

# The Digital Transformation of Asset Management: Challenges and Solutions

## How Products Evolve

*Products and services are developed via two different processes. **Linear refinement** is the process in which products and services are adapted via a series of revisions and extensions. **Step change innovation** is where a completely new design, technology or approach is introduced in a discontinuous way. Linear refinement does not typically deliver radical developments; these are delivered via step change innovation.*

*Take mobile phones as an example. In the 1980s and 1990s, mobile phone technology developed via linear refinement. Over this period we saw advancements such as phones that you could hold in one hand, retractable antennae, and covers that could be flipped or slid open.*

*And then Apple launched the iPhone. The iPhone was a completely new form of mobile phone. In fact, it wasn't just a phone. It was a multi-media, multi-functional device: the smart phone. It didn't even look like a phone and being able to use it as a phone was actually a bonus rather than its *raison d'être*.*

*The iPhone was a discontinuity in the evolution of mobile phone technology and could only ever have emerged via the process of step change innovation.*

*Linear refinement produces better products and services, but step change innovation delivers a new user experience.*

## Asset management – an industry in transition

The asset management industry has entered a period of unprecedented change. Today, asset management organisations are facing severe challenges on several fronts. Revenues are down because of pressure on fees, and profits are being eroded by the cost of complying with a never-ending stream of new regulations.

At the same time, the expectations of investors, both institutions and individuals, are changing. They want more detail about their investments delivered more often, more explanation of how value is being provided, and a more customised service overall. In short, they want the information **they** want to see provided **when** they want to see it and **how** they want to see it.

And this is happening in parallel with a transformation in the nature of B2B and B2C interactions across all industries. The universal adoption of digital channels is changing everyone's expectations and behaviours around the provision of information and the nature of business relationships.

These intra-industry and pan-industry dynamics are combining to create an irresistible force of change in the way that asset management organisations attract new clients and retain the ones they already have.

To respond to these drivers for change, asset management organisations need to deliver a new customer experience, and that requires step change innovation in the technology used for client and market communications (see **How Products Evolve**).

In this white paper we will:

1. Describe how the distribution channels used by asset management organisations to market their products are changing, and the challenges this presents.
2. Present a logical solution architecture for investor and market communications. A solution architecture that can not only meet the challenges arising from the adoption of digital channels, but can also continue supporting traditional communication channels, which will remain important for some years to come.

## What are digital channels?

Asset management organisations need efficient communication channels for distributing information. The kind of information that is distributed includes product marketing documents, formal client reports, responses to ad hoc requests, regulatory reports, and so on. This information is distributed to a wide range of industry participants: institutional and individual investors, regulators, independent financial advisors, investment consultants, third-party distributors, and so on.

Traditionally, this information was distributed in report form as printed documents that were posted to recipients or, more recently, as PDF files that were emailed.

Outside the asset management industry, there has been a fundamental transformation in the way that businesses engage with clients, target markets, and other industry participants. It started with the internet, as businesses realised that they could market their products and services effectively, and communicate with their clients more efficiently, via well-designed websites. This was followed by smart phones and other mobile devices with low-cost and easily installed apps, and social media such as YouTube, Facebook and Twitter. Collectively, these methods of distributing information are all known as **digital channels** to differentiate them from the traditional methods of printed output (see **Digital Channels**).

There are a number of key differences between digital and traditional channels, but for asset management organisations the main ones are these:

1. Digital channels allow information to be distributed **immediately** to the target recipients.
2. Digital channels allow **two-way** interaction between service providers and their target markets. They allow consumers to select and customise the information they see, and to purchase products and services.

Digital channels are not just a different way of delivering information to consumers, they are a way of delivering a new **consumer experience**. To see this, consider how digital channels have changed the way that we arrange travel. It is now possible to check flight availability and ticket prices, book a flight, check in for a flight, and receive a boarding card on a mobile phone. It's possible to get all the way from planning a trip in your living room to the boarding gate at the airport without having to interact with anyone. No more waiting on the telephone for an operator to become available; no more visits to travel agents in town centres.

