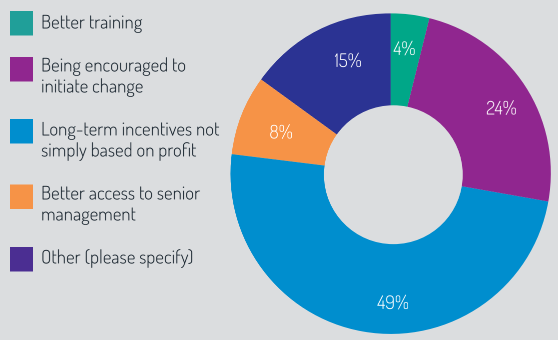


Fig 17: Would clearly defined long term goals, delivered through well-defined incremental steps, help to transform the industry?

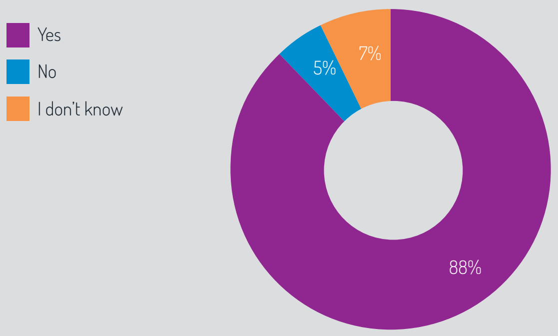


Fig 18: What sort of business do you work for?

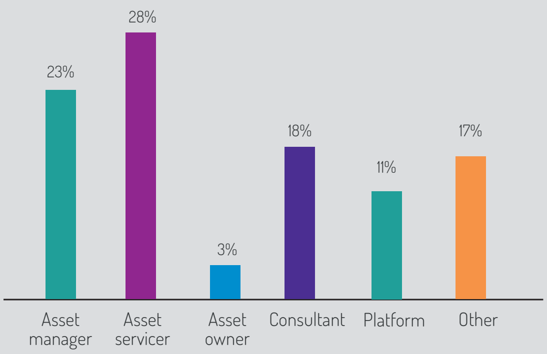


Fig 19: Where do you work?

Country	%
Andorra	1.4%
Australia	1.4%
Colombia	1.4%
Cyprus	1.4%
France	1.4%
Guernsey	1.4%
Hong Kong	7.0%
India	1.4%
Ireland	10.0%
Isle of Man	1.4%
Italy	1.4%
Jersey	3.0%
Luxembourg	21.0%
Malaysia	1.4%
Malta	1.4%
Netherlands	1.4%
Poland	1.4%
Portugal	3.0%
Singapore	1.4%
Sweden	1.4%
Switzerland	4.0%
United Kingdom	27.0%
United States	4.0%

helpful. This factor beat other options such as "better training" and "better access to senior management". Respondents who selected the "other" category were asked to state what they had in mind. Their suggestions included "more IT/new technology awareness in senior management" and "recognition that everyone across the organisation can help with change".

The final question in the survey proposed a way forward that could gain the support of most of our respondents (Fig 17). We asked, "Would clearly defined long-term goals, delivered through well-defined incremental steps, help to transform the industry?" An overwhelming 88% answered "yes". This finding offers some comfort – in an industry that is often plagued with disagreement and fragmentation, there are things we can (mostly) agree on.

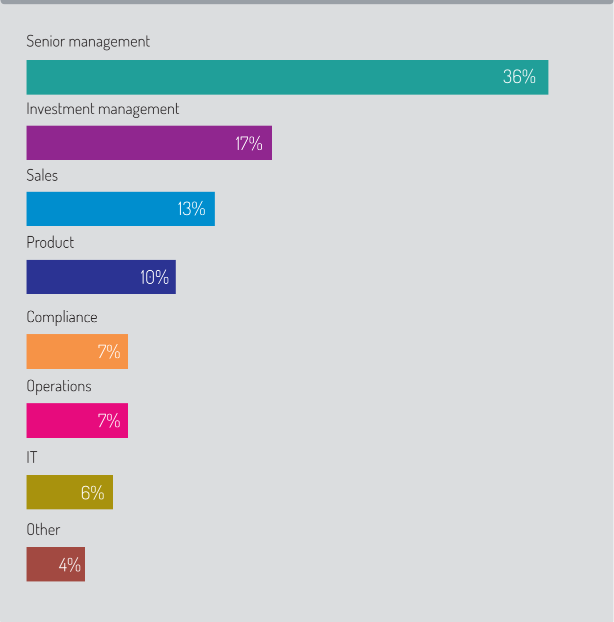
"THIS SURVEY HAS REVEALED THAT THE FUNDS INDUSTRY FACES SIGNIFICANT CHALLENGES."

