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Deliberately digital

How investment and wealth managers can overcome barriers to adoption

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Foreword

While the rapid rebound in stock markets after the sharp correction of February / March 2020 has given investors cause to cheer, the investment and wealth management industries face competitive pressures that are stronger than ever. Fee levels are falling, client expectations are rising and shifting, and regulation is becoming more onerous.

At the same time, digital technologies are a crucial source of competitive advantage. Digital leaders have demonstrably greater inflows, longer retention and superior investment performance than those of their peers. Nonetheless, as an industry, aside from the one-off and dramatic shift to home working forced by the pandemic, we have tended to be relatively slow to adopt digital technologies.

So, what are the barriers to adoption and how should managers address them? This report seeks to provides answers by identifying the major barriers, providing an insight into the context in which they exist and offering key recommendations on how to overcome them.

In our view, managers face three principal barriers, all of which are internal to firms. They relate to strategy, people, and the process of allocating capital to competing digital and non-digital initiatives.

Managers have powerful tools with which to overcome these barriers, but ultimately, they need alignment between their people and the role of digital technologies. All people, from the board downwards, must understand what they need to do with digital technology and why. The shift required is not just about technology; it's a holistic approach, encompassing the human, physical, digital and organisational environments.

This report is based on interviews with 18 senior leaders who focus on digital technologies including Chief Technology Officers, Heads of Client Service, Chief Distribution Officers and Chief Digital Officers. The key findings and implications have been supported by Deloitte's perspective based on its work in the market. We thank those who took part in the research.

The report is most relevant to managers' boards and senior executives as well as to technology, digital, strategy and client specialists. We look forward to discussing its findings with you.

Tony Gaughan
Vice Chairman, EMEA Investment Management & Wealth Sector Leader

Executive summary

On the face of it the market appears uniform. Investment and wealth managers share three high-level objectives for adopting digital technology: enhancing the investment decision-making process, increasing operational efficiency and improving the client experience. Look closer and you will see that some are also using 'digital' to open new revenue streams and to bolster the employee experience.

However, managers profoundly differ on the sequencing and emphasis of individual objectives. Some are taking an operations-led approach, updating legacy and streamlining processes to boost efficiency. Others have opted for an investment process-led approach, arming the front office to become world-class at what they do best.

Most managers categorise the overall digital maturity of their organisations as between 'enhancing' and 'innovating' the business model. The picture is more nuanced within managers with a wide dispersion in maturity by function.

The pace of change is accelerating. The industry has made real progress on its digital agenda over the past three to five years. An increasing number of managers are moving up the maturity curve and are now using digital to rethink business models. The consequence for competitive dynamics is stark. Digital laggards are finding it increasingly difficult to catch digital leaders.

Looking ahead the main barriers to adoption relate to strategy, people and resourcing. A lack of clarity on how digital technologies enable the business strategy and inconsistent execution of strategy are creating uncertainty for digital initiatives. In turn, this is eroding buy-in. On the people side, the barriers are cultural issues such as resistance to change, an underestimation of the shift in mind-set and ways of working required and skills gaps. These barriers are compounded by the perennial issue of finite resources for digital initiatives given competing priorities.

Yet managers have powerful tools with which to overcome barriers. Starting with strategy, they need to articulate to internal audiences how digital technologies will drive competitive advantage and empower digital leadership to drive the development and execution of business strategy. To overcome people barriers, managers need an enterprise-wide culture of innovation, which hinges on reskilling, attracting new talent and optimising the talent model. To mitigate finite resources managers must rethink prioritisation. The starting point should be a framework to allocate capital to digital and non-digital initiatives, with a focus on value as well as cost and risk.

The upside is clear. Managers that overcome these barriers will see widespread benefits, from faster and more effective technology adoption to more satisfied customers and employees.

Objectives

Investment and wealth managers share three high-level objectives for adopting digital technologies: enhancing the investment decision-making process, increasing operational efficiency and improving the client experience.