In many industry sectors much progress has been made on transforming business models to leverage digital channels. The asset management sector has a tradition of being conservative with regard to new technology and is only just beginning to adopt digital channels. Some examples of how digital channels are being leveraged today in asset management are:

- Brand promotion via social media such as YouTube, Facebook and Twitter.
- Videos of investment professionals talking about markets on manager websites.
- Detailed information about investment products and funds on fund centres.

## Digital channels in asset management

There is, however, confusion, uncertainty and scepticism about how digital channels can and should be used in asset management. In some quarters a sense of urgency, bordering on mild panic, is developing as organisations feel the need to do something 'digital' but are not sure what they should actually be doing. In others there is complacency arising from a conviction that digital channels are inappropriate and irrelevant for some market segments, such as in the distribution of information to institutional investors.

When discussing digital channels in asset management it is important to remember that the industry is not homogeneous. There are different types of organisations (e.g. managers, custodians, advisors) operating in different sectors (e.g. institutional, retail, wealth) delivering services in different countries that are regulated by different authorities. The way in which an asset management organisation needs to implement a digital strategy, and the speed with which it should implement one, depend on what type of organisation it is, the sectors in which it is operating, and the countries in which it is delivering services.

Having said that, however, there is little room for complacency in any area of the industry. The drive towards the widespread use of digital channels in all aspects of modern life is so strong that it is inevitable that all asset management organisations will need to embrace digital channels at some point. As the use of digital channels outside asset management continues to grow, everyone's expectations of how information should be provided and how business should be transacted are being re-calibrated. Some investment managers operating solely in the institutional sector may not need to implement a digital strategy today, but all will need to do so at some point in the future.

## Digital Channels

*When information is delivered via the Internet without the use of physical media, either directly via email or indirectly via websites and social media, it is said to be delivered via a 'digital channel'. However, these days, the term is usually reserved for the indirect delivery of content as HTML, audio, and video.*

*When people talk about a 'digital strategy' they are referring to a plan for leveraging digital channels in their organisation in order to enhance it in some way (increased sales, reduced costs, etc.).*

*A good digital strategy extends across all market- and client-facing activities such as marketing, sales, and client servicing.*

*The following are the essential components of a digital strategy:*

- *Business objectives to be achieved.*
- *Digital channels to be leveraged.*
- *Information, products and services to be delivered via digital channels.*

## Digital vs Traditional Channels

*Two key characteristics of digital distribution channels set them apart from traditional ones.*

*First, digital channels can tailor content at the point of engagement with individual consumers; they support **bespoke** content as well as customised content. Bespoke content is unique content, specifically designed for an individual user; customised content is a variation of generic content. It's the difference between having a suit made to order, and buying one off-the-shelf and having the length of the trousers altered.*

*Second, digital channels support **dynamic** content. When fund holdings are presented as a pie chart on a website, a segment of the chart can be expanded to see more detail. Investors aren't taken to a different webpage, the extra detail appears right in front of them and everything is re-sized and re-calibrated to keep it consistent with what is displayed in the pie chart at any particular time.*

The priority to implement a digital strategy is highest for organisations that distribute investment products to individual investors; organisations such as investment advisors, investment platforms, and investment managers themselves. Any asset management organisation that distributes to individual investors, whether directly or via third-party distributors, needs to be taking action now to implement a digital strategy.

## The shift to digital distribution in asset management

The pressure on asset management organisations to fully embrace digital distribution results from a number of factors.

Some of the change drivers are from within the industry. For example, there is competitive pressure on traditional providers of investment management services arising from the emergence of new, low-cost providers who have designed their operating models around digital channels and SaaS technology.

As noted above, however, the widespread adoption of digital channels extends across all industry sectors. This means that irrespective of any change drivers within the asset management industry the **generic** behaviours and expectations of investors are changing, in terms of how they want to receive information about products and services and how they want to purchase products and services.

