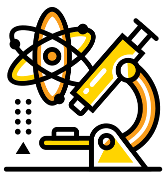
Getting ahead vs. catching up:

# Digitise the Investor Experience

SEI New ways. New answers.®

> “Digital transformation means using technology to change the business model … what stands at the very beginning of digital transformation is entire element of customer experience”.
>
> **– Wafa Moussavi-Amin**
> Managing Director, Northern Europe Region, IDC



# Digital transformation: Science, not fiction

Science fiction is a beloved and enduring genre largely because of technology’s transformative potential. The best examples leverage this to the hilt and extract as much dramatic tension as possible from the situation. *Twenty Thousand Leagues Under the Sea* revealed an astonishing underwater world accessible only via electric submarines that wouldn’t be invented for another century. The dystopia in *Brave New World* depicted designer drugs and genetic engineering long before their time. HAL 9000, the famously malfunctioning computer from *2001: A Space Odyssey*, seems entirely plausible in today’s algorithmic world.

**Technological transformations in the corporate world may not hold a candle to rogue robots on the big screen, but we are nevertheless surrounded by a growing number of examples that are every bit as revolutionary, even if they lack a certain dramatic flair.**

Like the business world at large, technology is currently enabling an upheaval in the financial services industry. Financial firms are making up for lost time, having lagged companies in other sectors as they focused on operational efficiency rather than innovation. Acquiring clients has become more challenging and costly as competition increases, sparking renewed interest in improving the client experience. Retaining an existing client is, after all, far cheaper than getting a new one. With much of the asset management ecosystem now focused on digitisation and how it can improve the client experience, we are seeing how intelligent data strategies have the potential to shorten onboarding times, increase portfolio transparency, anticipate client needs, ensure greater cybersecurity, and provide a customised experience.

These are not hypothetical improvements. According to a recent survey of senior financial services executives by Forbes Insights and Cognizant, three out of four financial executives believe that digital innovation is a key catalyst in the creation of differentiated client experiences, ultimately driving business performance and growth as a result. **Furthermore, these executives see “a direct correlation between digitisation of customer experience and the bottom line, attributing 25% of their future growth to customer experience-focused digital strategies and investments”.** Firms that identified themselves as leaders in digital transformation expect much stronger growth than their peers over the coming three years.[1]

For the past several years, companies such as SEI have been rethinking how we could manage data differently in order to deliver more value to our asset manager clients and their investors. As the industry evolved, managers increasingly had client relationships spread across multiple product lines, asset classes and jurisdictions. This development produced a need for improved systems that enabled them to communicate with investors in a consolidated and intuitive fashion. Changes to our investor platform, for example, have fundamentally altered and deepened our relationships with managers, as well as their relationships with their clients.

At SEI, we are fully invested in the transformative potential of technology in financial services. It is not science fiction. Nor is it a fad. It is a trend that promises to make investors’ lives better in concrete ways. In this paper, we explore some of the key changes we are seeing, what’s driving change, the technology enabling it, and some of the associated challenges.

# What does transformation look like?

Data is the primary force behind the current interest in digital transformation. More so than many other types of businesses, asset managers stand in a unique position at the nexus of multiple (and massive) data sets. Client data is a key part of the equation, joined by market, economic and competitive data. The prospect of integrating these data streams in useful ways drives companies to transform their businesses into what Deloitte calls “information-centric, analytics-driven, and agile data consumers”.[2]

The data has always been available in one form or another, but integration has only become truly possible recently with the advent of platforms, aggregators and APIs. Data that has always been compartmentalised is now free, enabling everyone to serve clients more directly and efficiently. Furthermore, digitisation allows businesses to become more adaptable, learning and responding with unprecedented speed to competitive pressures and changes in their operating environment.

A reactive approach is not likely to be effective at the beginning. Effective digitisation cannot happen tactically if transformation is the objective. It’s crucial to understand the experience from an investor perspective before you can identify changes to systems and processes. Similarly, layering new technologies on top of old ones is not recommended.

> “Reorganisation to me is shuffling boxes, moving boxes around. Transformation means that you’re really fundamentally changing the way the organisation thinks, the way it responds, the way it leads. It’s a lot more than just playing with boxes”.
>
> **– Louis V. Gerstner, Jr.**
> former chairman and CEO, IBM

With new technology comes a new mindset. As data becomes increasingly central to your value proposition, there needs to be greater emphasis across the organisation on making sure that data is “used in a way that makes it easier to gain real-time access to information … (and) find that you’re able to do things faster, simpler, and in a more agile manner”.[3]

### What does transformation ultimately look like to investors?

Transactions that once took two weeks might take two minutes. Communications are customised, targeted, on-demand and pain free. Information is freely available. Service levels once available to only the wealthiest investors are increasingly accessible to those of more modest means. Virtually every touchpoint a manager has with its clients is positively affected.

