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Webinar:
The 2022 Investment Management Agenda

1pm | 27 January 2022

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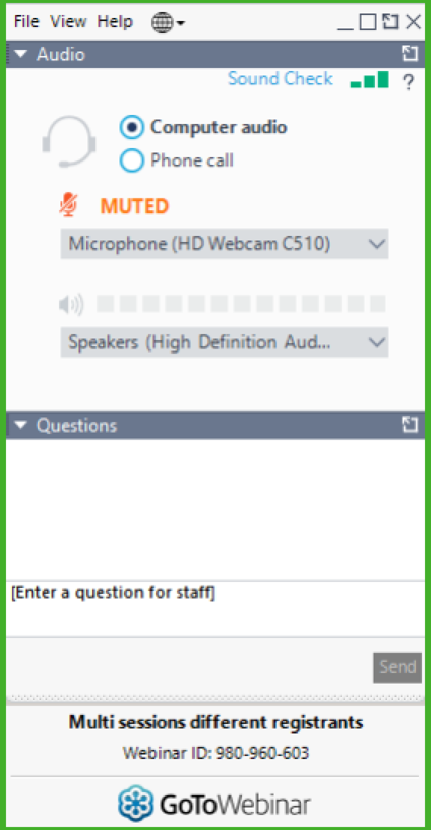
Introduction

Brian Forrester | Partner | Investment Management Leader

Q&A

Please ask your questions in the Question Box



Agenda

1. *Digital Technologies – Julie Farren, Director, Consulting*
2. *Sustainability – Marc Aboud, Director, Risk Advisory and Sustainable Finance*
3. *CP86 2.0 – Noel Moloney, Senior Manager, Risk Advisory*
4. *Q&A*

Digital Technologies

Julie Farren | Director | Consulting

This research seeks to understand why investment and wealth managers are adopting digital technologies, their ‘digital maturity’ and barriers to adoption

Context

Digital adoption is an increasingly important source of competitive advantage. Our previous research identified tangible differences between leaders on data and technology and laggards, including:

Inputs

4x Share of technology spend on innovation

Outcomes

5x Organic growth

25% Longer client retention

2nd quartile vs. third quartile investment performance

Source: Technology for the C-Suite, Deloitte-Casey Quirk, January 2021

Questions

Building on our previous research and work in the market, this research seeks to answer three main questions:

- *What are the main objectives that managers are trying to achieve by adopting digital technologies?*
- *How do managers characterise their ‘digital maturity’?*
- *What are the key barriers hindering managers’ progress towards their digital technology objectives?*

Methodology

We interviewed 18 senior leaders who focus on digital technologies. The interviewees included people in the following positions:

- Chief Technology Officer
- Chief Customer Officer
- Chief Digital Officer
- Chief Distribution Officer
- Head of Client Service
- Head of Data Science

Key findings

1. 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
2. However, **managers profoundly differ on the sequencing and emphasis of individual objectives -** some are taking an operations-led approach, others have opted for an investment process-led approach, arming the front office to become world-class at what they do best
3. **Most managers** categorise the overall **digital maturity** of their organisations as **between 'enhancing' and 'innovating' the business model**, but the picture is more nuanced within managers with a wide dispersion in maturity by function
4. The **pace of change is accelerating** - the industry has made real progress on its digital agenda over the past three to five years and an increasing number of managers are moving up the maturity curve
5. Looking ahead, the industry faces **three principal barriers to adoption**
    - **Strategy** - lack of clarity on how digital technologies enable the business strategy and inconsistent execution of strategy are creating uncertainty for digital initiatives
    - **People** - cultural issues such as resistance to change, an underestimation of the shift in mind-set and ways of working required and skills gaps
    - **Resourcing** - perennial issue of finite resources for digital initiatives given competing priorities
6. Yet managers have **powerful tools with which to overcome barriers**
7. **Managers that overcome these barriers will see widespread benefits**, from faster and more effective technology adoption to more satisfied customers and employees

Investment and wealth managers share three high-level objectives for adopting digital technologies

Investment

Three main inter-related levers to enhance the investment decision-making process:

Human-centred

Automation

- **Enabling greater focus on high-value tasks** in the investment process by automating low-value tasks such as data capture
- **However, its crucial not to lose human judgement** in the investment process, the "secret sauce"

Data

- Use of new and better data inputs
- **Blending** different types of data such as public-private
- Use of **alternative data**, e.g. geospatial