These changes in behaviours and expectations are permeating the asset management industry and reinforcing the industry-specific change drivers. It is the combination of intra-industry and pan-industry change drivers that is creating such intense pressure on some asset management organisations to adopt digital distribution channels.

However, organisations cannot transition completely away from traditional distribution channels such as printed product literature made available in bank branches, sent in the post, and handed out in face-to-face meetings with advisers. Different distribution methods have always been employed for different types of investors in different parts of the world. And this will continue for some years to come. Also, regulators require formal product documents to be produced for all regulated funds.

This need to support both digital and traditional distribution channels is at the heart of the challenge facing asset management organisations as they extend their operating models to support digital distribution.

Digital distribution is not a linear refinement of traditional distribution, it's a step change in the customer experience (see **Digital vs Traditional Channels**).

To fully embrace digital distribution, product information must be provided according to the differing needs of in-house fund centres, investment advisor platforms, and third-party distribution platforms. This requires information to be distributed as discrete components that can populate wireframe websites, CRM applications, and other types of digital channels.

The technology to achieve this has existed for some time and has been matured in other industry sectors. The issues that asset management organisations face in implementing digital strategies are not, however, rooted in the challenge of adopting different technology.

## The challenge of digital distribution in asset management

Asset management is a highly regulated industry and all product information, however it is distributed, must be compliant with the regulations for each jurisdiction in which it is distributed.

The challenge of ensuring compliance is much greater for digital channels because product information can be distributed as discrete components, and presented in a bespoke way according to the nature of individual channels. For example, a third-party

distributor of a fund may want the list of fund holdings to be presented in line with their 'house style' rather than the investment manager's, while the investment manager will obviously want all fund data and information to be presented in its house style.

Ensuring the regulatory compliance of discrete information components at a jurisdictional level across all digital channels is one of the key challenges that asset management organisations face as they transition towards the widespread use of digital channels for product marketing.

Many asset management organisations have still not fully addressed all of the issues associated with the management of the huge volumes of data that exist within their businesses. The move to digital distribution will increase this challenge by orders of magnitude. This is because it is no longer just the data that has to be managed, organisations also have to:

1. Manage how and when each data component is presented, for each distribution channel.
2. Ensure the correctness and consistency of all data components across all distribution channels.
3. Ensure compliance of all data components with the relevant regulations for each distribution channel.

This is why it is important with digital channels to think in terms of **content** rather than data (see **Data vs Content**).

Traditional client communication systems, such as those typically used for client report production, do not manage content efficiently or effectively because they operate at a higher level of abstraction. They operate at the level of reports rather than at the level of discrete components of data and information. Reports are aggregations of individual data components, they are information containers. For systems that operate at a report level, therefore, the 'intelligence' about where, when and how data should be presented exists in information containers rather than in the information components themselves.

For this reason, asset management organisations have not been able to extend the scope of the system platforms used for traditional client communications to encompass digital distribution, and they are introducing new technology for the specific support of digital channels.

This is leading to separate operating models being established for digital and traditional distribution, supported by separate technology platforms. In some cases, separate organisational units are being established; for example, factsheet production in one department and fund centre maintenance in another.

The problem with this fragmented approach is that it is the **same** underlying data and information that must be distributed. Therefore, there will need to be a content management function somewhere upstream in the enterprise operating model. This function will be necessary to ensure:

1. Consistency of data and information across **all** channels at **all** times.
2. Full compliance with regulatory requirements in all jurisdictions down to the level of discrete components of information.

The challenge facing asset management organisations is how to adopt the widespread use of digital channels in market and client communications **and** maintain their commitment to traditional channels without an unacceptable increase in IT and operating costs. Implementing fragmented operating models and system platforms to support organisationally separate business functions will transform today's data management overhead into tomorrow's content management nightmare, with a corresponding increase in operating costs and business risk. Asset management organisations that are taking this approach are heading for a major meltdown.