Respondents who answered "yes" were invited to submit their own suggestions for achieving effective change in the funds industry. An edited list of their proposals is included in the appendix.

Conclusion

This survey has revealed that the funds industry faces significant challenges in relation to its usage and deployment of technology. Respondents repeatedly made the point that fund companies are not well placed to manage the technological transformation that is necessary. The hurdles include siloed organisation structures in which different departments do not communicate well; a lack of understanding of complex technical issues by senior managers; and unhelpful incentives that encourage employees to focus on short-term gains at the expense

Fig 20: What part of the industry do you work in?



“THE PROBLEMS ARE OMINOUS BUT WITH DETERMINATION, THE SECTOR CAN THRIVE.”

of long-term performance. There is good news, though. Our respondents felt that solutions to this malaise were available. Broadly, the remedy to the problem will involve better industry standards, a focus on long-term planning, and more collaboration both within organisations and at an industry level. The problems are ominous, but with teamwork and determination, the funds industry can thrive. **f**e

Seizing the day

WHY IT'S VITAL TO MOVE WITH THE TIMES

A panel of experts from across the funds industry was asked to comment on the survey:

PAOLO SIRONI
IBM FINTECH THOUGHT LEADER

The financial services industry is facing a period of unprecedented change which is not solely due to technology upgrades and competition. The real reasons for change are rooted in the excesses built prior to the eruption of the global financial crisis and the subsequent act of reckoning that dictated that existing business models would not be sustainable in the medium-to-long run.

Traditionally, the economics of banking have been shaped around asymmetry of information, which typically confined most clients to being price-takers of investment management relationships, while distribution channels could optimise their price-making primacy through open architectures fostering transactions based on product marketing.

However, the advent of passive investing – supported by greater investment convenience during a protracted phase of quantitative easing (bringing high correlation among asset classes) – has produced a progressive compression of intermediation margins owing to product competition, particularly in the US.

> "DIGITAL PLAYGROUNDS POWERED BY A NEW GOAL-BASED INVESTMENT NARRATIVE WILL BECOME ESSENTIAL."

On the other side, especially in Europe, regulation has become more demanding, forcing higher transparency of costs and charges and presenting a more compelling requirement to deliver value generation for investors. This has triggered a progressive transformation of distribution channels towards fee-based propositions. Only by looking at the changes occurring at the level of personal finance (i.e., relationship management and digital offers) can we identify the main drivers of change in asset management. The new economics governing intermediation margins in more transparent markets are forcing a contraction of the value chain, inviting asset managers to compete with wealth managers on client relationships.

Clearly, this cannot happen without technology, namely digital and artificial intelligence. Fintech innovation is not the cause of industry disruption or transformation, but the opportunity for the industry to face transformation from transactions to services – thus from embedded commissions to products called 'advice' whose fees clients are transparently happy to pay for. The challenge is significant because stratified, legacy-based leadership models in investment management operations are hard to change, favouring an easier search for volumes (commoditisation of offers towards passive investing) compared with a more demanding search for value (personalisation of personal investment relationships).

A clear hurdle to face in delivering value-based transformation is also the biology of investors, who have a hard time engaging with financial complexity and understanding where real value comes from. Therefore, digital playgrounds powered by a new goal-based investment narrative will become essential to convey (whether through human-to-human or digital-to human channels) a stronger value proposition to defend existing revenues. Artificial intelligence will be the primary actor in this battle, as it can help to institutionalise the investment management relationships on a more compressed value chain.