# Who's driving change?

**Three distinct groups, each with their own needs, drive digital transformation.**

### 1. Investors

Investors look for many attributes in their managers, with portfolio performance at the top of the list. Our client experience research has shown that investors particularly value access, transparency, security, lower fees, tangible value and better communication.

The good news: you can clearly enhance all of these things digitally. Rather than getting periodic reports from a manager, for example, it is now reasonable for an investor to expect 24/7 access to performance metrics on their smartphone. Four out of five LPs responding to a 2017 survey on alternatives investing affirmed that they currently have online access to their accounts, but it does not always extend to all of their investments.[4] Online access is also likely to be limited in scope, only allowing investors to retrieve PDF reports instead of providing them with an opportunity to do analysis on a self-serve basis. GPs responding to a sister survey revealed that 65% of managers already offer customisation, but provide customised reports and detailed analysis only to large investors.[5] Technology, in short, enables greater transparency for everyone, but account sizes continue to dictate the ultimate level of transparency made available.

> "Every successful organisation has to make the transition from a world defined primarily by repetition to one primarily defined by change".
>
> **– Bill Drayton**
> founder and chairman, Ashoka

According to these same surveys, transparency continues to be a "critically important consideration when investors evaluate funds and managers". Despite widespread efforts to increase transparency, the bar keeps moving, and the reality has yet to catch up to expectations. Fewer than one out of five investors reported seeing significant changes to transparency in recent years, partly because investors continue to get more sophisticated and demanding. Our own survey research found a pronounced gap still separating GPs and their LPs on the issue of transparency.[6] The resulting dissatisfaction highlights another area where managers could leverage data and technology to give investors what they want.

### 2. Managers

We have found in our conversations with managers that they value satisfied clients, automation, efficiency, profitability, exposure to more opportunities, investor insights, differentiation and scalability.

Many managers aspire to offer "white glove service", and some are finding that technology finally allows them to deliver on the promise of a more proactive and knowledgeable client experience. This results in deeper and more productive client relationships. It's also an example of the elusive "win-win" proposition, since managers may be able to offer substantially better service with fewer full-time employees. With technology enabling self-serve functionality, faster response rates and improved data mining capabilities, investor relations professionals are better able to service their clients and develop higher value relationships. This scalability can be extended to other parts of the business, including middle-office functions, to which many managers have devoted additional resources in recent years.

It will be a moving target, as clients themselves shapeshift. The advisory business is on the verge of some tectonic shifts, due in no small part to extremely large platforms that are likely to emerge. As we have seen in other industries, they will be compelled to offer their investors “unprecedented levels of transparency and feedback”.[7] This is likely to have some profound effects, including a wider array of investment strategies available to advisers, with new exchanges and platforms providing greater access to asset classes ranging from alternative lending to private equity.

Differentiation has never been more important. With unprecedented numbers of managers competing for assets, value propositions are being also being scrutinised like never before. Ironically, it has also never been so possible. Large swathes of the investment universe are becoming commoditised but we also see growing interest in niche asset classes and illiquid ones like private equity or real assets. Overhauling data infrastructure and processes becomes essential when managers must be able to effortlessly plug into this increasingly complex and demanding ecosystem.

## 3. Regulators

Regulatory bodies are also focusing on the digital operating environment, shaping the investor experience as they go.

In the United States, two major regulatory thrusts emerged in the early part of the 21st century; both continue to profoundly affect the digital domain within financial services. One is rooted in a broad crackdown on tax evasion, whilst the other has its roots in the war on terror. Both have affected asset management organisations far beyond the US borders.

The Foreign Account Tax Compliance Act (FATCA) requires that foreign financial institutions report on the foreign assets held by US account holders. This caused ripples to spread throughout the global financial services ecosystem, forcing banks and investment firms to re-examine their processes and technology. Tax compliance directly touches their clients, and missteps can have drastic consequences. It also requires inputs from front-, middle-and back-office operations. It is therefore crucial that compliance systems be as thorough and discrete as possible whilst also being automated and efficient.

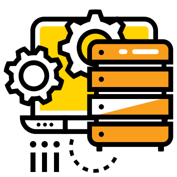
Anti-money laundering and know your customer regulation (collectively called AML/KYC) fill the other broad category of rules that have had a dramatic influence on investor experiences in recent years. By design, these rules force financial institutions to dig deeper into their clients’ affairs. Devised with the goal of making it harder for criminals and terrorists to do business, AML/KYC policies and processes have also produced less desirable effects related to more intrusive client due diligence.