Analysis

- More powerful, technology-driven analysis, e.g
- Using **data science to test fund manager hypotheses**

Technology-centred

Operations

Increasing operational efficiency by dealing with legacy technology, structures and processes:

*"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."*

Legacy

*We're building an end-to-end wealth business and we have the **challenge of business unit integration**. We're clunky. Therefore, operational efficiency is high on our agenda."*

Integration

*"We are still **dealing with too many manual processes**. These are absolutely a focus."*

Processes

Client Experience (CX)

Improving the CX by learning more about clients to meet their needs and exceed their expectations:

Typical actions

Knowing more

- **Creating a single view of the client** to understand their interactions through all touchpoints
- Using data management platforms to **build more granular client segments**

Exceeding expectations

- **Meeting needs and exceeding expectations** set by digital leaders, e.g. from the tech sector
- Giving clients **smooth, online self-service journeys**
- Providing clients **with richer investment data**

Most managers categorise the overall digital maturity of their organisations as between ‘enhancing’ and ‘innovating’ the business model

Exploring
Using traditional technologies to digitise existing capabilities, with no real change to the organisation yet

Enhancing
Using digital technologies to enhance capabilities, but business, operating, distribution and customer models remain largely the same as previously

Innovating
Using digital technologies to innovate the business, operating, distribution and customer models at scale

Reimagining
Business, operating, distribution and customer models are optimised for digital and are profoundly different/better from how they were previously

The industry has made real progress on its digital agenda over the past three years

*"**We have moved a huge amount in the past three to 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."*

*"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"*

*"As a firm, I do like to think that **we've made progress in the past three years. Some of the progress comes from putting in platforms in each of the business areas. But also in having a clear strategy** in what we are trying to do."*

*"**In the past three years we have changed a lot.** From roughly 2011 to 2018 we had a difficult internal-oriented transformation programme. By 2019 it was more of a pull model with teams wanting to do ideation sessions with the innovation team – we also went into production."*

Key consequences for competitive dynamics

1. *The Overall Pace of Change is Accelerating*
2. *It is Increasingly Difficult for Laggards to Catch Digital Leaders, as more Shift to Innovating*

Managers are adopting a range of digital technologies to achieve their main objectives, with data, Cloud and platforms being most frequently cited

Enhancing investment decision-making process

- *Alt. data* - *capturing & 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*

Note: alignment between key objectives and technologies is neither mutually exclusive nor collectively exhaustive

The pandemic has accelerated digital technology adoption in five key areas

PUBLIC CLOUD

*"The pandemic has expedited the adoption of digital, **everyone is doing something on the public Cloud"***

AUTOMATION

*"We were concerned that clients [of ours as a service provider] would halt some projects, but what we saw was the opposite, clients **doubling down on automation, removing manual processes** etc"*

ALTERNATIVE DATA

*"This year 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 geo-location data**, credit card spending, sentiment data, net promoter scores [for investments]."*

DIGITAL CHANNELS

*"C-19 did in two weeks what it would have taken us 2 years to negotiate internally in terms of online channel focus. In our organisation, it has meant **we're doubling down on tech; it has really accelerated our ability to deploy our investment because we're not distracted by other channels or opportunities**; why would you go back to something that creates friction or isn't value accretive?"*

PLATFORMS

*"On certain things, the sense of urgency has grown. For example, a central data and insight driven client management platform that combines marketing efforts to control relationships and the book [i.e. client portfolios], which is transparent for everybody . **You're not in the office – so sharing this information is suddenly how a modern system can bring you transparency."***

Looking ahead, the main barriers to adoption relate to strategy, people and resourcing

Strategy

- *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.*

"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 tech strategy [will enable] it when it comes."*

"[We're not] consistent in ***translating vision to strategy*** *to execution, so resistance to change wins out."*

People

- *Cultural issues such as resistance to change*
- *An underestimation of the shift in mind-set and ways of working required*
- *Skills gaps.*

*"****Becoming a digital business is so multi-faceted, that people underestimate it.*** *They think if we adopt the Spotify model and organise our teams in that way, we'll be fine."*

"Data scientists of the future are not working for the COO; the ***portfolio manager of the future is a data scientist****. That is a huge workforce transition."*

Resourcing

- *A lack of funding/the high cost of major change*
- *Difficulty prioritising initiatives*
- *Difficulty updating legacy technology at pace/scale*
- *Can be compounded by risk aversion and a short term focus.*

"Biggest barrier is to identify what's urgent vs what's important.... I suppose that's the art of management. ***Allocating the right resources – time and people*** *– is critical.*

"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?"*

Yet managers have powerful tools with which to overcome barriers to adoption

Strategy

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

- Articulate to internal audiences how digital technologies will drive competitive advantage
- Empower digital leadership to drive the development and execution of business strategy.