Yet, artificial intelligence is not a product or a solution. Artificial intelligence is the core strategy and engine of a digital investment management platform that collates the work of asset managers with that of relationship managers. The periphery of prices and products, fostered by transparency and fintech offers, will imply the centricity of clients, empowered and assisted by artificial intelligence in all phases of on-boarding. Clearly, all back-office functions will face change to comply with the new narrative, while most investment management operations will simplify and automate, knowing that the personalisation of investment will shift from the asset side to clients' liability side in a process of progressive institutionalisation of digital financial planning.

MARKUS H RUETIMANN
CEO OF HARDY LONDON LTD AND CHAIR OF APREXO GROUP LTD

The investment industry is at an inflection point. Super-convergence and cognitive technology solutions are likely to recalibrate the operational and commercial relationships between institutional asset owners, asset managers and asset services providers. Keen to reduce operating risks, costs and process complexity, all three constituencies appear to evolve their operating platforms at a different pace and with different solutions for what are often common problems. "To lead or to follow" is a key question executive teams are currently struggling with when searching for new technology and process solutions.

The asset management industry is not renowned for rapid and agile adoption of emerging technologies or new modus operandi. Cynics believe that it couldn't manufacture an automobile as it would have to collaborate with competitors and various suppliers, operate with thin profit margins and continuously reinvent its products.

> "THE ASSET MANAGEMENT INDUSTRY IS NOT RENOWNED FOR RAPID AND AGILE ADOPTION OF EMERGING TECHNOLOGIES OR NEW MODUS OPERANDI."

So far, and perhaps for not much longer, lower fees and other P&L pressures have not yet forced significant actions and change appears to remain largely incremental and opportunistic, rather than supportive of a step-change strategy. Hierarchical bottlenecks and career risk aversion can limit an enterprise's ability to positively embrace change, let alone demanding continuous challenge of the status quo.

Regulatory transparency about fees and investment risks has fundamentally and irreversibly changed the engagement with clients for the better. Institutional asset owners want mobile, near-real-time access to their investment transactions and positions as well as to analytics on risks, performance attribution and fees. Asset managers incorporate these data requirements in their digital transformation programme. However, few firms consider digital transformation to be about a changing mindset rather than solely about technology. They should.

Technology is gradually liberating the industry from legacy. Distributed ledger technology (DLT) now enables simultaneous sharing of data in a private or public domain. Big data infrastructures are emerging, helping to capture and analyse vast amounts of structured and unstructured data. The use of cloud-born applications, delivered as software as a service (SaaS), as well as robotic process automation (RPA), are priorities pursued by most asset managers at present.

Evolving procurement strategies suggest that some global asset managers are considering the sourcing of technology, securities services and data solutions from fewer, or sometimes aiming for only one provider, while retaining an appropriate level of control and oversight.

"'TO LEAD OR TO FOLLOW' REMAINS THE QUESTION. ADDRESSING LEGACY SYSTEMS AND PROCESSES IS A MOUNTAIN MOST FINANCIAL SERVICES FIRMS HAVE TO CLIMB EVENTUALLY."

Asset managers of the future are enterprises that successfully

• involve clients in their product development process;
• foster a culture that allows its diverse workforce to experiment with new solutions;
• diversify their talent pool by hiring change and leadership experience from other industries (e.g. engineering, manufacturing, retail or high-performance sports);
• experiment with cognitive technologies that augment human intelligence to improve investment and distribution models;
• develop data analytics that overcome data overload and form the primary basis for making decisions and to predict trends;
• collaborate with innovative and uninhibited firms, including fintechs, for stress-testing or developing new business models.

"To lead or to follow" remains the question. Addressing legacy systems and processes is a mountain most financial services firms have to climb eventually. Early adopters of new technologies can benefit not only from new functionality, but also from mobilising their organisation for a step-change in their operating model. Our industry is familiar with the concept of 'higher risk – higher rewards'. Fast followers are likely to end up we a 'me-too' solution. Not necessarily a great position to be in when differentiation of investment and operational performance is essential.

