UBERISATION 2.0—ONE OF FIVE TRENDS SHAPING INNOVATION

THE EXPONENTIAL PULL OF INNOVATION

Asset management and the upside of disruption

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ADVANCING THE STATE OF THE ART

> *"You never change things by fighting the existing reality.* ***To change something, build a new model that makes the existing model obsolete."***
>
> — R. Buckminster Fuller

Asset management firms are built to withstand revolutions, not embrace them. The objective, after all, is to preserve and grow capital. Despite its staid reputation, the investment business is not static, with regulatory changes and competitive pressures periodically spurring change. Now, the introduction of new technologies and business models is making change a constant and causing the industry to be reorganised, re-engineered, and reinvented before our very eyes.

Successfully harnessing technology in a complex and heavily regulated industry is not easy, even when there is great enthusiasm for it. Generous budgets at incumbent firms can be undermined by cultures that prioritise stability over creativity. Insurgents, often the innovators, can be hobbled by inexperience with how the investment business really works. Like most revolutions, the transformation of financial services is inevitably turning out to be a messy affair.

It isn't clear who will survive or emerge victorious, but the basic contours of change are coming into focus. Data plays a central role and is being analysed with increasingly sophisticated tools that include various types of artificial intelligence. If other sectors are any indication, the already pivotal role of platforms is set to expand even further. Social media is causing communications to be remade and reconsidered. Even the gig economy is nibbling at the edges of an industry that, for all of its corporate behemoths, has always been open to scrappy startups.

We addressed these topics in 2016 with *The Upside of Disruption: Why the Future of Asset Management Depends on Innovation*. The themes remain relevant, but a flood of venture capital and widespread adoption of new technologies in the intervening years—compounded by the unexpected arrival of COVID-19—accelerated the pace of change. The net result is a vastly more complex ecosystem populated by thousands of firms at all stages of development. Progress has not been linear. For every genuine innovation, there are countervailing examples of fraudulent or poorly conceived technologies, reminding us to stay sceptical and temper our expectations.

To capture a balanced and up-to-date picture of innovation in asset management, SEI collaborated with ANZU Research to revisit the five ongoing developments that are redrawing the industry's competitive environment.

Released serially over the upcoming months, each of the following themes—dubbed as follows—will be explored in detail, with a particular focus on recent developments:

1	**Watsonisation**	Artificial intelligence is quickly transitioning from curiosity to critical cog in efforts to monetise data and power applications from front to back office.
2	**Googlisation**	Data-smart companies are learning how to access, aggregate and distil competitive knowledge from a vast sea of previously inaccessible information.
3	**Amazonisation**	Online platforms are reshaping business dynamics, putting customers in charge and forever altering the customer experience.
4	**Uberisation**	By rethinking the value chain, a fast-emerging business model points to new ways of creating value and gaining scale.
5	**Twitterisation**	Corporate communication is no longer a one-way street. Technology has transformed how businesses communicate with—and learn from—their customers.

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THE EXPONENTIAL PULL OF INNOVATION

UBERISATION 2.0

New Business Models in Asset Management

A BRIEF HISTORY

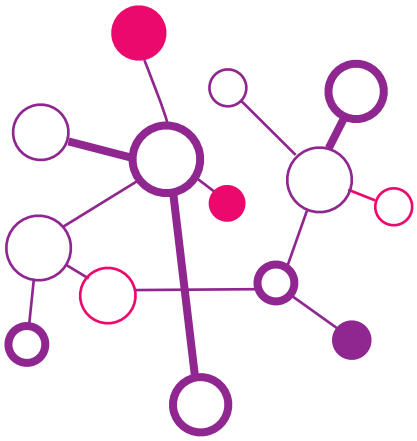
Most of the innovations studied in this five-part series have a relatively concrete quality to them. Industry professionals are familiar with the growing role of data, machine learning, platforms, and social networks in financial services. Business models are more abstract concepts, but they may represent the most profound upheaval of all.

"Quality in a service or product is not what you put into it. It is what the customer gets out of it."

— Peter Drucker

A BRIEF HISTORY

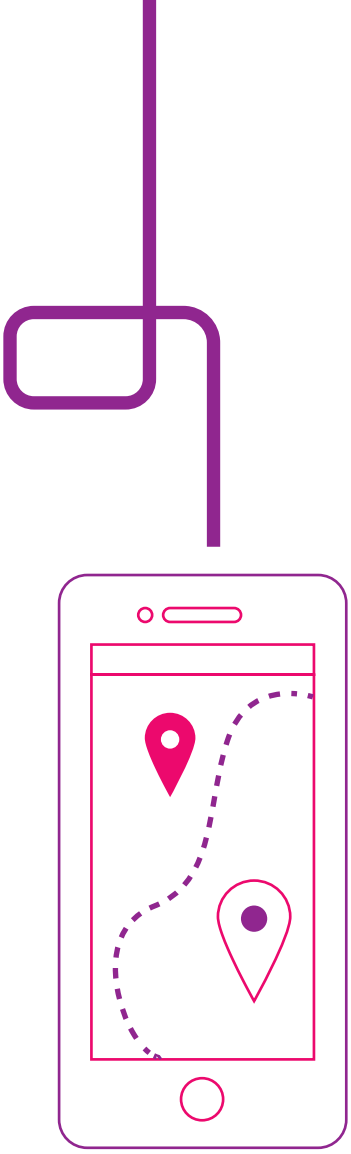
As we discussed in 2016's *The Upside of Disruption*, firms such as Lyft, Uber, and Airbnb rethought and deconstructed the traditional value chains in their industries to create new technology-enabled business models centred on enlisting the capabilities, assets, or knowledge of others. Using the term Uberisation, we showed how subversive start-ups had the potential to obliterate established infrastructure, leaving an army of individuals ready and willing to take up the slack by offering their services.