## Data vs Content

*Content is not just another word for data and information, it is a more sophisticated concept:*

*Content = data + context*

*Context prescribes how data and information is to be presented. For example, if, when and how it is to be presented in individual documents, individual channels and individual jurisdictions.*

*In simple terms:*

- *Data is the **what** of communications*
- *Context is the **when, where, and how***

*Content corresponds to individual elements of data and information. For example: a table of performance data; a chart of fund and benchmark performance over time; a pie chart showing the constituents of a fund; market commentary; regulatory disclosures.*

*It is possible for the same data or information to have multiple contexts. A simple example here would be the same commentary that must be included in different languages in factsheets that are distributed in different countries.*

*An example more relevant to digital channels would be a list of the top 10 holdings in a fund. In a factsheet this might appear as a table, but on a website this could appear as a 'dynamic' pie chart in which it is possible to drill down on individual segments of the pie to see further detail. In both cases the underlying data is identical, it is the presentation of the data, i.e. the context, that is different.*

## A logical solution architecture for the digital age of asset management

Figure 1 illustrates the logical solution architecture that is needed to enable asset management organisations to implement digital strategies that will remain sustainable over the long-term.

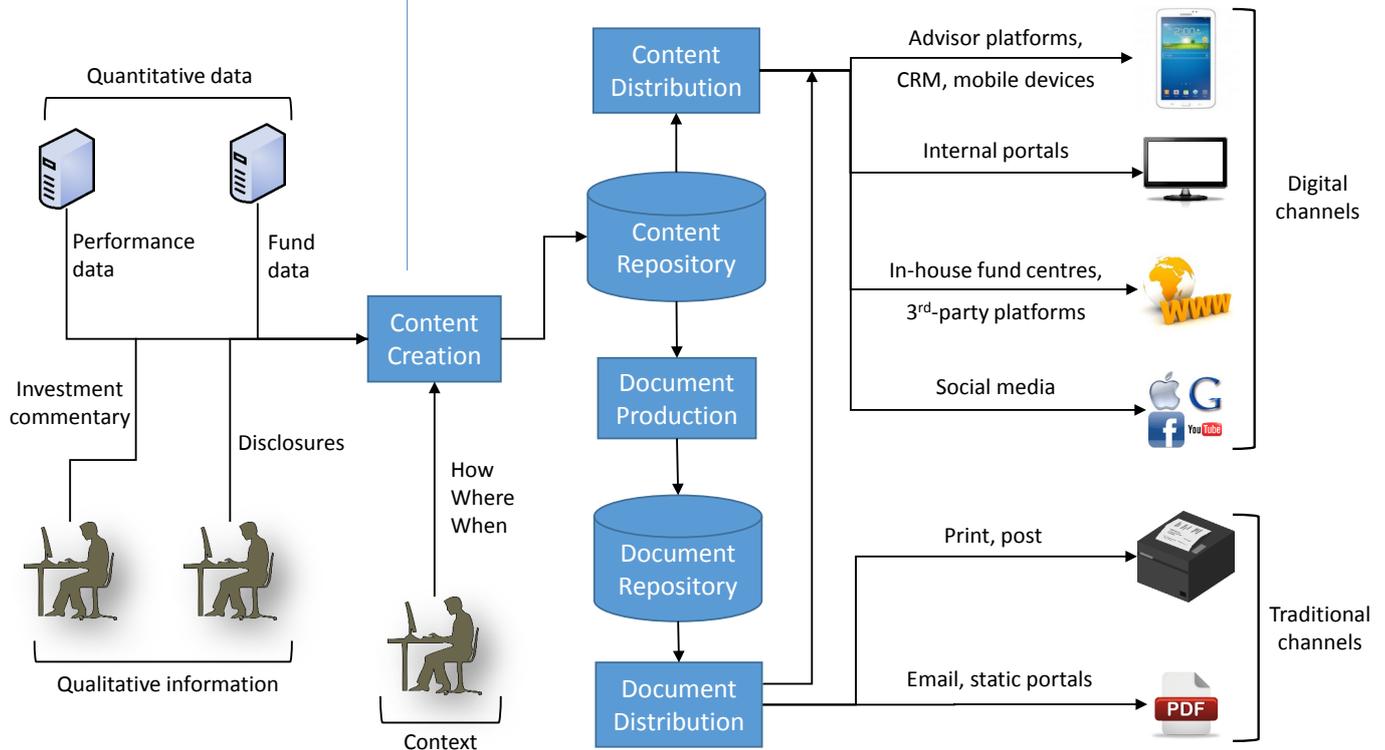


Figure 1 – logical solution architecture for digital strategies in asset management