Undoubtedly, while past performance is not indicative of future results, future results are based on the performance of talent and technology. Industry consolidation is finally upon us.

MATTHEW NEWNHAM
MANAGING DIRECTOR, MFEX UK AND IRELAND

Earlier in my career, a senior leader would encourage his management team at the end of each year to break their products and build them back stronger. This simple message was to focus the team on continuous improvement and not be bound by the way this has always been done, legacy technology or the status quo.

As in all sectors, the fund industry is constantly impacted by change, be it from clients, regulators, improving operational efficiency, risk reduction, product development, keeping up with competitors or the integration of newly acquired companies. In the last few years, many industry participants have had to work together to implement practical changes imposed by regulation. Working together is the new norm. Finding like-minded partners willing to work for the common good increases the chances of success. This theme is continuing with many new technologies going through an early adoption phase, with distributed ledger technology (DLT) at the forefront of many initiatives in the fund and asset servicing industry. Successful adoption requires that companies work together – the very nature of a DLT is that one company is not the central point and dominant player. In this new world, the companies that stand the best chance of succeeding are those most culturally open to partnerships, that are willing to take a leap into the unknown, able to build trusting networks and that can work openly to solve real, and importantly new, problems.

Though there is a focus on new technology, we continue to face more pressing operational and technical issues on a day-to-day basis as an industry. Examples where the industry needs to work together to improve existing processes include manual transfers, manual switches and the exchange of physical legal or commercial documents with original signatures sent via registered mail. This is also necessary to address inefficient and duplicated due diligence processes or lack

"'THE COMPANIES THAT STAND THE BEST CHANCE OF SUCCEEDING ARE THOSE MOST CULTURALLY OPEN TO PARTNERSHIPS, THAT ARE WILLING TO TAKE A LEAP INTO THE UNKNOWN."

of transparency due to the inability to provide the right reporting. It's certainly possible that many of these can be solved using new technology and thinking differently. From our experiences in the Nordic markets, we see that the use of digital IDs and authorisation, and the dematerialisation of legal contracts, can go a long way in removing friction from the financial services industry. These are lessons which can certainly be applied more broadly.

Creating an organisation able to deliver change and to ensure IT delivers value to the business is the panacea that eludes many. Smaller firms have a natural advantage through the creation of Agile and product-centric organisations. In real terms this means dedicated product, business analysis, IT development, quality assurance and operations teams working in harmony to deliver small incremental changes, all focused on delivering the maximum business value. At the heart of change is strong product management, driven by experienced experts in their fields who are able to navigate the client's needs captured through working with the client relations and sales teams, internal business drivers and IT teams to deliver measurable financial benefits. The ethos of Agile is quick delivery and continuous reprioritisation, focusing on value and adapting to changing needs. A core part of an Agile organisation is the ability to bring change into production, something the largest tech firms these days can do daily. This can't be possible without the right framework and infrastructure, which is where a 'DevOps' approach becomes an important part of the journey.

Being willing to challenge and break the ways things have always been done requires an important element in managing change – that is being creative and not being bound by the ways of the past. It involves a willingness to incorporate new technology and to work with partners to maximise impact.

TONY FREEMAN
EXECUTIVE DIRECTOR, GOVERNMENT RELATIONS, DTCC

Managing change is no longer an optional task and all fund management companies have had to develop their skills in this area. Since the financial crisis of 2008, regulatory change has enveloped all segments of the market, including the fund industry. However, the fund industry has never been a homogeneous group and regulatory change has accentuated operational diversity. In particular, the move towards middle and back-office outsourcing has accelerated. Buy-side firms which have been wedded to performing almost all processes in-house have undergone a complete change, because the cost and complexity of singlehandedly implementing regulatory change is simply

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too great a burden. Investing in portfolio performance and client service remains a priority, but spending money on shareholder record-keeping or fund-accounting seems much less productive. This model even applies to the biggest fund managers, who can achieve economies of scale.