Investment decision-making process

Unsurprisingly, given that managers ultimately live or die according to investment performance, the front office is a real focus for digital enhancements. A clear trend is for automation of low-value tasks, such as capturing data, to liberate time for core decision-making activities.

The full extent to which tasks carried out by front office people could or should be automated is open to debate and will vary according to the front office's approach. What is clear is that human judgment is often the most important differentiating factor in the investment process, the 'secret sauce', and this points to the future as bionic: human judgment augmented by technology. Developing the right skills to do this, including a mixture of portfolio management and technology, will be critical.

"The portfolio manager of the future is a data-scientist"
COO, Pension Asset Manager

Another point of consensus is that the investment decision-making process is only as good as its inputs. Managers are constantly searching for an informational advantage in new and better data. For example, many are turning to techniques that exploit data, using new, alternative sources such as geospatial data from internet-connected sensors and blending public and private data. The pandemic has undoubtedly strengthened the case: using alternative data sources, such as geospatial data on population movement, helped investment professionals to navigate turbulent markets. Nonetheless, the industry remains largely in experimentation mode. More work needs to be done to understand fully which alternative data to use and how best to incorporate it into established investment processes.

"Especially in the pandemic, we had to change our investment process to search for new sources of data and information. For example, using Google to see where people are moving around. The digital revolution is coming step-by-step."
CIO, Asset Manager

"2020 has been crazy, traditional metrics make no sense, e.g. PMI, unemployment numbers, they're up and down. Traditional metrics that are ex-post are not really a true reflection of what's going on. Fund managers have been looking at things like geolocation data, credit card spending, sentiment data, net promoter scores."
Head of Data Science, Active Asset Manager

In tandem with upgrading the front office's data, the tools and techniques with which that data is analysed are becoming ever more sophisticated and powerful. Digital technologies are often an enabler. For instance, managers are building data science capabilities that rely on massively increased processing power and advanced software, such is the sheer size of their data sets.

Operational efficiency

A range of powerful forces, including falling fees and increasing costs, are driving up the need for operations to become more efficient across the market cycle. The response from managers often centres on dealing with legacy technology, structures and processes. For some, typically the larger and older incumbents, this objective can be a dominant priority.

Two issues compound the challenge. The trend for consolidation is increasing the need for managers to find post-merger efficiencies across duplicative operations. This issue is widespread. In addition, manual processes need to be digitised, particularly among wealth managers that have grown quickly over the past decade. This can increase efficiency and help to combat fraud. It can also drive scalability and more flexible working patterns in response to the demand for more home working post-pandemic.

"If I look at the big budget spend of the past few years and that coming up, dealing with legacy is certainly a major objective for adopting digital. The legacy challenge, e.g. becoming more efficient, is a given. That's in the DNA of every incumbent"
Head of Digital Business Development, Global Wealth Manager

"We are still dealing with too many manual processes. These are absolutely a focus"
CDO, Wealth Manager

Client experience or CX

If performance is king, client experience (CX) is the queen. As highlighted in our previous research, Distribution 2.0, clients view their experience of interacting with managers as a key element of redemption [1]decisions. Roughly three-quarters of buyers give CX as a contributing factor to ending an investment manager relationship.

Improving CX typically breaks down into two distinct activities, knowing more about the client and exceeding his or her expectations. To know more about clients, typical actions include creating 'single client views' encompassing all relevant data and information held by the manager. This enables a deeper understanding of the client's interactions with the manager across all touchpoints. Managers are also using data management platforms to build more granular client segments.

Building on this deeper understanding of clients, to exceed clients' expectations, managers are taking inspiration from the leaders in CX, such as major consumer-facing technology companies. Typical actions include giving clients smooth, online self-service journeys. Managers are also working hard to provide clients with increasingly rich investment data. Personalisation of the experience, including through human-centred design, to drive improvements in CX at scale is on the horizon.