Regulatory initiatives in Europe are having a similarly global effect, but the focus has been on data privacy. The General Data Protection Regulation (GDPR) of 2016 was formulated to give people control over their personal data and govern the movement of that data outside of Europe. With GDPR becoming enforceable on 25 May 2018, it would not be surprising to see this approach spread globally as people become increasingly aware of how widely their data is being used (or misused). Meanwhile, GDPR and similar laws are spurring innovation by those seeking to develop effective solutions for the issue of data privacy and portability.

Redesigning processes go part of the way in addressing these regulatory needs. The investor’s experience should be as streamlined as possible, with other stakeholders introduced at the appropriate time. If data is captured cleanly and efficiently, it not only simplifies compliance but also enables easier audits and informs feedback loops that can further improve processes. It should be possible, for example, to pre-populate any form with previously captured information, much like one-click checkouts when shopping online. Well-designed workflow should have the added benefit of consolidating software needs.

Central to this reimagined experience is the concept of a single golden record for investor data. Clarity about who is entitled to what data is ultimately needed. Distributed Ledger Technology (DLT) shows great promise in this regard, but it still remains on the periphery of the industry despite a great deal of interest and development of proofs of concepts.

**Even the most carefully designed investor experience is worth nothing if it is not compliant with existing regulations.** But flexibility is equally critical. The security environment alone changes extremely quickly, and the push/pull between regulators and tech entrepreneurs drive further change. Innovative new technologies can quickly emerge to disrupt existing solutions and better address regulatory demands. The rapid rate of technological change combined with an increasingly complex and globally fragmented regulatory landscape mean asset managers will ideally want to work with a partner who understands the whole ecosystem and has the ability to supply technology-enabled compliance services.



## Put technology to work

Data drives transformation, but the emergence of certain tools and trends has given it life. Managers sit in the midst of vast overlapping pools of data containing information on market movements, investor behaviour, government filings and demographic trends, to name a few. APIs provide a way for much of this data to be tied together, and successfully aggregating data is a powerful first step in analysing it in search of competitive advantage. Ideally, decision making would improve, marketing efforts would be more successful and employees would be more content.[8]

Given the potential for abuse and fraud, data aggregation is also an area of great concern and scrutiny. FINRA recently came out with a warning to banks and investment organisations that the risks of aggregation include the "potential vulnerability to cyber fraud, unauthorised transactions and identity theft. A key risk is that the aggregators could be storing all consumer financial information or security credentials in one place, creating a new and heightened security risk for consumers". Aggregators agree that managing these risks is crucial, but they are also quick to point out that they are in many cases a stronger—not weaker—link.[9]

Firms are also tackling data by applying artificial intelligence and machine learning. Portfolio management has so far been the primary area of application for cognitive computing in the asset management industry, but it is also being used to make operations more efficient, manage risk more effectively or improve communications with clients.

Client communications, of course, are also being revolutionised by the ubiquity of social media and mobile interfaces. Apps and networks can replace reports and conferences. Going forward, interactions will increasingly use new technology like voice recognition, augmented reality and personal assistant software. Investors already use Alexa to retrieve their balances and transaction histories.

Much like the emphasis on standardising data, blockchain may prove to be the key in standardising value. Since it can quantify anything of value with limited risk, it theoretically makes transactions safer than they ever were before. This is an appealing proposition for clients at a time when there is growing unease over cybersecurity. Furthermore, distributed ledger technology could be particularly useful in money management operations because of its ability to create a single source where "authenticated data can be stored, updated and extracted".[10] It potentially opens the door to a dramatically different approach to compliance, with reporting replaced by regulators simply accessing information stored on blockchain.[11]

Adoption of new technology and processes is uneven across the industry. Inertia is a powerful force, and many managers remain wedded to the status quo. This is not altogether surprising when considering the daunting scope and potential cost associated with digital transformation. Forming partnerships with the right organisations can alleviate some of this apprehension (and cost). Service providers and technology firms can bring far more than tactical solutions, weaving together key components of a thoughtfully designed client experience.

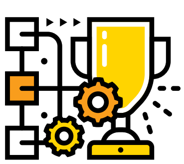
## Challenges are not insurmountable

Considerable hurdles stand in the way of successfully digitising operations and transforming client experience, even for firms willing to make the leap. This is an industry, after all, with a surprising number of firms that still rely on fax machines, a piece of equipment long gathering dust in most other offices. Legacy software (entrenched in operations and often dangerously out of date) can make it even more challenging to deliver an optimal client experience, requiring forced patches and workarounds.

As highlighted in the Forbes Insights/Cognizant report, the top five issues holding companies back include a lack of talent or skill sets, high costs associated with being first, insufficient budget, the difficulty of developing a business case, and the difficulty of allocating costs across the company.[12] To that list, we would add the technical challenges of managing and leveraging vast quantities of nonstandardised data whilst keeping it secure and private.