So how should companies be structured to optimise their ability to manage change? In practice, there is no optimum structure. The way firms are organised depends on several factors. Do you buy, build or rent your technology? How much of your middle and back office do you outsource? Do you regard operations as a value-add or a cost? And crucially, for a buy-side firm – how complex are your funds? The key success factors appear to be an ability to think long-term and to separate

the responsibility for day-to-day management from planning ahead. The implementation of the Central Securities Depositories Regulation (CSDR) settlement discipline regime in 2020 is a live, current example – it isn't unusual to meet senior operations people who are unaware of the new requirements. They appear to be so busy with day-to-day operations that they have little capacity remaining for long-term thinking.

There are also industry coordination concerns to consider. Many regulatory changes – T+2 settlement and the settlement discipline regime are both good examples – cannot be achieved in a vacuum and require industry collaboration. Therefore, it is vital that fund managers see themselves as part of a community. It appears that some firms believe their brokers and custodians will deliver ready-made solutions. When you have a complex supply chain and are heavily interconnected with counterparties and clients, you can't avoid taking ownership of industry change projects. This is especially true in Europe, where there is no centralised entity to act as project manager.

The focus areas identified most frequently by clients as having potential benefit to the funds industry are data analytics, cost attribution and cyber-security defence. For active managers, the search for alpha is absolutely the highest priority and therefore, data management becomes paramount. Understanding costs is also a highly topical issue, because there is considerable pressure from policy-makers, especially the FCA in the UK, for all companies in the funds industry to be more transparent

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about how they allocate their costs to clients. And cyber security is what keeps us all awake at night. None of these challenges have historically been a core issue for the funds industry, so the key is probably for a firm to understand its own strengths and weaknesses. It may be necessary to procure skills and services in an entirely new way. **f**e

Appendix

An edited list of anonymous quotes from respondents gathered from questions 17, 19 and 21.

"The funds industry is culturally incapable of changing on its own. It is 20-30 years behind the transformation in other industries. The sector is overripe for the entry of a major disruptor, which will force funds companies to change in response. A few will successfully adapt. The remaining majority will be dead."

"Drivers for change need to be clear and commercial for all parties. Market expectation is that new technology means lower fees eventually. Significant investment by asset servicers to support change leads to a downward pressure on revenues. Where's the incentive?"

"[We need] a small number of industry leading firms to collaborate. Less talk more action!"

"Goals are key and can transport a vision. We dare more when defining long-term goals but would need to manage drift over time to ensure the goal remains relevant or needs adjustment."

"Who is the change for, is it really needed, if so why, and who benefits from it?"

"More standardisation in the fund industry would help in creating synergies and reducing costs and step up the use of new technology. This, of course, is if the regulation tsunami slows down."

"[Change requires] use of standardised non-competitive technology together with clear cross-functional co-operation to implement change, driven by the correct senior person with clout to push things through to conclusion."

"People need to feel they are been assessed not only by their immediate performance but by their contribution to the completion of important structures and steps defined by organisational long-term goals."

"The industry needs to redefine itself and start creating true value."

Survey methodology

We asked a sample of funds professionals from across the industry to answer our online survey. Figure 18 shows the professional mix, with employees of asset servicing firms accounting for the largest single group, at 28% of the respondents, followed by employees of asset managers, who accounted for 23%. Consultants, platforms and asset owners were also represented. Respondents who selected the “other” category were asked to name their type of business. The responses included management company, stock exchange, technology vendor and law firm.

Figure 19 displays the geographical distribution of our respondents. The largest single territory was the UK, where 27% of our respondents were based, followed by Luxembourg, which accounted for 21% of the sample. Ten percent of respondents were from Ireland, 7% from Hong Kong and 4% each from Switzerland and the US. The sample was truly global, with countries from Colombia to Singapore represented.

Our respondents carried out a range of different functions. Figure 20 reveals that respondents worked in departments from operations to IT to compliance. Respondents who worked in sales accounted for 13% of the sample, those in investment management for 17%, and the largest single group were those who described themselves as senior management. This group accounted for more than a third (36%) of the sample.

The report author was George Mitton. Paula Towner compiled and presented the data.