Employee experience or EX

Closely linked to CX is EX. Many now recognise that to improve the client experience, companies of all sectors need to start by ensuring that those responsible for making this happen, their employees, are both motivated and empowered to do so. This is particularly the case in investment and wealth management as human-capital intensive industries. Managers are, therefore, exploring ways to improve EX using digital technologies. It is fair to say that is an emerging trend, not least due to the recent home-working imperative.

Digital as a revenue stream

Another emerging trend is for managers to use digital technologies to open new revenue streams by moving down the value chain, closer to the end-investor. For example, managers are providing digitally enabled services to direct-to-consumer platforms.

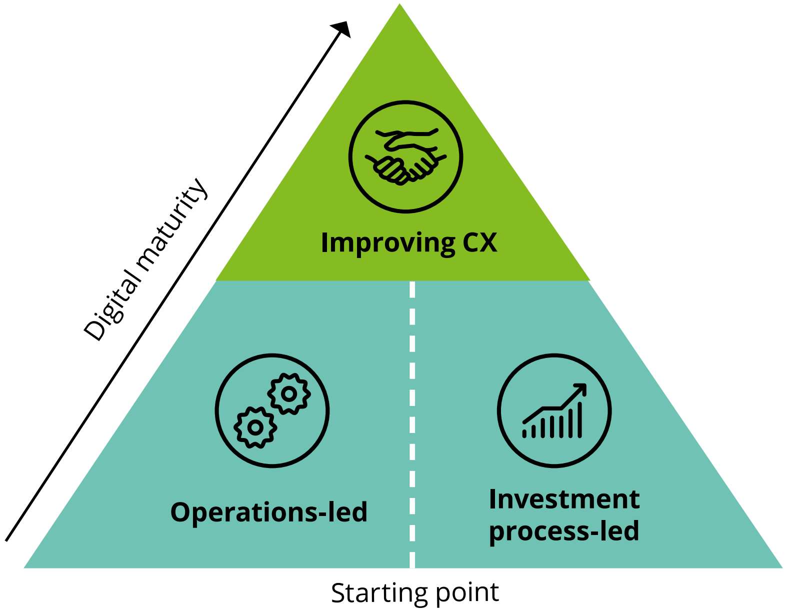
"One emerging issue is digital as as revenue stream, i.e. the move of products and solutions into digital channels, which previously went through intermediaries or to institutions. This is about increasing the value add to partners who manage D2C, e.g. API services."

CTO, Global Investment & Wealth Manager

Sequencing of objectives

While managers share three high-level objectives for adopting digital technologies, they differ profoundly on the sequence in which they are tackling them. Two clear segments stand out: one is taking an operations-led approach, the other is taking an investment process-led approach. All see improving the CX as the endgame – the final objective in the sequence (see Figure 1).

Figure 1. Illustrative sequencing of objectives



The first segment contains managers that are increasing operational efficiency as the starting point. This is to lay the technology foundations for a more effective approach to enhance the investment process and improve CX subsequently. Key foundations include:

- Reporting
- Onboarding
- Back-office outsourcing

This segment contains a distinct group of managers that are deliberately investing in technology to prepare for M&A, for example, building a data platform to absorb an acquisition more seamlessly than with existing platforms.

The second segment contains managers that are enhancing the investment process first. This is typically because that is where the greatest internal support is. Initiatives include implementing risk management platforms and building data science capabilities to support portfolio managers.

"We need to build a joined up back-end before we can even think of CX. But we understand that in the endgame the CX is what differentiates you. In the operations area, the things that are really important include client processes, reporting, servicing etc."