We are witnessing the atomisation of business, where the technological latticework that connects all of us is now robust enough that specific tasks can be farmed out across a vast network. This is not to imply that vertically integrated incumbents are fated to be vaporised. Some will prove to be adept at orchestrating vast webs of consumers and the myriad others who service them. Nevertheless, the ongoing upheaval marks a major departure from business as usual across multiple industries. Targeted by companies including Uber, Lyft, DiDi (China) and Ola (India), taxis are the most visible casualties. They are hardly alone. The hospitality industry was similarly upended by Airbnb and others.

In order to accurately gauge how vulnerable the financial services industry is to this type of disruption, it helps to examine the pain that is being addressed. The ride-hailing business used to suffer from poor information flow, inconsistent experiences, questionable hygiene, high costs, uncertainty, and long waits. Hotels suffered from some of the same problems, with some also being seen as offering poor value for money or lacking any personality.

Any one of these vulnerabilities should theoretically attract ambitious new market entrants, but the taxi business was traditionally protected by a bevy of regulation while the hotel industry was shielded by its massive investments in real estate as well as by municipalities, counties, and states that extracted layers of tax on hotel rooms. Seemingly impenetrable, these markets were suddenly exposed by the connectivity provided



by mobile apps. With that technology in place, it was simply a matter of some bold thinking to connect consumers with individuals in possession of underutilised resources in the form of cars and rooms.

Despite some bumps along the way, consumers have enjoyed lower prices, improved service, ease of use, personalised experiences, greater control, and a more thorough commitment to cleanliness. Life is simpler and less stressful when instead of hailing a random car you can expect a clean Uber at a specified time, driven by someone whose car and personal headshot photo you've seen. Similarly, life is more interesting when you can spend a long weekend in a historic downtown loft rather than a drab hotel in the suburbs.

A superior customer experience at a lower cost is a nifty trick, but this new business model goes further by benefiting suppliers who enjoy the low cost of entry, flexible hours, productive use of an already owned resource, and the ability to control their own brand to a certain degree. Surging share prices have validated what is expected to be the enduring appeal of these businesses: Even after a COVID-strained 2020 made even more challenging by regulatory scrutiny, management hiccups, and tax pressure, Uber and Airbnb both still sport market capitalisations in excess of US$100 billion.[1]

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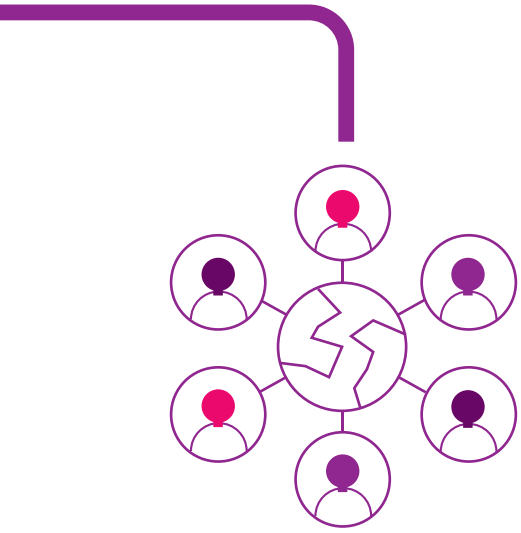
It remains to be seen how many other sectors similar models will disrupt. Can the "network orchestrators" described in the *Harvard Business Review*[2] spark the delivery of higher quality experiences at lower cost in industries such as financial services? Asset management, after all, is a more complex proposition than a car ride or a roof over one's head. There are significant regulatory barriers, deeply rooted relationships, and the inertia inherent in the bulk of assets already being managed. The necessary skill sets are also varied and probably less fungible. Talent has always played a central role in asset management, and despite growing automation and the success of index-tracking portfolios, it remains an open question to what extent humans can successfully be replaced by technology or untethered from larger corporate entities.



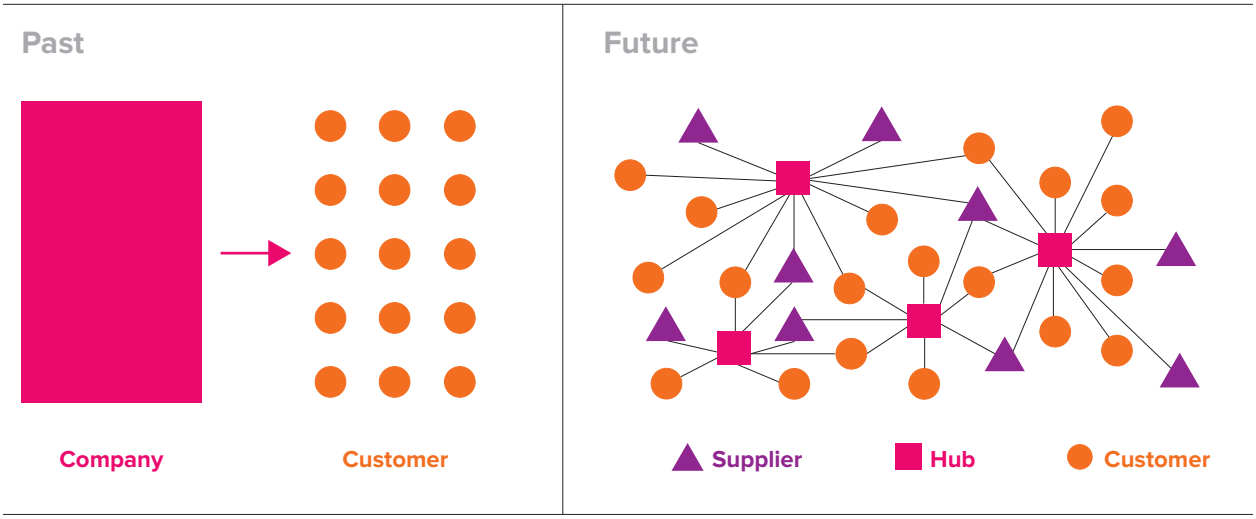
In a 2013 study from Oxford University titled *The Future of Employment: How Susceptible are Jobs to Computerisation?*,[3] the authors make a number of prescient observations about the vulnerability of knowledge workers to more sophisticated technology increasingly capable of handling nuanced tasks. They concluded that despite the presence of many bottlenecks, "sophisticated algorithms could substitute for approximately 140 million full-time knowledge workers worldwide."