The talent issue, however, may be the most formidable of all. For a full-fledged digital transformation to get off the ground, senior management support is critical, and this is unlikely to happen without an effective manager and evangelist. Deloitte recently released a detailed study of this relatively new role, often known as the Chief Data Officer. In their view, this person is responsible for not only leading the data and analytics agenda of an organisation, but also “unlock(ing) the value in enterprise data assets of an organisation”.[13] Their span of influence is considerable, serving as a “… trusted partner to key business executives focused on the customer, enterprise risk management, regulatory compliance and finance”.

This relatively rare combination of strategic perspective and technical knowledge poses an immediate challenge for firms looking for someone to take the reins. Hiring someone with these skill sets is nevertheless imperative, because they will need to lead the change in culture necessary to support digitisation.



## The leap from surviving to competing

The benefits of digital transformation are indisputable for clients. According to a study by the SIFMA Asset Management Group and Broadridge, clients benefit from “… faster, better, nimbler and less costly asset management operational processes (that) result in … improved reporting, access to more diverse products and lower fees”.[14] The same report revealed that “80% (of survey participants) see significant opportunity for innovation in data management”.[15]

But how fast can the client experience be expected to change? Industry executives generally expect transformative results relatively quickly. Six out of ten, for example, believe that big data initiatives would deliver transformative results within a year, whilst 55% believe the same regarding mobile applications and solutions.[16]

The cultural change required goes beyond a company's values and mission. It will affect the makeup of the workforce. There are likely to be more middle office workers, for example, and it will become critical that everyone understand "the difference between what makes a firm special… and what should be standardised".[17]

Initiating the process of digital transformation can be unnerving. It helps to take the client's perspective, assessing all touch points and weighing opportunities for improvement. McKinsey calls this the "customer journey", and suggests designing "supporting processes with customer psychology in mind, managing expectations… and surprising customers with unexpected rewards". Those responsible should "innovate continuously, looking outside as well as in, to cast a broad net for ideas".[18] As we point out in our 2016 paper, *The Upside of Disruption*, innovation is active on a variety of fronts, and there are many lessons to be learned from the creative destruction reshaping other industries.[19]

What metrics might be useful in tracking the evolution of the client experience? Measuring the relative concentration of various client types can be helpful. A more pointed metric would be the onboarding cost and/or time per investor. While it used to take private fund managers anywhere from 90 to 120 days to onboard new investors, for example, a new technology-driven platform created by SEI allows the same process to be accomplished in as little as a day or two with much more accuracy and repeatability.[20] There are countless other measures that can help managers track the efficacy of their transformation, including changes to the satisfaction levels of their clients.

There is no question that transforming the client experience is a formidable undertaking, but a very real danger exists in not doing anything. Most industry executives agree that not keeping pace with digitisation is potentially devastating, with almost three out of four saying that financial services firms not using today's technologies to transform customer strategies, relationships and experiences are at risk of disruption or obsolescence".[21] Incremental adaptation might work, but it is a path littered with pitfalls, and the pace of change is so fast it may be difficult to keep up. It will be interesting to see how closely survival and competitiveness are ultimately linked to the implementation of technology-enabled client experiences. The obstacles are not insignificant and asset managers will need "to embrace new ways of working and adopt methods that will be foreign to standard approaches and the existing operating culture". Yet the payoff, as McKinsey goes on to point out, "can be compelling".[22]

## About SEI

Now in its 50th year of business, SEI (NASDAQ:SEIC) is a leading global provider of investment processing, investment management, and investment operations solutions that help corporations, financial institutions, financial advisers, and ultra-high-net-worth families create and manage wealth. As at 30 June 2018, through its subsidiaries and partnerships in which the company has a significant interest, SEI manages, advises or administers $882 billion in hedge, private equity, mutual fund and pooled or separately managed assets, including $331 billion in assets under management and $545 billion in client assets under administration. For more information, **visit seic.com**.

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Investment Manager Services supplies investment organisations of all types with advanced operating infrastructure they must have to evolve and compete in a landscape of escalating business challenges. SEI's award-winning global operating platform provides investment managers and asset owners with customised and integrated capabilities across a wide range of investment vehicles, strategies and jurisdictions. Our services enable users to gain scale and efficiency, keep pace with marketplace demands, and run their businesses more strategically. SEI presently partners with more than 450 family offices, asset owners and investment managers of traditional, alternative and hybrid structures representing over $21 trillion in assets, including 41 of the top 100 managers worldwide. For more information, **visit seic.com/ims**.

## SEI Knowledge Partnership

The SEI Knowledge Partnership is an ongoing source of action-oriented business intelligence and guidance for SEI's investment manager clients. It helps clients understand the issues that will shape future business conditions, keep abreast of changing best practices and develop more competitive business strategies. The SEI Knowledge Partnership is a service of the Investment Manager Services division, an internal business unit of SEI Investments Company.

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