CTO, Investment & Wealth Manager

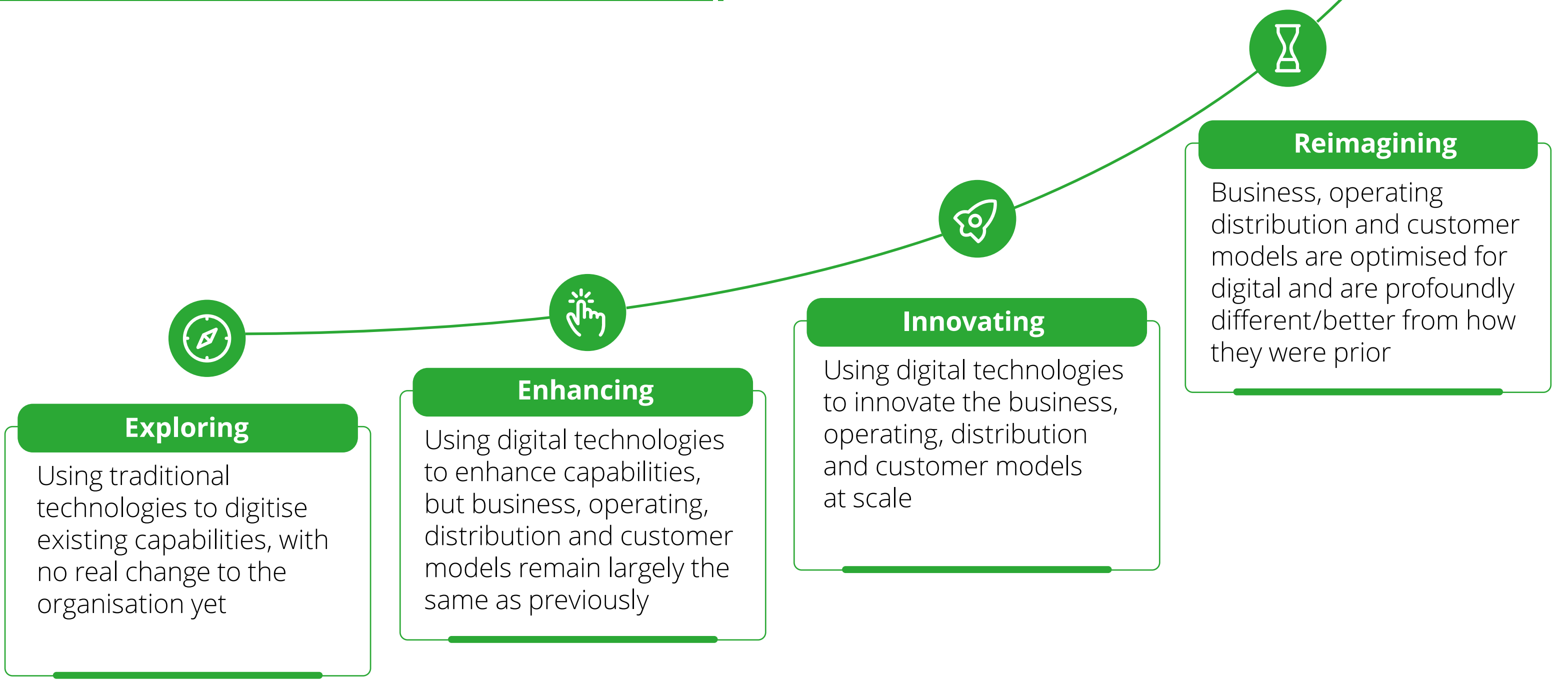
"The first thing we're doing is putting in place a techology foundation. Our business breaks down into three: investment management, sales/distribution and corporate (e.g. finance, HR). In the past few years, we have very purposefully put in place a technology platform for investment management. We're building around "that...that's" where there's support in the firm"

CTO, Active Asset Manager

Digital maturity

At first glance, it appears that most managers are in a similar position on a maturity curve. Indeed, most categorise their overall digital maturity as between 'enhancing' and 'innovating' the business model (see Figure 2).

Figure 2. Digital maturity curve



Nonetheless, a closer look reveals that maturity varies considerably by manager. At one end of the spectrum, managers are investing in multiple digital technologies, but are unsure of the demonstrable value-add and the extent of the transformation ahead. In the middle of the pack, managers typically have an explicit digital strategy or clear link between their digital and the business strategies, and are reorganising teams 'around the work'. The most mature managers have moved on from dealing with obvious challenges, such as regulatory or cost reduction issues. They are now using technology to reimagine the business model and have an 'outside-in' view of business cases.