There is no question that the issue of machines replacing people is important, but it can obscure the other revolution happening in parallel: The atomisation of the labour force. Machines, after all, will certainly do more going forward, but people who can pull the right levers will succeed wherever they work. Michael Spence, winner of the Nobel Prize for economics, said "information technologies that automate, disintermediate, and reduce the costs of remoteness are also enabling the construction of increasingly complex and geographically diverse global supply chains and networks."[4] He goes on to observe that the move toward more atomised global supply chains causes more competition in sectors that previously enjoyed a degree of protection.

"The greatest improvement in the productive powers of labour, and the greater part of the skill, dexterity, and judgement with which it is anywhere directed, or applied, seem to have been the effects of the division of labour." — Adam Smith

Each of these trends alone represents a significant break from the past, but combined they promise a revolutionary approach to doing business. Employment is not a zero-sum game, and throughout human history, other jobs have often been created even as various forms of technology eliminated certain tasks. This means that while knowledge workers themselves are not necessarily in the line of fire, flexibility will become an even more prized attribute. The role of their erstwhile employers, however,

becomes a question mark. The economics of work are likely to be radically reinvented and “the calculus changes when jobs are broken apart and atomised through Internet-enabled technologies. What is the future of work when micro-tasks are farmed out to disparate people and groups globally?”[5]



RECENT DEVELOPMENTS

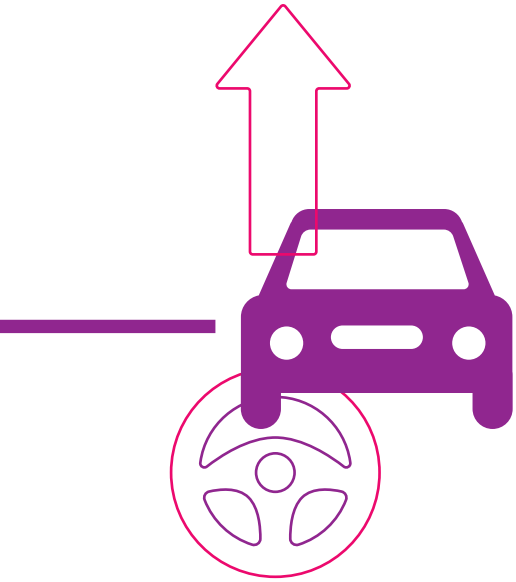
CRITICISM & REGULATION

Disruptive innovations are rarely greeted with universal acclaim. Any threat to the traditional ways of doing things typically attracts some scrutiny, but its potential for wholesale change means Uberisation seems to attract more suspicion than most.

One of the primary criticisms levelled against this new business model involves the perceived mistreatment of workers who do not benefit from being classified as full-time employees. The issue of contract labour has been simmering for many years, but it came to a head in 2020 amid emerging stories of overworked and underpaid drivers without health insurance or retirement benefits. Charges of exploitation are countered with the observation that drivers work willingly and seem to enjoy many aspects of their job, not least of all the flexibility afforded by this arrangement.

Safety and standards are another topic of debate. Potential hurdles such as driver certification and rules governing the operation of hotels were largely sidestepped by start-ups.

Yet another development under the microscope is the ability of new business models to distort markets. The lure of substantially higher revenue promised by short-term rentals means the Airbnb phenomenon has driven up costs and severely constrained the stock of long-term residential rentals available in some locales, aggravating the affordable housing crisis already testing many communities worldwide.



All these concerns are exacerbated by the loss of tax and licensing revenue. Eager to revitalise their tax base and address the unease of (at least some) constituents, local jurisdictions have taken a variety of steps to mitigate the impact of new business models. Short-term rental companies have been challenged in many locales by statutes mandating minimum rental terms, growing regulatory requirements, and increased taxation. Ride-sharing start-ups have been shut out of some markets and were most recently threatened in California by Proposition 22, the most expensive initiative in the US state's history, which pitted companies like Uber and Lyft against a powerful alliance of politicians and labour groups.[6]

The resounding defeat of Prop 22 was widely viewed as validating these new business models, but efforts to regulate them will inevitably continue. A more recent ruling by the UK Supreme Court, for example, affirmed that Uber must treat drivers as workers rather than contractors, potentially threatening the growing array of businesses that depend on gig workers.[7] Untangling the benefits and disadvantages will take time and probably result in a patchwork of new regulations, but the result will almost certainly be industries that look very different from their immediate predecessors and offer an upgraded customer experience.

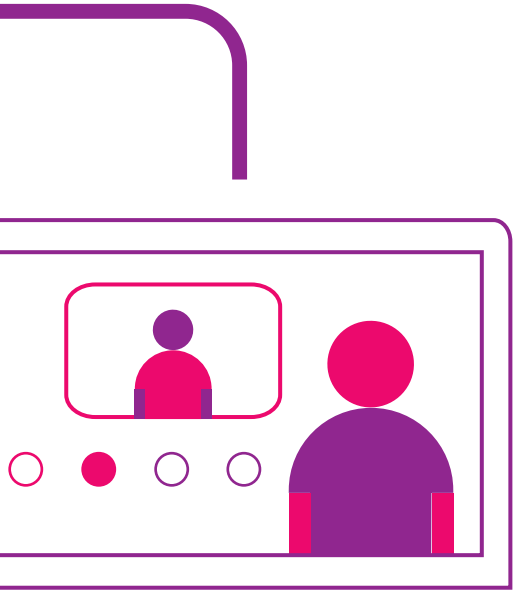
COVID-19 CHANGES EVERYTHING

Mating the asset management sector with the gig economy seemed like the most speculative position we staked out five years ago, but COVID-19 has changed that. The pandemic accelerated everything, particularly with regard to the previously widespread assumption that businesses required physical offices, dedicated infrastructure, and permanent employees. When most of the world's office workers suddenly started working via the cloud and VPNs, most financial firms experienced a surprisingly smooth transition. Widely available technical infrastructure means it is clearly possible to run complex businesses with geographically scattered workforces. Even better, eliminating commutes means that productivity can be improved.

