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Driving Middle and Back-Office Efficiency in Asset and Wealth Management

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Executive summary

In this research, we examine opportunities for leveraging AI in asset and wealth management firms. Asset and wealth management is one of the industries that could benefit most from Artificial Intelligence (AI) deployment for manual task reduction and business process automation. In order to explain the benefits of AI, firstly we explore three main reasons why asset managers need to drive middle and back-office efficiency. Following on from that, we identify three use cases of AI adoption in the industry: portfolio monitoring and reporting, client onboarding and automated credit analysis. Finally, we examine some challenges which may occur in the process of AI adoption in asset and wealth management firms.

Our key finding is that AI is rapidly evolving and continues to make a huge impact in asset and wealth management. Firms need to be aware of AI's capability to enhance process automation, especially when dealing with middle and back-office tasks, and use this to accelerate the digital transformation in their operational processes.

PART I
Why do asset managers need to drive middle and back-office efficiency?

1.1. Current state of the asset and wealth management industry
The industry is witnessing rapid growth

The revolution of the asset and wealth management industry is gaining pace, thanks to the burgeoning wealth and number of high-net-worth individuals. According to Global Asset Management 2020, BCG, in 2019, total assets under management (AuM) grew by 15%, to $89 trillion. Retail clients were the fastest-growing segment, with assets rising by 19%, while institutional client assets grew by 13%. North America, the world's largest asset management region, showed the strongest growth at 19%, or $7 trillion in value, due to a combination of strong consumer spending, historically low unemployment, and quantitative easing. In China, the second-largest single market after the US, AuM expanded by an estimated 10% in 2019, driven largely by a strong retail investor segment. Global AuM will nearly double in size by 2025.

+19%
Retail

+13%
Institutional

+15%
Global AuM
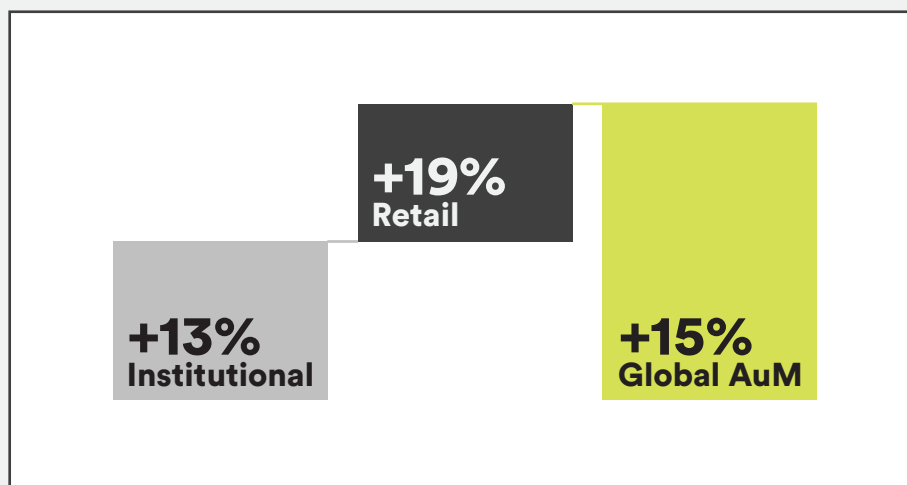
But falling in profit margins

Despite the strong AuM growth during 2019, the global asset management industry experienced a negligible decrease in profitability, with an average operating profit of 34% of net revenues, versus 35% in 2018 (BCG, 2020). Although these consistently high margins far exceed those in most other industries, asset managers cannot afford to rest on their laurels.

Controlling costs, while maintaining quality and control,will remain at the forefront, and it points to a larger phenomenon threatening the industry. Fixed expenses—in particular, people costs—are high, and that reality limits short-term cost-control options. As a result, companies that need to control their costs often start by cutting discretionary investments, including those in innovation and technology. So far, however, these efforts have yielded limited benefits. Costs in absolute terms grew by 4% in 2019,twice the rate of absolute revenue growth (BCG, 2020).

This is proof that in the coming years, only those that truly embrace a transformation agenda and create value for investors will be successful. In practice, that means refocusing the company's product portfolio, making difficult decisions to transform the cost structure where possible, and continuing to invest in innovative technologies that will propel the business forward in the medium to long term.