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The picture is more nuanced still inside managers. Many have a wide dispersion in the digital maturity of their functions and capabilities. For example, distribution and marketing are often among the most digitally mature. This reflects a combination of factors. These functions often attract relatively young and digitally savvy employees. Marketing and distribution have a major impact on inflows and, therefore, the finance function tends to be responsive to their technology demands. Also, client preferences can change quickly (e.g. a post-life event). The combination of granular client data and analytics can help managers to stay ahead of these shifts.

At the same time, one recurrent issue is a lack of maturity around data management. Many CTOs concede that more work needs to be done for managers to get 'on top of' their data. Typical issues include storing data that should be unified in silos and having incomplete or ineffective data governance.

"In some areas of the business, the operating model is largely the same (as pre-digitisation). But in others, like distribution and marketing, we are leading with digital technology and have really changed the language of those areas to be client-centric."
CTO, Global Investment & Wealth Manager

"Many firms still have basic unmet needs around data management, such as having the right structured data for the middle and back office and being able to trust that data."
Head of Global Digital Solutions, Asset Servicer

Pace of change

Despite widely acknowledged challenges, such as those around data management, the industry is making real progress on digitisation. This can be seen not just in the technology that is being implemented but also, more fundamentally, in a shift in mindset and behaviour to that more akin to a technology company.

> "We have moved a huge amount in the past four years. We have learned a huge amount about where our bottlenecks and challenges are. In reality, unless you're shifting all aspects, e.g. IT operations, underlying technology, you just won't become a 'digital business'."
> **CDO, Wealth Manager**

> "I sense more ownership and more innovation. To me, the key word is scale. We're not just dabbling anymore, or trying to solve a point problem. We're looking at business model change: we're looking at how automation (and digitisation generally) can unlock profitable, scalable growth"
> **Chief Customer & Distribution Officer, Asset Manager**

Furthermore, the market's pace of change is accelerating. An increasing number of managers are shifting up the curve to a stage where they will use digital technologies to innovate their business and operating models at scale. As this happens, the implication is clear: it will become harder for digital laggards to catch the leaders. In turn, the market is likely to see a further round of defensive consolidation as the quickest means to acquire sought-after digital skills and capabilities.

Priorities

Looking ahead, managers are planning to invest in a broad range of digital technologies to meet their objectives (see Figure 3). Nonetheless, three priorities stand out as the most important as they cut across multiple objectives: data, Cloud and platforms.

Figure 3. Digital technology key investment areas

Enhancing investment decision-making process

- **Alt. data** - capturing and qualifying alternative data points to empower fund managers to make better decisions
- **Blended data** - blending data across multiple sources and structures to unlock insights
- **AI** - progressing AI-backed investment products, e.g. new and existing ESG
- **Platforms** - connecting operations, risk management and the investment process via a single platform

Increasing operational efficiency

- **Automation** - optimising middle & back-office processes using robotic and intelligent automation
- **Cloud**- enhancing operational resilience effectiveness, connectivity and efficiency
- **Platforms**- re-platforming core processes
- **Process re-engineering** - removing duplicative processes, e.g. as part of post-merger integration
- **Agile** - running operations at different speeds to enable a fast digital 'lane', e.g. for engineering

Improving client experience

- **Platforms** - using data management platforms to understand and deliver on client needs better, e.g. single customer view, next-best action, granular segmentation
- **Data** - providing clients with richer data, e.g. in addition to reports
- **Digital channels** - replacing and augmenting F2F interactions with digital channels, e.g. app
- **UX** - providing slick, online self-service client journeys

In some cases, investment in these areas has accelerated due to the impact of the COVID-19 pandemic. Most obviously, the pandemic's imposition of widespread working from home brought into sharper focus how the public Cloud can make operations more resilient: by shifting computing services to a highly scalable, centrally managed and off-premises model.

