



# CLEAR PATH ANALYSIS

## Fund Technology, Data & Operations, Europe

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### WHITE PAPER

#### Operational alpha – future-proofing your operating model in a complex environment

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#### 1. Evolution not Disruption

25 years ago, we operated in a largely self-regulated environment, sold relatively simple investment vehicles and strategies and ran our systems on huge mainframes in big data centres. Today, we operate alongside prescriptive regulation, sell sophisticated investment products and have many of our proprietary systems or our providers' software hosted in the cloud.

At first sight, the challenges for the financial services industry are common, but we seek different solutions. Collaboration across the industry remains sporadic and rather opportunistic. The industry currently debates the “disruption” rather than long overdue “evolution” new technologies will bring. ‘Trust-as-a-Service’ is back on the agenda as our clients focus on performance and investment risks as well as on the safeguarding of their assets.

#### 2. Common challenges – bespoke solutions

I consider Information Security as one of the biggest challenges this industry, and others, have to deal with going forward. It might even compromise how the World Wide Web is structured at present. Information Security can be and is compromised through internal and external events. Cyberattacks, data theft and data corruption can have a serious impact on a firm's reputation and operational integrity. When it happens, firms need to be ready and have a recovery & resolution plan in place.

Value-for-Money considerations and regulatory transparency have created an active dialogue between clients and providers. Meeting new client demands, particularly in the space of data and information visualisation, is a costly endeavour.

In the long run, the Generation Z (born around 1996) will become very challenging clients. Gen Z investors are globally mobile, internet-savvy and self-sufficient. They will acquire knowledge and information through the Social Media and/or crowds, but will still be seeking professional advice on fundamental investment decisions. For wealth and asset managers, finding the equilibrium between providing easy access to digital and personal advice will be vital. So will their technological capabilities.

Legacy systems are another common challenge among asset managers. Many firms have systems in their IT architectures which can be over 10 years old. This may become a problem as a constrained IT budget needs to be aligned with business priorities. These tend to focus on client requirements, new products/funds and business growth (and of course regulatory compliance), restricting the amount of resources available to address legacy processes and supporting systems. Emerging technologies offered through FinTech companies only cover parts of the value chain. They are useful in augmenting certain core processes, but do not yet offer an end-to-end solution.

In a world of 'trust-as-a-service', block chain and distributed ledger technology will play a vital role in reducing operating risks and costs through immutability, independent verification and improved data accuracy. Two operating models seem to emerge, namely the central registry approach offered by providers such as [www.codemark.com](http://www.codemark.com) and the open-source distributed ledger.

### **3. Future-proofing**

Future-proofing a firm's operating model requires strong leadership, collaborative focus and conviction. The emergence of the '*digital employee*' (robot) will challenge line managers, HR and IT alike.

#### **3.1. Augment**

Augmentation of the future talent pool is essential, impacting the recruitment strategy now. My former employer has wisely diversified and supplemented its talent pool by hiring people from retail, high-performance sports, computer science and engineering. The increasing use of RPA and AI will furthermore require the retraining of the existing workforce.

Co-sourcing with specialist business partners to undertake joint system developments or data curation efforts is another way of augmenting your internal pool of expertise.

#### **3.2. Simplify**

Until robotics and AI solution dominate your operating model, it is important to identify core processes which can be simplified prior to implementing new technology solutions.

*Hardy London* has proposed to some of its client to create a 'parallel world', in effect a virtual internal start-up. Rather than spending significant amounts on resources to replace legacy systems, the investments are used to create a new operating platform with internal and external expertise.

Building on simple, re-engineered processes, assets, portfolios and clients are gradually migrated from the legacy onto the new platform at the desired pace. The concept of parallel world is already pioneered by firms like [www.aprexo.com](http://www.aprexo.com).

### **3.3. Experiment**

Sustainable profitability is a challenge facing many providers of financial and technology services. Arguably, the operating costs associated with pre-trade activities are the highest. Supporting asset allocation, stock selection, portfolio modeling and risk analytics requires heavy investments in resources and technology. As a result, some firms are now prioritising this area for cost reduction by teaming up with third parties that offer Robotic Process Automation (RPA) and Artificial Intelligence (AI) solutions.

Many post-trade activities are outsourced to global securities services firms. RPA is seen as the most appropriate solution for simple, manually intensive, rule-based and high-volume processes. These include trade processing, trade validation, cash forecasting and data reconciliation to name a few.

Blockchain/DLT can make core data flows immutable and independently verifiable. This can include Investment Management Agreements (IMAs), Key Investor Information Document (KIIDS) and Legal Entity Identifiers (LEIs).

### **4. Conclusion**

Asset Management faces an evolution at a pace not experienced for decades. Technology, talent and a track-record are key attributes to success. The traditional 'back-office' has evolved into a mission-critical business competence required to augment and transform a firm's future operating model. **Augment, simplify and experiment – and good luck.**

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