The gig economy is more prominent than ever, with apps and social networks empowering individuals in myriad ways. Demand for drivers has slumped, but there has been a concurrent spike in demand for deliveries of everything from dinner to drugs. Demand is so strong that there is remarkable price elasticity: The cost of food delivery has risen from 5% to closer to 30% of the total price.[8] Consumers adapt quickly. As they interact with increasingly sophisticated technology and platforms, people's expectations shifted quickly, raising the baseline. Businesses cannot be complacent, at the risk of being displaced by a more innovative interloper.

TALENT MANAGEMENT CHALLENGES

The transition to remote work has not been entirely seamless. While some employees have thrived and become more productive, others have proven harder to motivate. Morale is inconsistent and can be challenging to shore up, although managers continue to search for novel ways to boost team spirit. Productivity gains can also be undermined by sub-optimal workspaces, the presence of children, or other distractions.[9] Ideation and collaboration are clear challenges, and it requires creativity to exhibit leadership and effectively mentor younger employees from a home office. Mental health is being taken more seriously as the isolation associated with the pandemic drags on.



The basics of talent management may be even more challenging. Recruiting has slowed in the face of reluctance to make remote hires, and compensation plans are being revisited as performance metrics are adapted to the new reality. Paid Time Off (PTO) policies are being revisited because homebound employees have nowhere to go. It is also not clear whether employees working from home should be compensated on par with their colleagues in the office. There doesn't appear to be much correlation between overall productivity and working from home, but anecdotal evidence suggests a growing gulf between over- and under-achievers.

There is widespread stoicism, but some companies are choosing to view the current environment as an opportunity to re-examine their business models. Some have concluded that they can significantly reduce overhead by reducing their physical footprint. Conversely, others are finding it necessary to expand their footprint in order to accommodate additional space between, and safety among, employees. Others have observed that their frustrated attempts to build more diverse workforces in situ are more attainable if workforces are geographically dispersed. Working from home may even prove to be a boon for efforts to integrate more neurodiverse individuals who offer unique skills but can

Central to this transition is **the issue of culture.**

find it challenging to function in traditional office environments. As meaningful distinctions between remote employees and independent contractors fade, others may go further by choosing to become something more akin to network orchestrators.

Central to this transition is the issue of culture, a prized and carefully guarded trait of most financial firms. As tasks are distributed more broadly, will culture continue to matter? Will mercenary attitudes undermine carefully cultivated collegiality? Can culture thrive in the absence of physical space? How important are conference rooms and cafeterias? How will a company's ethos evolve in the absence of the proverbial water cooler?

EFFECT ON FINANCIAL SERVICES

BREAKING WITH THE PAST

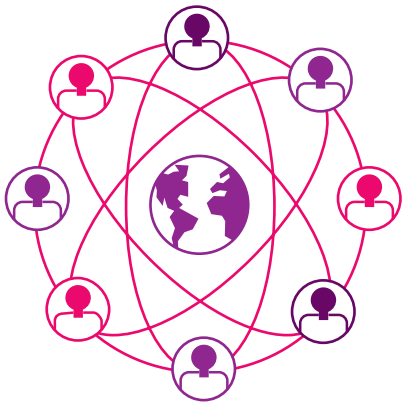
When we first wrote about Uberisation five years ago, we asked whether asset managers could gain a competitive advantage by shifting more pieces of their value chain to others. Based on the strong growth of sub-advisory arrangements and operational outsourcing, it seemed logical that there would be similar opportunities in distribution, research, IT hosting, product development, data management, human resources, and other functions. Facing new competitors and cost pressure, asset managers might find that networked business models could lay the foundation for more consistent and sustainable growth. As we noted then, "With today's computing platforms, companies can easily connect with talent and resources far beyond organisational bounds."[10]

Those organisational bounds came crashing down in early 2020 as COVID forced everyone to work from home. With employees untethered from physical offices, the stage was seemingly set for a wave of Uberisation, with independent contractors taking the place of full-time employees. Companies are understandably reluctant to part with their most cherished assets, so this transition

has not yet materialised in any wholesale way within the established asset management industry. We may, however, see less emphasis on full-time employees as hiring resumes, with more firms choosing to engage with independent contractors who enable them to get the same work done with more flexibility.

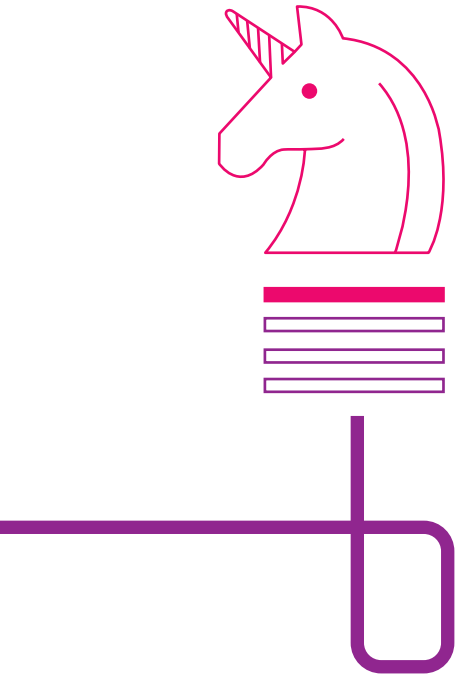
Meanwhile, we are seeing the growth of a parallel investment industry unfettered by the traditions and rules found at existing firms. This new world reflects the essential characteristics of Uberisation more precisely than a rejiggered version of an old industry ever could. Much like Uber, it represents a reimagining of an industry built around platforms and peer-to-peer transactions that reduce friction and costs.

Any mention of P2P is likely to remind readers of Napster and other file-sharing sites from the 1990s. Despite successfully disrupting the music industry, they eventually gave way to new digital platforms that actually generated revenue for asset owners. Services such as transportation and portfolio management may reflect significant intellectual property, but they are not protected by copyright. As a result, they are more susceptible to disruption by interlopers who are not shy about taking on legacy business they view as bloated and inefficient.