> "The pandemic has expedited the adoption of digital, everyone is doing something on the public Cloud."
> **Head of Global Digital Solutions, Asset Servicer**

Barriers to adoption

The importance of digital technologies as a source of competitive advantage is clear. So too is the extent of investment required in digital transformation. It is therefore vital for managers to overcome the most important barriers to adoption of digital technologies. This, rather than the technology itself, will enable managers to reap the full reward of their digital investments and separate winners from losers in the long run.

In our view, managers face three principal barriers to adoption, all of which are internal to their organisations.

Strategic

The first barrier is strategic. Some managers face a lack of clarity on how digital technologies enable the business strategy, which dilutes buy in to digital initiatives, and creates uncertainty on how to progress them. CTOs can live with this uncertainty by building a technology stack that is sufficiently flexible to pivot to the digital demands of the business strategy once defined. But this is sub-optimal. It slows adoption compared with having a more defined roadmap.

Other managers have an agreed strategy, but consistently deviate from it to pursue market opportunities, such as M&A, as they arise. No one would deny that managers need to be agile and opportunistic as the industry consolidates. Nonetheless, a balance must be struck with providing stability for the business to digitise. M&A can be challenging for digitisation, both in terms of changing the direction of the business and diverting resources.

"We have an overarching technology strategy, but not a digital strategy. We haven't got there yet in terms of having a single digital strategy, a single customer strategy. Our technology strategy will enable it when it comes."
CTO, Investment & Wealth Manager

"One of the biggest challenges is whether the business is willing to articulate a strategy, stick to it, deliver it and have confidence in it. I'm not saying we should ignore opportunities. But the point is that I can only be fully successful if I'm lock-step with the business strategy, but the business strategy is chopping and changing all the time (making that hard)"
CTO, Active Asset Manager

People

The second barrier relates to people issues. It breaks down into cultural resistance to change, underestimating the shift in mindset and ways of working required and skills gaps. Cultural resistance to change, which is most prevalent among experienced middle managers, is the attachment to established technologies and ways of working because 'that's the way things are done' rather than for a business reason. Underestimating the transformation ahead manifests in a range of beliefs and attitudes that inhibit the success of digital initiatives, for example regarding the roll-out and use of a new technology as a time-limited activity rather than a cycle of ongoing use and improvement. Skills gaps are also an issue. Managers are in a strong position to hire people with technology skills because they pay well. However, they struggle to find seasoned professionals with both technology skills and investment expertise. Such people are rare.

Resourcing

The final barrier is resourcing challenges. Key issues include a lack of funding, the high cost of major change, difficulty prioritising initiatives and the difficulty of updating legacy technology at pace and scale. These are perennial issues that face companies from multiple sectors. Nonetheless, they can be particularly challenging for investment and wealth managers that have succeeded through a laser focus on risk management and stability.

"The cost is a big barrier, which becomes more complex when the culture is all about risk management. Big projects are risky and management is focused on the short term. What is the payoff for the next period?"
Head of Digital Business Development, Global Wealth Manager

How to accelerate adoption

Managers have a range of powerful tools with which to address and ultimately overcome barriers to digital technology adoption.

Strategic

To overcome strategic barriers, managers need a clear vison, objectives and commitment to actioning them. Key actions include:

Strategy articulation - articulate in detail for internal audiences how digital technologies will drive competitive advantage. Consider the fundamentals of how they will help to create and capture value (see Figure 4). Connect the customer strategy with the technology strategy.

Figure 4. Provocations for digital strategy

CONNECT

- Ensure clarity on how digital initiatives enable, and deliver on, the wider business strategy so that they are relevant

CREATE

- How and where can we use digital to activate new value sources among our clients and customers?
- Consider new markets, products, partnerships, channels to market

CAPTURE

- How can we use digital to rationalise the ecosystem and reduce costs?
- Consider public Cloud and data virtualisation

SCAN

- What are the most relevant latest industry and digital trends?
- How should we adapt to create, and capture value from, these trends?