Operating profit as a share of net revenues
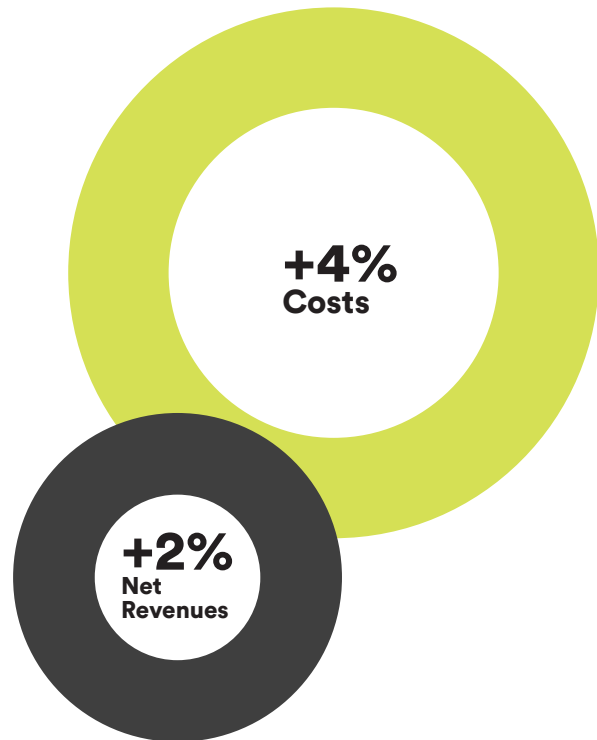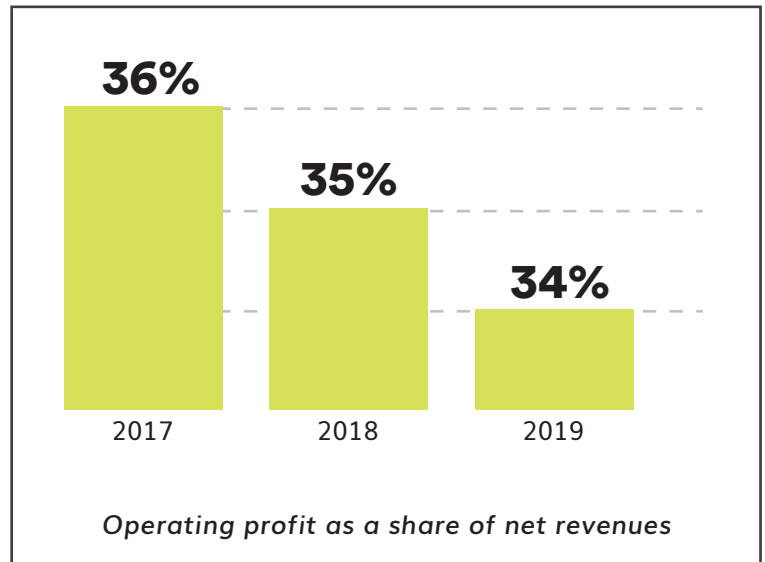
1.2. Relentless pressure

Even when the markets were soaring and asset flows were the highest they had been in a decade, the industry faced a set of structural challenges brought on by pressure from all angles: The Customer, the Competitor and the Company.

(Customer) Millennials shun traditional wealth management

There is no doubt that the millennial generation is going to change wealth management. They are expected to control over $20T of assets globally by 2030 and their parents - the baby boomers are about to enter retirement age. That means that, by 2050, we will live what they're calling the Great Wealth Transfer and the millennial will be the new asset's owner. Therefore, get to know them is crucial for any wealth manager to fully capture new market transformation. Millennial preferences around convenience (e.g. mobile apps), investment models (e.g. passive and non-traditional investments) and general skepticism about traditional finance will drive change. They don't see technology and innovation as a nice extra. Technology is a must for them, whether they're choosing a wealth management firm or an airline for their next trip. This is forcing many wealth management firms to invest in technological platforms at a fast pace if they don't want to be left behind.

(Competitor) Intensive competitive landscape

In the current competitive landscape, the beneficiaries have been the world's largest asset managers, who are wielding far more influence and increasingly attracting a larger share of investor money. They've been able to take advantage of their size to keep overall expenses down and help compensate for lower fees. Being resourceful allows big companies to adopt the latest technology to achieve customer satisfaction and productivity. That means the biggest firms are just getting bigger: The two largest U.S. indexing titans—BlackRock Inc. and Vanguard—oversee combined assets of around $12 trillion this year, up from less than $8 trillion just five years ago (Bloomberg, 2019).

On the other hand, lower-market players have their own power as well. The popularization of super low-cost ETFs has made more options for retail consumers than ever before, at least in terms of cost-benefit: these buyers do not benefit from professional recommendations, but they are affordable and may thus get a comparatively better return as a result of low pricing. Therefore these ETFs become an enticing investment for any investor. In short, the competitive asset management market in all segments is becoming ever more intense.