INNOVATION AT THE SPEED OF THOUGHT

How do you protect the value of ideas? A strong brand helps, but that has become notoriously difficult for asset managers whose relationships are often intermediated by advisors and consultants. Many turn to content marketing in an effort to highlight their core competencies. The difficulty with thought leadership is how to display original thinking in an extremely crowded market in a consistent manner over time. Competitive pricing is always attractive but erodes the top line. Strong distribution is a sound strategy that may ultimately come under serious attack if younger and increasingly affluent consumers migrate to completely new online platforms.

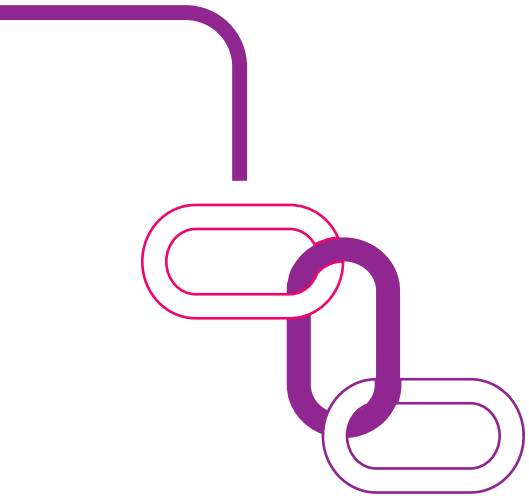


Rather than amplifying existing ideas, well-funded start-ups are using technological innovation to stake a claim in the emerging fintech ecosystem. Technology is already permitting the creation of banks unencumbered by physical infrastructure, direct lending platforms generating superior yields, and customised planning and advice at affordable rates. Robinhood has a famously compelling interface. SoFi has proven adept at bridging silos and creating a holistic experience. Many fintech unicorns got their start in payments, lending, or banking, but investment management is squarely in their sights, and the real-time feedback loops and market platform afforded by social media mean they could theoretically ramp up their visibility and competitiveness in record time.

The GameStop saga of early 2021 further illustrates the disruptive power of technology; this time by coordinating the actions of many otherwise unrelated individuals to create an outsized impact on the markets. Dismissed by some as a simple pump-and-dump scheme, this incident nevertheless underscores the power of decentralised action in the service of an idea. Is there a business model there? Perhaps. We cover several in our report on Twitterisation. This particular episode, however, illustrates the power of atomisation and hints at potential competition for professional money managers. Few are interested in mobs replacing analysts, but there is something to be said for the wisdom of crowds, especially those empowered with instantaneous information, sophisticated technology, and the age-old desire to eliminate the middleman. Notwithstanding the trust factor, advanced performance analytics may ultimately lower the barrier between professionals and amateurs, highlighting superior investment skill wherever it is found.

The business model revolution is about more than simply blowing up hierarchical organisations or transitioning from employees to contractors. It is also about reducing friction and transaction costs. Michael Munger, the author of *Tomorrow 3.0: Transaction Costs and the Sharing Economy*, notes “The middleman sells reductions in transactions costs, at a price much less than the transactions

costs being replaced. This in turn makes possible transactions that otherwise would never happen." Like Uber and Airbnb, companies such as MarketAxess sell reductions in transaction costs, leading to greater transaction volume. Though well established now, the electrification of trading was initially revelatory in the notoriously fractured and non-standardised world of bonds.[11] The success of platforms like Liquidnet and Tradeweb also illustrates the ability of new networks to reshape markets. The banks that dominated fixed-income trading for so long are increasingly being side lined by investors choosing to buy and sell among themselves.[12]



Ethereum's locked-in value rose to more than **US$13 billion** in 2020.

REVOLUTIONARIES & SURVIVORS

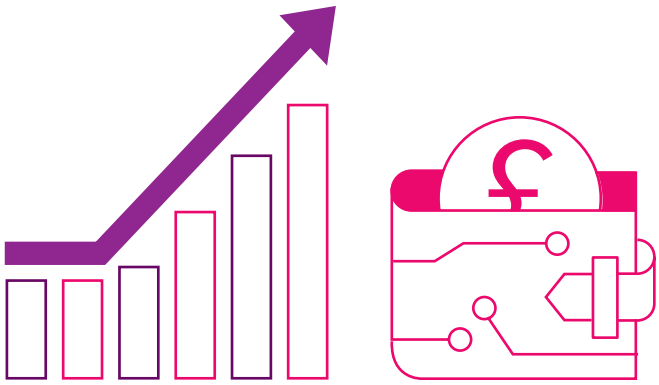
One route to long-term success may involve the embrace of decentralised finance, or DeFi as it is commonly known. DeFi is aimed squarely at disrupting existing financial transactions and intermediaries through the use of blockchain technology. The ability to embed smart contracts in Ethereum (the second-largest cryptocurrency after Bitcoin) makes DeFi an intriguing enough value proposition that its locked-in value rose from less than US$1 billion to more than US$13 billion in 2020. DeFi protocols are proliferating quickly and now include asset management tools, lending, derivatives, insurance, prediction markets, and myriad other applications. Some even offer backbones for communities built around shared ideals and resources, effectively promising an alternative to traditional corporate structures. Of particular interest to traditional asset managers will be tokenisation, where non-custodial transactions could theoretically involve the buying and selling of virtually any asset by anyone with a cryptocurrency wallet. Ownership stakes in idiosyncratic and illiquid assets would suddenly become not only tradable but also divisible.

As of early 2021, DeFi is still a niche, but the growing interest in cryptocurrencies by mainstream financial firms suggests there could be more widespread integration around the corner. Barriers including a steep learning curve and arcane jargon are being overcome as the two worlds come together. Large,

highly regulated markets might prove more resistant, but DeFi promises a quantum leap forward for developing markets, much like mobile telephony did for countries with little existing telecommunications infrastructure.