IDEATE

- How can we deploy internal innovation capabilities such as leadership labs, incubation, VC, and monetisation of existing IP?

Digital leadership in strategy setting - empower digital technology leadership with the perspective, 'seat at the table' and support to engage in business strategy development through to delivery.

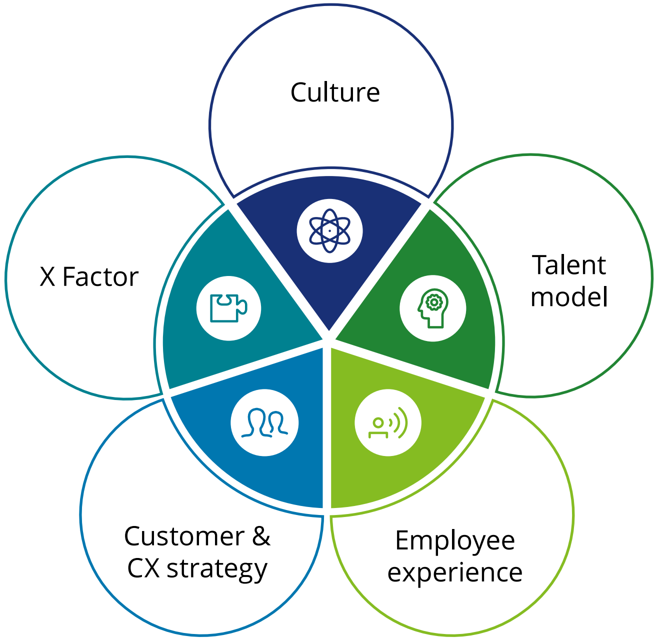
Recruit digital leaders - ensure that leaders are recruited and appraised on their effectiveness in driving digital technology-based change and empowered to 'get the job done'.

Use the right metrics - ensure that people's performance is measured and rewarded using metrics aligned with driving change in digital technology.

People

To overcome people-related barriers, managers require a holistic approach, encompassing the human, physical, digital and organisational environments such as the factors outlined in Figure 5.

Figure 5. Key people-related factors for digital technology adoption



Curate your culture

Start now and set the vision and build an enterprise-wide culture of innovation with new and desired talent and skillsets.

X-factor

Know what your organization's 'X factor' is. Create a point of difference, aligned with your organisation's values and culture. Anticipate client needs without being asked.

Customer and CX strategy

Invest in knowing your customers' journeys, their needs, behaviours and the most important moments that shape the experience. Create better digital interactions to engage and retain customers. Elevate the customer experience, utilising key data points, decisions and channels.

Optimise the talent model

Assess the future of talent to plan for skills gaps. Implement an internal digital skills programme. Use function-specific training to drive adoption of new tools and tech-fluency. Use performance incentives for digital adoption and internal innovation. Create incentives and career paths that prioritise those with necessary skills and ability to drive change. Balance building hubs of technical expertise with collaboration needs. Optimise the workforce through a mix of internal and contingent talent (contractors and vendors).

Employee experience

Take a human- centred approach to all interactions between the employee and the organisation. Digitise internal offerings and services (IT, HR, Payroll etc.). Recognise that EX and CX are inseparable. Enrich the experience.