(Company) Asset management - the digital laggards

Asset managers have been criticised for being too slow to adopt technology. To date, asset managers operate in a highly manual environment, with a large volume of processes being conducted offline. Its legacy technology platforms were performing well below industry standards and unable to keep pace with product, asset class, and geographical growth, putting them at risk of losing market share to digitally savvy businesses seeking to disrupt the investment industry.

Relentless market pressure from all angles brings several daunting challenges to many firms, including enhancing client experience, optimizing internal processes and staying competitive. **It forces asset managers to rethink operating models in middle and back-office to drive operational efficiency.** In the middle of the transformation in business, it is important for asset managers to take fresh steps or be left behind. According to the "Achieving digital alpha in asset management" report by McKinsey, research shows a strong association between firms' digital strategies and growth, efficiency, and profitability. As a result, asset managers will have to transcend the boundary from conventional strategies into a technology-transformed strategy in 2020, maximize strategic leverage in the process and never lose sight of consumer demands.

PART II
Use cases of adopting AI in Asset and Wealth Management

Asset managers are under enormous pressure to cut costs by optimizing internal processes while staying competitive and still maintaining the level of controls needed to meet their regulatory obligations. In such situations, artificial intelligence is a suite of technologies that, when adopted, can enable firms to reshape operating models.

Below are three use cases on how AI can enable asset managers to enhance operational efficiency in middle and back-office.

2.1. Portfolio monitoring and reporting

2.1.1. Issue

Getting portfolio activity and financial information into a coherent, usable form is arguably the most important step in the process of extracting investment insights from data.
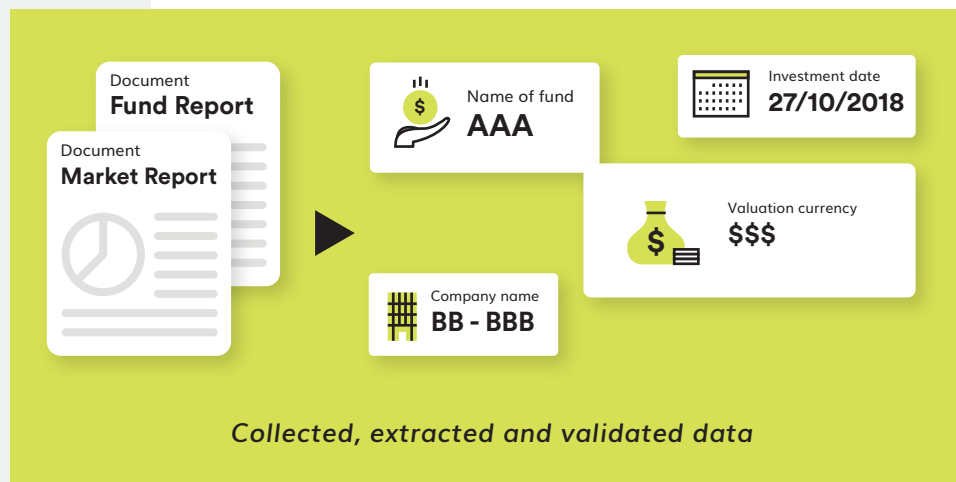
However, such portfolio data is often fragmented across multiple sources such as news articles, company announcements, information subscriptions, market reports and fund documents. This makes it extremely time consuming and laborious for managers to search, identify, extract and synthesise the data for meaningful analysis and action.

2.1.2. Solution

With the increasing sophistication of technology, asset managers can benefit from AI to achieve real-time monitoring and reporting. With the help of AI, relevant portfolio news and announcements can be combed from the web and presented in a summarised, digestible format, ready for further processing and analysis.

01

Data is automatically collected, extracted and validated.

Document
Fund Report

Document
Market Report

Name of fund
AAA

Investment date
27/10/2018

Valuation currency
$$$

Company name
BB - BBB

Collected, extracted and validated data

02

Data is fused into a centralised database for better filing, tracking, search, sharing and updating.

DATABASE

| Company name	Name of fund	Valuation currency	Invesment date	----------	----------
aaa	AAA	$	27/10/18		
bbb	BBB	$	05/12/18		
ccc	CCC	$	15/03/19		
ddd	DDD	$	27/05/19		
eee	EEE	$	29/09/19		
fff	FFF	$	03/10/19		
ggg	GGG	$	01/11/19		

2.2. Client onboarding

2.2.1. Issue

Onboarding formally begins when a prospect signals his or her willingness to invest. Unfortunately, this crucial step involves plenty of due diligence documentation and information requests and has by and large been processed manually. The result is often a cumbersome and slow onboarding process with many repeated requests for the same information. A single frustrating incident in any step of the way may be all it takes to lose the client for good.