Despite the onslaught of new competitors, it would not be surprising to find that well-capitalised incumbent financial firms are up to the challenge. After all, the industry is already responsible for some of history's most enduring and effective networks, with Exhibit A being the stock market. Such incumbents endorse the power of ideas, free markets, and meritocracies. With significant capital on hand, they can also always choose to invest in disruptive competitors if their own efforts fall short or if they are looking for a catalyst.

Already primed to look for the next big thing, at least some asset managers will look past their institutional blinders and carefully observe their environment and weigh alternative ways of doing business. Central to their analysis will be a careful examination of where economic value is accruing as business models evolve. Understanding that it is increasingly impractical to be all things to all people, there will also be greater emphasis on segmentation, specialisation, and integration. It may no longer be possible to control all the parts, but every effort must be made to control outcomes and experiences.



ASSET MANAGEMENT **EXAMPLES**

Investing—as central as it is—is only **part of the overall picture**.

The financial services sector is already more fragmented than it used to be in the days of large, vertically integrated organisations spanning banking, brokerage, and investments. Open architecture empowered independent managers long ago, and most firms operate within a constellation of service providers and vendors of various kinds. Within these networks there is no shortage of entities that simplify the investment process for institutions as well as individuals: Consultants, databases, advisors, and trading platforms. But investing—as central as it is—is only part of the overall picture. It's more complicated than catching a ride or booking a room. As important as these intermediaries are, they're not really carving out new space in the ecosystem along the lines of an Uber or Airbnb.

The following firms are noteworthy demonstrations of the potential for Uberisation in asset management. Some are still in their infancy, while others are more established. The list should be considered illustrative rather than exhaustive.

INVESTMENT RESEARCH

Atomisation of the asset management industry can only occur when the right tools and technologies are in place to support the intuitive and customisable interaction with data, analytics, and insights. This is an area of intense focus, with both start-up and legacy firms scrambling to capture mindshare among professional and amateur analysts alike.

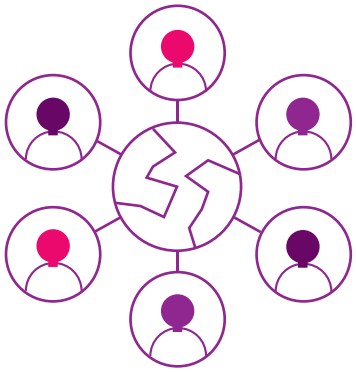
AnalystHub offers analysts the compliance infrastructure and support necessary to offer their services as a standalone service. It works as a gateway to all of the essential publishing, CRM, and compliance tools needed to run a business. Combined with the growing market for models, this could theoretically enable distributed research functions, permitting customised approaches without integrated in-house research.

Fundmap supplies business intelligence to the world of institutional investing, supporting business development efforts with data on investors and mandates. Further highlighting the fact that the institutional world is as ripe for disruption as retail investing, **Procensus** aims to bring transparency via extensive polling of industry insiders, resulting in a community sharing opinions on everything from IPOs to M&A deals.

Rather than offering market intelligence, some firms are opting to sell the tools needed for the job. **Accern** offers a "no-code development platform"[13] for AI workflows, simplifying the analysis of social media and blog posts.

Sentifi is also focused on professional investors. Their analytics engine is supplied with social media feeds alongside other types of unstructured data as well as traditional financial information. Analytical outputs provide context for external events, facilitating idea generation, trades, and portfolio monitoring. The company sets itself apart with a ranked list of 14 million influencers.[14]

INVESTMENT RESEARCH (CONTINUED)



Estimize takes a different approach to a similar idea. Rather than relying on external social media platforms, it was created to serve as a virtual community for asset management professionals, focused on the sharing of financial estimates from analysts and investors. The company has carved out a unique niche for itself by banking on the wisdom of the crowd, and it is expanding its footprint by integrating with established industry data platforms such as **Bloomberg**.

Dataminr uses an AI that understands 80 languages to scour hundreds of millions of publicly available data points each hour to provide early detection of risk factors. Social media feeds comprise a critical input for this process, which informs the risk-management efforts of an assortment of blue-chip clients.

While it is not unusual for analytics firms to integrate social data into their offering, some independent firms are laser-focused on this area. **Stocktwits** now bills itself as the world's largest community of investors and traders, with more than two million registered users.[15]

Trade Ideas positions itself as an AI-augmented market intelligence platform supplying active traders with unparalleled access to comprehensive, real-time market data along with myriad tools for planning and executing trading strategies.

DATA PLATFORMS

BattleFin focuses on sourcing, organising, evaluating, and vetting alternative data. **Demyst** has a similar value proposition, offering users in financial services a fast and safe way to discover, evaluate, and use data from what they claim is the world's largest data marketplace, with access to hundreds of sources. Meta-markets are also emerging. It was announced in September 2019 that Demyst would be joining the **Snowflake** data exchange, an already substantial market maker for data across industries.[16]

DATA PLATFORMS (CONTINUED)

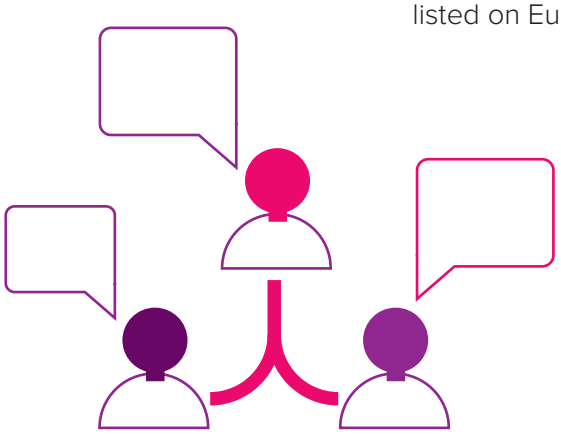
PeerNova attempts to solve some of "the most prevalent challenges in the financial industry" by enabling financial firms to perpetually synchronise their data across multiple internal and external systems. Its Cuneiform Platform is said to simplify reconciliation, automate exception processing, and provide end-to-end operational visibility across workflows in real time.