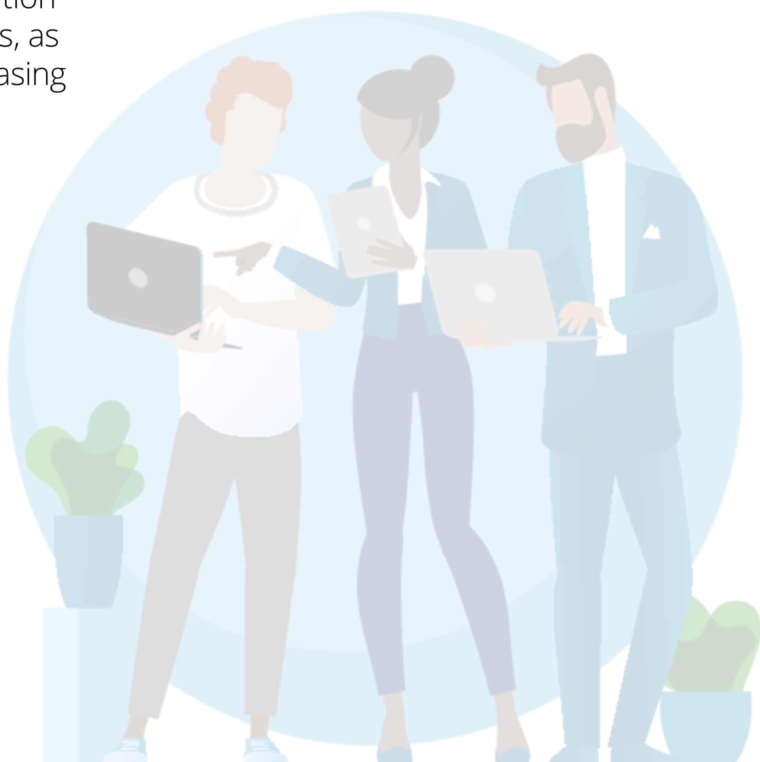
Resourcing

To mitigate resourcing barriers, managers need a consistent approach to allocating capital between competing digital and non-digital initiatives, one which prioritises value. Key actions include:

Where to invest - capital allocation to digital and non-digital initiatives requires a focus on value, as well as cost and risk. Consider the following principles when devising a framework to do so:

- link prioritisation and metrics to overall firm strategic objectives
- incorporate foundational elements into the framework (e.g. data requirements, governance, system and platform modernisation etc.)
- actively and transparently monitor investments to assess progress versus objectives, collecting and analysing the most relevant data
- define and activate a process to rationalise spending for non-performing initiatives
- adopt an outside-in view to scrutinise allocation decisions.

Iterate - use an iterative process with a clear prioritisation of initiatives that accounts for foundational investments, as well as meeting different strategic outcomes, e.g. increasing operational efficiency versus improving CX.



Conclusion

Investment and wealth managers face three common types of internal barrier to adoption of digital technologies. To overcome these barriers, managers ultimately need alignment between their people and the role of digital technologies. In other words, all people, from the board downwards, must understand what they need to do with digital technology and why. We term this alignment 'doing digital, deliberately'.

Managers that drive this shared understanding among their people will see widespread benefits, ranging from faster and more effective technology adoption to more satisfied customers and employees. Those that do not run the risk of investing in digital technologies without ever reaping the full reward.

Authors

Tony Gaughan
Partner,
Vice Chairman, EMEA Investment Management & Wealth Sector Leader
tgaughan@deloitte.co.uk

Peter Evans
Head of Investment Management & Wealth Insights
peevans@deloitte.co.uk

Margaret Doyle
Partner,
Chief Insights Officer Financial Services
madoyle@deloitte.co.uk

Glenn Dickson
Senior Consultant,
Human Centred Transformation
gdickson@deloitte.co.uk

Gaurav Narula
Assistant Manager,
Investment Management & Wealth Insights
gnarula@deloitte.com

Key Contacts

Andy McNeill
Partner,
Consulting
amcneill@deloitte.co.uk

Becky Skiles
Partner,
Marketing & Digital SME, Deloitte Digital
bskiles@deloitte.co.uk

Dominika Tomek
Partner,
Digital Transformation SME, Deloitte Digital
dtomek@deloitte.co.uk

James Alexander
Director,
Consulting
jdalexander@deloitte.co.uk

Alexandra Dobra-Kiel
Behavioural Science SME
adobrakiel@deloitte.co.uk

Notes

[1]Distribution 2.0, Casey Quirk, 2019.
See also: how-technology-will-redefine-asset-management-relationships.pdf (deloitte.com)

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