Why lose a client to a process issue when he or she has already said yes?

2.2.2 Solution

An AI-augmented real-time onboarding system can help asset managers collect information from clients digitally, answer questions immediately and clarify information gaps on the spot.
The AI-enabled system can guide clients through a long, complex form or questionnaire by offering the right prompts and information at the right time and ask clarifying questions based on the context of the client's answer. The system also allows clients to upload supporting documents within the same application, where information is automatically extracted and validated and issues are flagged out for investigation. This leverages a type of AI technology called Intelligent Document Processing.

By leveraging this system, asset managers can receive real-time updates and intervene any time. What is more, the system can also easily be integrated into any KYC workflow.
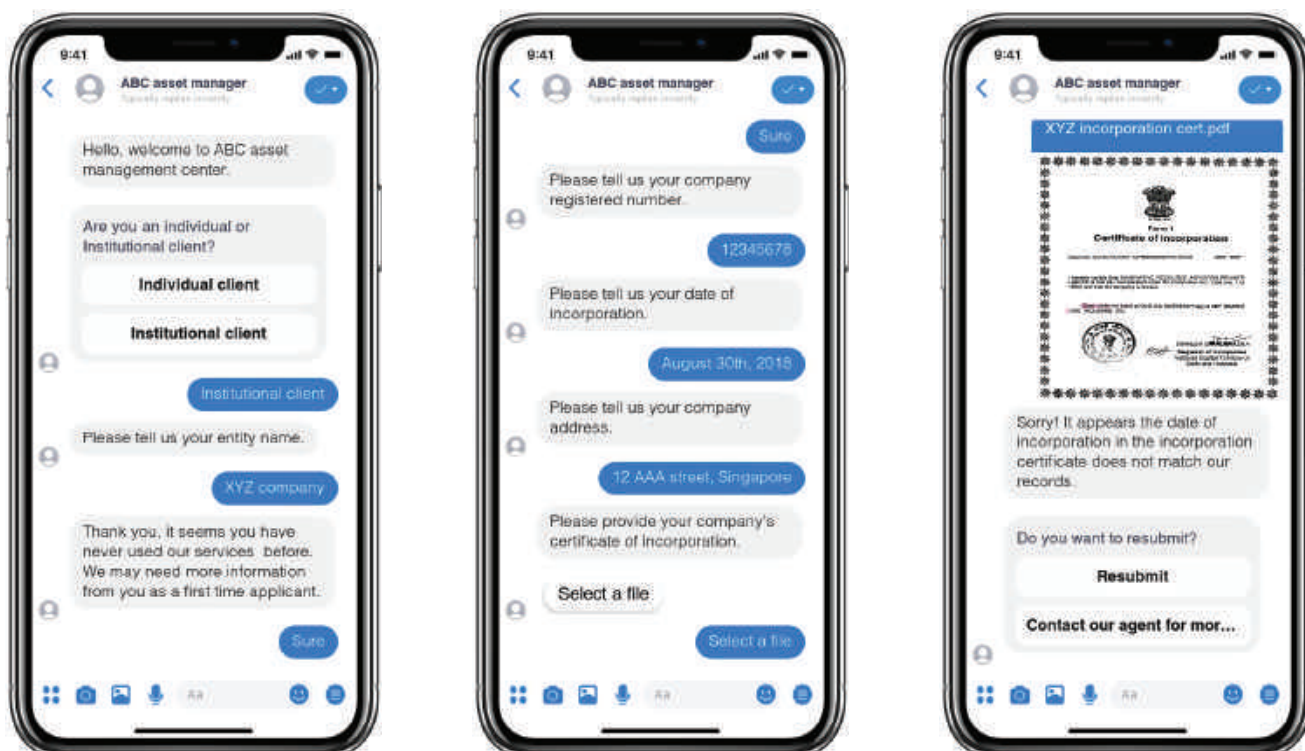
2.3. Automated credit analysis