SOCIAL INVESTING

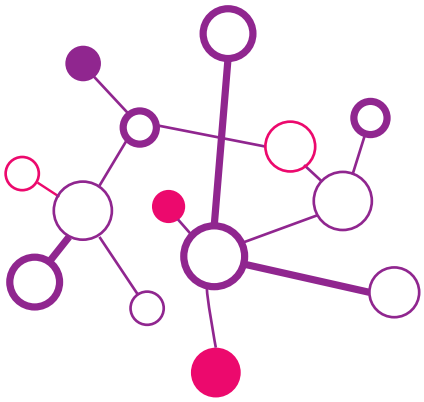
Closely tied to sentiment analysis is the business of social investing or mirror trading. Founded in 2006, **Covestor** was among the first to let investors follow and mimic the portfolios of others based on their investing styles and track records. The company has since been acquired by **Interactive Brokers Group**.

Other social investing platforms such as **Open Folio**, **Tip'd Off**, **Stocktwits**, and **eToro** compete for market share, relying in part on the concept's appeal to millennials. **ZuluTrade** alone has 10,000 traders (aka signal providers) from 192 countries and offers access to a wide assortment of asset classes including stocks, commodities, forex, and cryptocurrencies. **Ayondo** and **Tradeo** are further examples of social trading platforms.

Based in Austria, **Wikifolio** serves traders who are confident that they have something others will want, empowering them to turn their portfolios into full-fledged financial products ("wikifolios"), listed on Europe's leading exchange for structured products.



EXCHANGES



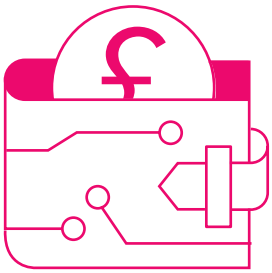
Palico is one of several firms attempting to bring transparency and liquidity to private markets, enabling the buying and selling of primary and secondary private equity interests.

Nasdaq's acquisition spree underscores a deep understanding of the growing demand for markets and clearinghouses of all kinds. The company is positioning itself as a hub not only for private market transactions, but also for the buying and selling of many different types of data and information.

Zanbato is a crossing network for private securities that provides market data, counterparty verification, and order execution to broker/dealers and institutional investors. **OurCrowd** is a global crowd investing platform for accredited investors. **Fundbase** aims to make alternative investing more accessible and efficient, allowing investors to find, trade, and monitor high-conviction investments while communicating and collaborating with one another.

DEFI

Enzyme Finance (previously known as Melon) was founded in 2016 to leverage the unique characteristics of Ethereum in order to empower anybody to create their own fund. Its on-chain asset management tools promise to allow users "to build and scale investment strategies of your choice — from discretionary and robo to ETFs and market making."[17] **dHedge** offers users the opportunity to create decentralised hedge funds on Ethereum.

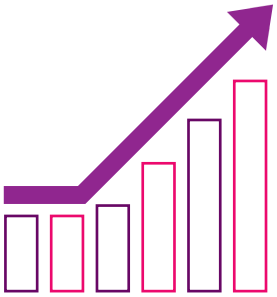


Furucombo takes a unique approach to constructing DeFi portfolios, simplifying asset allocation and transactions by using a drag-and-drop user interface. **Aragon** facilitates the creation of decentralised autonomous organisations (or DAOs) with a suite of applications centred on tokenisation.

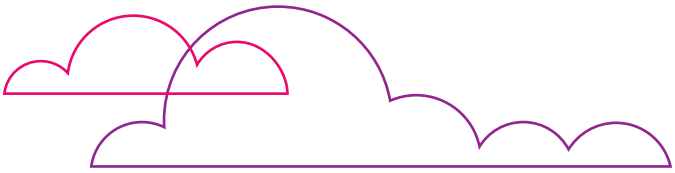
ADVICE

As machine learning advances rapidly, so do efforts to create personal financial assistants or coaches. **Plum** is one of several AI chatbots that automate saving in an interactive manner. Based in South Korea, **QARA** offers asset management tools to both individuals and institutions based on deep learning. **Kasisto** takes a different approach, offering a turnkey solution with KAI, a conversational AI platform that they claim is "fluent in finance." More investment firms are experimenting with bots to service their clients, but what if consumers had their own fiduciary bots that were platform-agnostic?

Financial planning apps are proliferating and getting far more sophisticated than providing mere budgeting. Offering integration with accounts of all types and personalised advice on achieving short- and long-term goals, this new breed of AI-powered apps is aiming beyond the value proposition of the original robo-advisors. **Pefin** bills itself as the world's "first AI financial advisor."[18] Rather than building a consumer-facing brand, it has chosen institutional sales, with financial firms white-labelling its technology and employers offering its services as a benefit to their workers.



Most AI advisors are still oriented toward mining the connections between individuals and their institutional suppliers of financial products, but it is not hard to imagine a more decentralised approach taking hold once the infrastructure has proven to be resilient.



WHAT'S NEXT

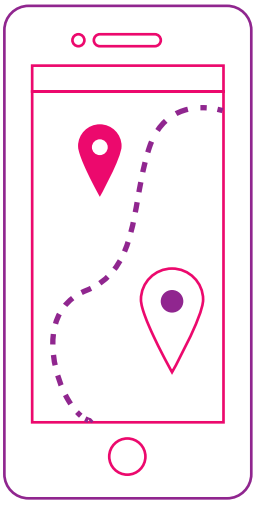
Uberisation is the least visible of the five thematic types of innovation we've been tracking in the financial services sector. It is most obvious on the wealth advisory side of the business, where US independent RIAs and independent broker-dealers peeled away from wirehouses and regional brokerage firms and flourished as a constellation of technology vendors and service providers emerged to meet their needs. This development was spurred on largely in part by investor dissatisfaction with proprietary investment products and the resulting trend toward open architecture.