People

To overcome people-related barriers, managers require a holistic approach, encompassing the human, physical, digital and organisational environments.

- Build an enterprise-wide culture of innovation
- This hinges on reskilling, attracting new talent and optimising the talent model.

Resourcing

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

- 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.

Sustainability

Marc Aboud | Director | Risk Advisory and Sustainable Finance

COP26 highlights

Government

- *100+ countries pledge to end deforestation by 2030*
- *100+ leaders pledge to cut methane by 30 percent by 2030*
- *190 signatories to phase down coal*
- *Newly announced nationally determined contribution (NDC) commitments*
- *Global carbon trading agreement reached*

Corporate

- *IFRS Foundation Trustees' announcement of the formation of an ISSB and the ISSB's published prototypes for general ESG disclosures*
- *Glasgow Financial Alliance for Net Zero (GFANZ) formation*
- *Alliance of CEO Climate Leaders letter to world leaders*
- *200+ companies committed to reaching net-zero emissions by 2040*

Global Finance

- *Funding the energy transition*
- *Funding South Africa's transition away from coal*
- *Financing for developing nations*
- *Ending fossil fuel financing*

Sustainable investing

Dedicated sustainable investing will more than quadruple in size, totalling $13 trillion in assets under management worldwide, by 2025

Global in nature

- *EMEA sustainable assets will rise to $9.5 trillion from $2.2 trillion, US assets will expand to $2.5 trillion from $400 billion, and APAC will swell to $1 trillion from $200 billion.*

Accelerated by conversions

- *Nearly half of the growth worldwide will come from converting existing strategies to sustainability-focused investment processes.*

Fuelled by investor demand

- *Investors are expected to drive $3.2 trillion in net new flow into sustainable strategies by 2025*

Source: https://www2.deloitte.com/content/dam/Deloitte/us/Documents/process-and-operations/us-its-not-easy-being-green.pdf

The evolving ESG landscape

Through the pursuit of net zero strategies, a more connected climate landscape is evolving – one which is demanding nature-based solutions and second-order social impacts be integrated into firms' climate strategies