2.3.1. Issue

Financial statements and prospectuses can involve hundreds of pages of text, charts and tables. As a result, managers and analysts spend a disproportionate amount of their time manually combing through such documents to find, extract and transfer balance sheets, financial covenants and other credit data into internal credit assessment spreadsheets and models.
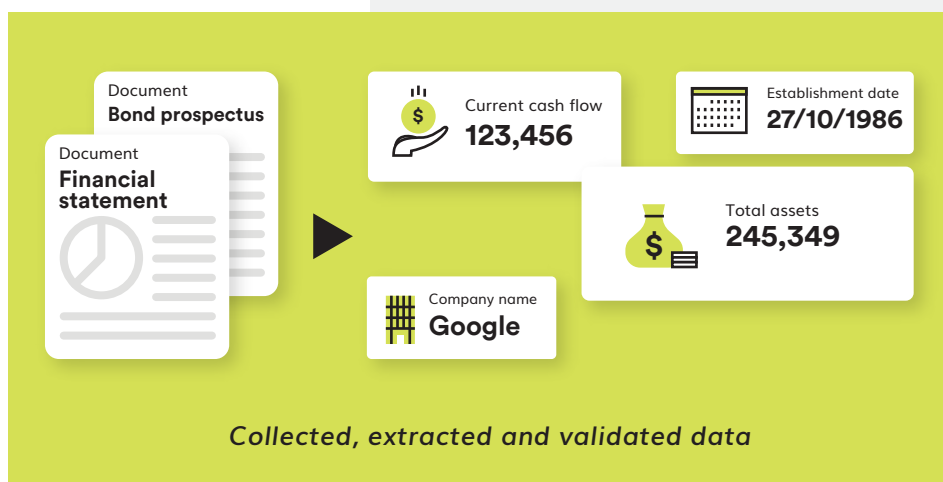
What if this process could be automated, so that time is better spent on analysis and investment recommendations?

2.3.2. Solution

An AI-powered data platform can help asset managers with automating credit analysis, in which critical data are automatically collected and extracted from financial statements and bond prospectuses. After that, it is piped into internal credit assessment workflows/systems and later fused into a centralised, structured knowledge hub for storage.
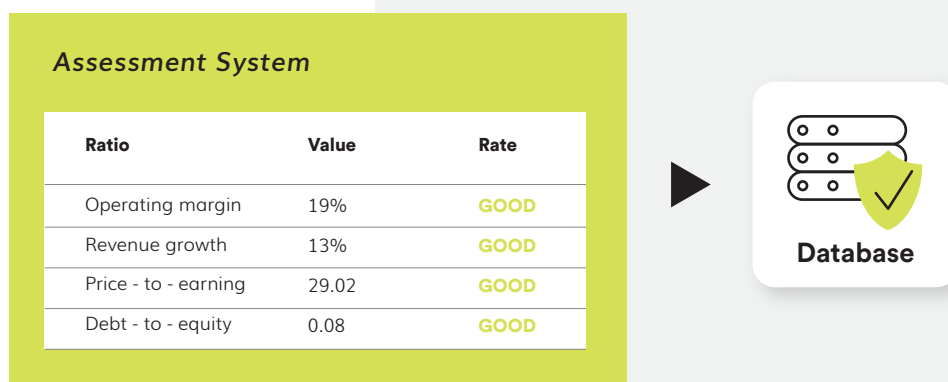
01

Data is automatically collected, extracted and validated.

Document
Bond prospectus

Document
Financial statement

	Current cash flow
$	**123,456**

Establishment date
27/10/1986

Total assets
245,349

Company name
Google

Collected, extracted and validated data

02

Collected data are piped into internal credit assessment systems

Assessment System

Ratio	Value	Rate
Operating margin	19%	GOOD
Revenue growth	13%	GOOD
Price - to - earning	29.02	GOOD
Debt - to - equity	0.08	GOOD

Database

By freeing time otherwise spent on manual processing, the increased expert capacity lets your analysts and managers focus their energy and attention on conducting analysis and forming conclusions.

Conclusion

The Asset and Wealth Management industry is still in the early stages of Artificial Intelligence application. However, under the pressure of cost optimization and profit growth, to remain competitive, industry players are increasingly deploying AI to tackle problems of manual processes and improve operational efficiency. To comprehensively utilize AI-enabled solutions to drive positive change for middle and back-office operations, AI implementation projects in asset and wealth management firms will need close consultation and collaboration with AI experts.

At Nexus FrontierTech, we help asset managers by providing intelligent automation, which allows asset management firms to increase efficiency and streamline workflows. With Nexus Intelligent Document Processing solution, asset managers are empowered with faster data-to-action, a stronger data foundation, hence a deeper investment capacity and better customer experience. We strive to introduce intelligent data management to transform organizations to work smarter and faster.

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About us

Nexus FrontierTech is a London-based tech company specialising in the development and integration of AI solutions that help organisations save time, money and resources by tackling process inefficiencies and data waste. Whilst industry agnostic, many clients are in the financial services space and are seeking to streamline their operations.

Sign up for a free trial today to find out how Nexus can help your organization at https://nexusfrontier.tech/

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