Despite some use of contractors in areas like marketing, sales, compliance, and strategy, asset management firms have largely chosen to have most core functions handled either internally or by trusted, enterprise-scale service providers. There has been no compelling impetus—and it would not have been practical in any case—before recent technical innovations and the universally shared experience of working with distributed workforces. Even today, there may be too much operational and reputational risk, as well as oversight difficulty, for a wholesale disruption by gig workers.

Nevertheless, the atomisation of work is already visible even in this relatively calcified industry. It is often indirect, with growing numbers of service providers expanding their own networks by engaging with even more contractors. We expect to see more of this not only in distribution and middle office functions, but also in investments. Asset management firms are quick to highlight investment acumen as their core competency—typically the main reason for their founding—and some are willing to rely on others to do virtually everything else. This model may be tested as high-quality technology tools proliferate, data and analytics become more widely available, and transaction costs approach zero, empowering more outsourcing of the security selection and asset allocation functions.

FINAL THOUGHTS

It is worth remembering that disruptors can themselves be disrupted. Uber has a US$100+ billion valuation to go along with its dominant market position and global name recognition, but even it is vulnerable to autonomous ride hailing, which could deeply undercut the cost of its existing business with large, efficient fleets that could be in service 24/7 with minimal oversight. Uber famously hedged its bets by investing heavily in self-driving vehicles, but myriad challenges caused it to step away from these efforts in late 2020.[19] The technical challenges and potential for physical harm mean autonomous vehicles may not be ready for prime time yet, but autonomous ride hailing seems all but assured at some point and there is no guarantee that Uber will be the primary beneficiary.

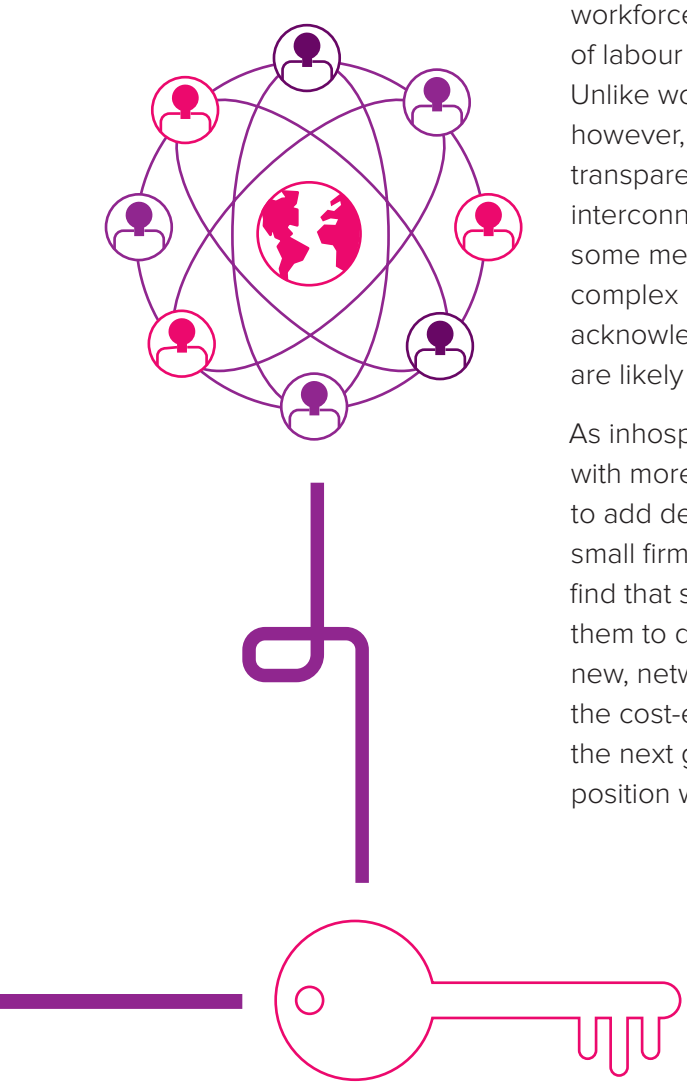


Despite the success of indexing and robos across investor segments, the management of portfolios is a long way from being fully automated. Active managers face challenges, but they continue to explore ways to generate alpha and attract new assets. Accustomed to looking at long-term implications, they will do everything they can to avoid death by a thousand pinpricks. This doesn't mean that there is nothing to be learned from this next phase of innovation, which is likely to roil the asset and wealth management sectors.

When it comes to transportation, customer experiences will eventually become more important than products per se. This is no longer a novel concept in financial services, but designing a superior and even personalised customer experience will require adapting further to a fast-moving environment where investors are catered to by a growing network of partners giving them what they want, how they want it, and when they want it.

Customer experience has not been discussed with any regularity in the boardrooms of asset management firms until the past decade. Even so, it rarely sparks any serious consideration of how things appear from the client's vantage point, whose expectations have been raised by their interactions with Amazon and other customer-centric organisations. Investors appreciate options, but they want their choices curated. Rapid turnaround is a given. Transparency and real-time analytics are expected. Trust is critical and needs to be validated with independent reviews and endorsements. Advice needs to be customised and holistic. Above all, people are coming to expect communities where they can transact knowledgeably and effortlessly.

Not every firm needs to do everything. In fact, the emerging network model encourages specialisation. The atomisation of workforces may represent the ultimate expression of the division of labour first described by Adam Smith more than 240 years ago. Unlike workers toiling in the pin factory of Wealth of Nations, however, today's knowledge workers compete amid the greater transparency and higher expectations that come with pervasive interconnectedness. Specialised knowledge and skills offer some measure of protection, but success in even relatively complex businesses like asset management will require an acknowledgement that the economics of a networked industry are likely to look very different, even as standards continue to rise.



As inhospitable as this future may look to some, it will attract others with more positive attitudes toward innovation and change. Able to add demonstrable value to their clients and counterparts, many small firms and individuals will triumph. Larger organisations may find that some of their traditional strengths begin to fade, forcing them to divest control of certain activities or otherwise adapt to the new, networked reality. Big or small, anyone who can orchestrate the cost-effective delivery of an exceptional client experience to the next generation of investors should find themselves in pole position within a reimagined asset management industry.

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