The ESG regulatory landscape continues to accelerate

Net zero strategies are becoming global

Just transition strategies - connection of ESG 'S' with net zero

Nature-based focus – role in net zero and adaptation

Building back better post-COVID

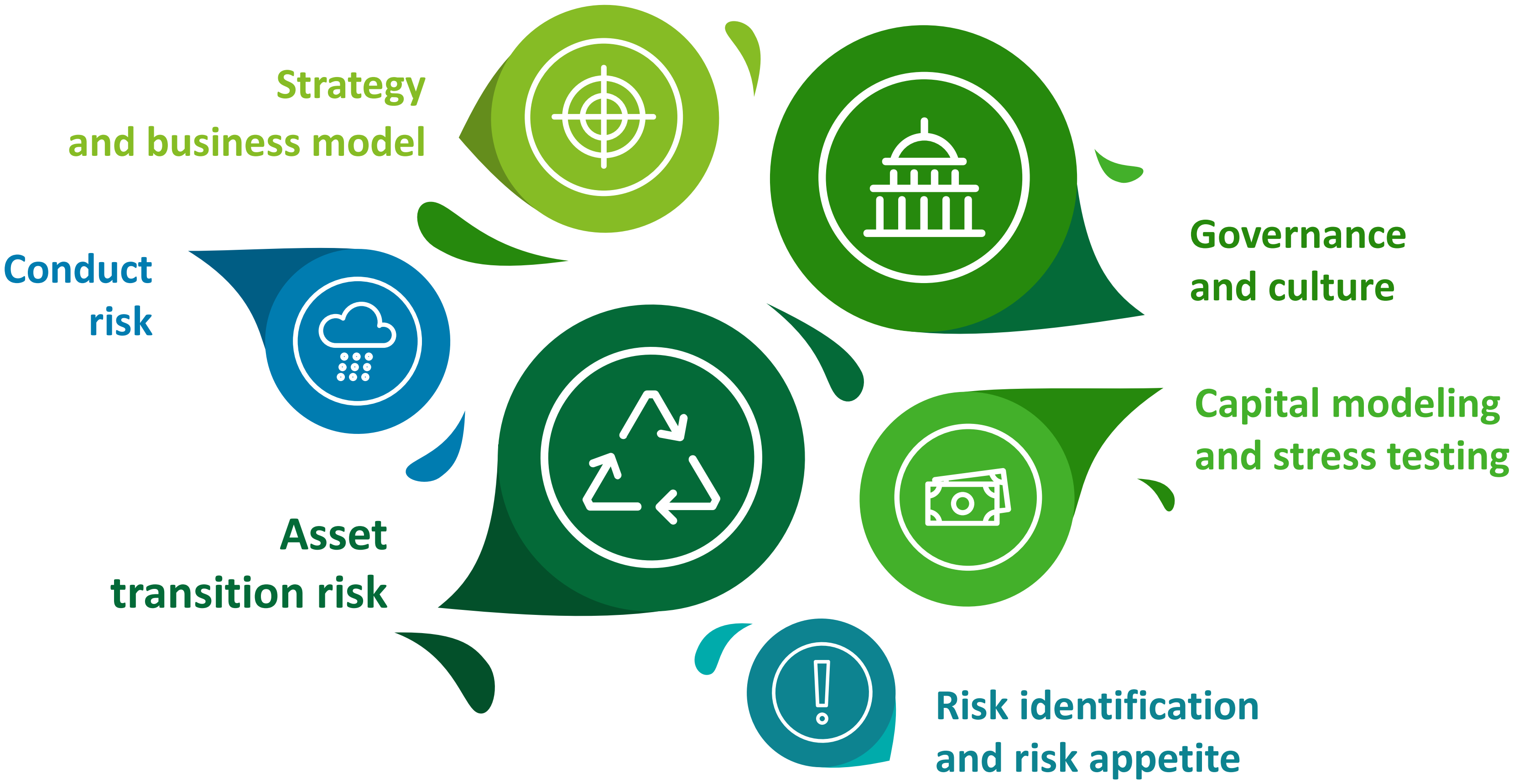
ESG regulatory requirements

Set out below is a summary of the *key* EU and UK sustainable reporting requirements. There may be additional local reporting requirements and a number of voluntary reporting frameworks that firms can sign up to

		What it is?	*Status*
EU	**EU Sustainable Finance Taxonomy Regulation**	• A common classification of economic activities significantly contributing to six environmental objectives, using science-based criteria	• **Jan 2022 -** the Delegated Act on the **first two objectives apply now** (remaining 4 expected Jan 2023) • **Q1 2022** - EU to **publish a report** on the taxonomy and **social/non-green issues**
EU	**Sustainable Finance Disclosure Regulation (SFDR)**	• SFDR imposes **mandatory ESG disclosure obligations** for asset managers and other financial markets participants • **March 2021** - Level 1 principle based disclosures required	• **Jan 2022 – Level 1** Periodic reporting and taxonomy alignment disclosures (for environmental objectives) to begin for Art 8 & 9 Products that promote a sustainable investment objective. • **January 2023 (originally Jan 2022) –** SFDR "RTS" on more detailed Level 2 requirements for pre contractual and periodic reporting including Principal Adverse Impact (PAI) Reporting
EU	**Non-financial Reporting Directive (NFRD)/ {NEW} Corporate Sustainability Reporting Directive (CSRD)**	• Reporting by large and listed companies on their sustainability risks and impacts • All listed companies <u>or</u> large companies that exceed 2/3 of the following: 1) BS €20M, 2) Rev €40M 3) 250 staff	• **Mid 2022** - CSRD r**eporting standards** become available • **Jan 2023** - Firms apply CSRD standards for the first time to reports published in 2024. **Reporting through annual report, digitisation, mandatory limited assurance**
UK	**Sustainability Disclosure Requirements' (SDRs)**	• Are intended to apply across the whole of the economy: business, the financial sector and investment products	• **Q2 2022** - FCA CP on SDR disclosure requirements for asset managers and certain asset owners and on sustainable investment labelling
UK	**UK Green Taxonomy**	• The UK is developing its own Taxonomy framework, which will be broadly aligned with the EU Taxonomy but will be "suitable for the UK market".	• **Q1 2022** - UK Government consultation on UK Green Taxonomy in relation to climate change mitigation and adaption