Quantitative data (e.g. performance results and fund holdings) and qualitative information (e.g. investment commentary and regulatory disclosures) are collected from multiple sources. Context in the form of business rules is then added to these individual components to create content. Multiple business rules can be attached to the same data components to cater for different distribution channels. The creation of business rules for data components is a one-off exercise. So, while data components can be re-submitted quarterly, monthly, weekly, daily, or even intra-day, the associated business rules only need to be revised if a change is made to the way a data component should be presented, or if it is to be distributed via a new channel.

An important point here is that compliance approval can be performed at the business rule level, removing the need for compliance approval of individual outputs and deliverables. This is particularly important for the distribution of information for regulated funds via digital channels, where asset management organisations are facing a major compliance issue.

Once created, content is stored in a content repository. The content in the repository is aggregated to produce documents such as factsheets, KIIDs, and client reports, which are then stored in a document repository. The key point, however, is that the same underlying data used to populate documents can also be distributed as discrete components through multiple digital channels, customised by channel and by audience. This means that when data components are re-submitted the relevant documents can be automatically re-produced and all digital channels automatically refreshed **at the same time**.

The logical solution architecture in Figure 1 allows asset management organisations to implement what many view as the Holy Grail of sales enablement in the digital age of asset management.

First, the empowerment of investment advisors and sales teams with mobile platforms that enable them to:

1. Access discrete components of information about funds and client investments presented in bespoke form according to the needs of individual clients and prospects.
2. Access the associated formal product and fund documentation via the same mobile platform in the knowledge that the underlying data will always be consistent with that presented as discrete components in bespoke form.

Second, the transformation of the behaviours and preferences of individuals accessing digital channels such as websites and social media into data that can be used to:

1. Provide accurate and up to date intelligence on the investment products and services that are attracting most interest from customers and potential customers.
2. Better targeting of products and services to market segments.

While these benefits have been described in the context of advisors managing relationships with individual investors, it is not difficult to see how they could also deliver value to relationship managers working with institutional clients. When attending client meetings, managers could be provided with tablets containing formal client reports, all client correspondence, and up-to-date information about funds. This would replace the briefcase full of paper.

## Conclusion

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The asset management industry is an industry in transition. There are a number of pressures arising within the industry that are creating challenges for organisations in terms of revenues, operating costs, winning new customers and retaining existing ones. At the same time, the fundamentals of how organisations in all industry sectors conduct business with their providers and with their customers are being transformed by the growth of digital channels.

For asset management organisations the 'digital' challenge arises from their need to utilise digital channels in business development and client communications, while maintaining full commitment to traditional distribution channels.

Many organisations are taking an approach that involves separate operating models for digital and traditional distribution, supported by separate technology platforms, and in some cases managed by separate business functions. This separation of operating models, technology platforms and business functions is artificial. It is the same data and information that must be distributed for the same funds via all channels, digital and traditional. Any approach involving the separation of processing and/or technology will create significant content management issues that will increase operating costs and increase regulatory risk.

In this paper we have presented a logical solution architecture that will avoid the creation of fragmented operating models and technology platforms. It will, however, do a lot more than prevent operational issues. It will enable asset management organisations to fully leverage the power of digital distribution channels in the same way that they are being leveraged in other industry sectors, and so enhance the productivity of financial advisors and relationship managers while delivering a better customer experience and reducing operating costs.

**What stage has your firm reached in the implementation of a digital strategy?**

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