Overview of key supervisory expectations for financial services

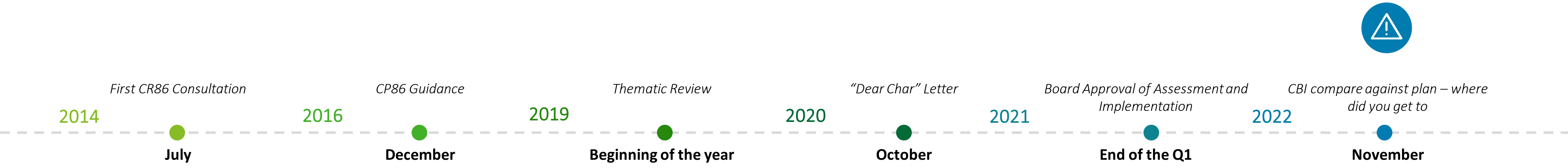
Following COP26, we expect heightened focus by all stakeholders on the credibility of firms' net zero plans. Climate risk, ESG disclosures, "greenwashing", and ESG data will also remain key priorities for firms



CP86 2.0

Noel Moloney| Senior Manager | Risk Advisory

CP86: A Timeline



2016	2019	2020	2021	2022
In July of 2016, the CBI issued CP 86. Subsequently, in December 2016, they published their Guidance on CP86, which focused on delegate oversight, organisational effectiveness, directors' time commitments, managerial functions, operational issues, and procedural matters. *CP86 also sought to outline the increase in CBI expectations concerning substance and governance, most notably for new applicants setting up an Irish fund management company due to Brexit.*	*The Central Bank of Ireland (CBI) began a thematic review of the implementation of the specific themes raised in CP86.*	*On 20 October 2020, following the conclusion of the thematic review, the CBI issued a "Dear Chair" letter outlining areas where Fund Management Companie's (FMCs)had not fully implemented the CP86 framework. As a result, they requested FMCs to submit a Board-approved action plan that considered the governance day-to-day operational and resourcing arrangements by 31 March 2021.*	*At 31 Match 2021, FMCs submitted their Board approved action plans to the CBI.* .	*CBI will review and check how FMC's have met their action plan and submitted action plan and the quality of executing it. They will also look at the Board's role in implementing the plan and how engaged they were in the process.*

Dear Chair Letter

The 2020 "Dear Chair" outlined areas where FMCs had not fully implemented the CP86 framework, as outlined below. As a result, the CBI requested FMCs to submit a Board-approved action plan that considered the day-to-day operational, resourcing, and governance arrangements by 31 March 2021.

- Resourcing
- Designated Persons
- Delegate Oversight
- Culture and Governance
- Risk Management Framework
- Board Approval of new funds
- Organisational Effectiveness Director (OED)

Practical Challenges Observed from the "Dear Chair" findings

Dear Chair Findings

Resourcing
- Divergences between the resourcing levels pre and post the introduction of the CP86 framework
- an absence of formally documented succession plans.
- Found that employing fewer resources was often indicative of an over-reliance on group entities and/or delegates. The Central Bank also noted the co-mingling of support staff within

Designated Persons
- Shortcomings regarding how some Designated Persons ("DPs") discharged their roles - level of time commitments/ Location, level and quality of board reporting

Delegate Oversight
- Inability to appropriate evidence level of due diligence of delegates.
- Receipt of poor quality delegate reports which do not allow for meaningful review.
- Inability of FMC's to evidence review/ approval of delegate policies and procedures
- Lack of effective engagement with delegated investment managers
- Insufficient challenge of delegates

Culture and Governance
- Governance-related issues:
  - ➢Low levels of executive role holders;
  - ➢Excessive INED tenures;
  - ➢Board minutes being insufficiently detailed to capture discussion and challenge; and
  - ➢Significant gender imbalance on FMC boards.

Practical Challenges

- *Labour market challenges*
- *Support staff per Designated Person*
- *Location of resources*
- *Leverage of group resources*
- *Costs*

- *Qualification / Experience*
- *Managerial Obligation awareness*
- *Heavily linked to Resourcing above*

- *Implementation of oversight frameworks to demonstrate and evidence that they are receiving and challenging delegate*
- *Monthly calls – minute review to demonstrate challenge of delegates*
- *DP's working in unison and not in a silo.*

- *Appointment of CEO, having regard to the nature, scale and complexity of the business,*
- *Assessment and revision of the existing board composition? Is it sufficiently diverse? What is the length of INED tenures? NED's appointments*

Q&A

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