INNOVATION IN ASSET MANAGEMENT SERIES:

Self Service: Why it is more important now than ever

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INTRODUCTION

Self Service: Why it is more important now than ever

When Kodak made the first digital camera back in 1975, Steve Jobs was still searching for spiritual enlightenment in India. By 2012, in just three days time, Apple sold five million iPhone 5s units and Kodak stopped making cameras. Why? Because the self-service revolution empowered consumers to digitally seize control and tell everyone they know about it with the click of a mouse, leaving all but the best firms to play catch-up.

Eight years later amidst the COVID-19 pandemic, the world expects information NOW. In fact, anything less than immediate is just unacceptable. So, what happens when digital-savvy customers encounter an investment management industry where two-thirds of firms rely on systems that pre-date 2007 and the first-generation iPhone?

In this paper, we explore how client expectations have changed as a result of digital technology. We look at how innovation in online retail has set the bar for customer service across all sectors, including investment management, and why an explosion of information has left investment managers in urgent need of tools that can filter data and increase transparency. We consider how clients actually use digital tools. And finally, how investment analysis platforms, like Revolution, can give investment managers the self-service, portfolio sharing and distribution tools they need to improve reporting, risk management and decision making.

> First, let's take a trip down memory lane and explore how self-service tools and social networking have led to a new standard for the investment management industry and the superior level of service that investors demand.

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ROLLING BACK THE CLOCK:

Customer power and the self-service dream

Manufacturing scale used to be the path to domination, according to author James McQuivey. In the '70s, firms like GM ruled. Later, supply chain mastery (think Walmart) or information mastery (think Google) brought dominance, but today none of these sources of scale matter, only customers do.

We are now firmly in the age of the customer and the firms that succeed today are the digital disruptors that use tech-enabled client engagement to get ahead[1].

CUSTOMERS TAKE CONTROL

Consider eBay. With just a few clicks you can find almost anything you want and name the price you are willing to pay. You can weigh the cost of participating in an auction or simply choose to "buy it now". Before parting with cash, you check out a supplier's credibility with not just one person but many, and of course you can execute the transaction through PayPal or one of several other methods. You decide everything from start to finish. You also do most of the work yourself, creating an efficient business model for eBay, but that's OK because you don't mind exchanging your labor for increased control.

Now think about Amazon, a brand that has created an eco-system of products, sellers and resellers. At every stage, its propositions respond to specific needs. Retailers like eBay and Amazon have sold us the self-service dream and we're hooked. According to a 2019 Pew Research Center[2] study, only 10% of Americans are not using the internet for self service. The world is using the web to find answers to problems and when we can't go online to source information or customize options, it feels strange.

Self service is not an economy option, it's a way of letting clients take control and customize their experience. Retailers have set the expectation bar high and now every other sector, including investment management, must play catch up.

CUSTOMERS SPEAK UP AND PEERS LISTEN

Today 95% of the global population is watching 1 billion hours of content on YouTube[3] daily, two new members join LinkedIn every second[4] and more than 130 million Instagram users tap on a shopping post every month.[5] Online social interactions are commonplace, with people of all ages and incomes sharing their vacation and holiday photos, reviewing new products and experiences, or researching their next big purchase.

A 2019 survey[6] by ceo.com found that 54% of Fortune 500 CEOs have at least one profile on a social networking site, meaning that 46% have no social presence whatsoever. Only 50% of Fortune 500 CEOs are on LinkedIn, yet 82% of buyers say they trust a company more when its CEO is active on social media.

Could the investment community benefit from an improved communication strategy with its partners and clients? Could portfolio sharing and distribution be a model for success in 2020 as firms take a more flexible and transparent approach to their communication strategy to improve retention and acquire new business?

While this paper is not suggesting that financial advisors should share their performance strategy on Facebook or LinkedIn every hour, or that fund administrators should be tweeting their clients' analysis each week, it considers how firms could benefit from elevating self service and delivering a more flexible and transparent communication strategy in order to improve retention and acquire new business.

THE CURRENT SITUATION:

An economy of knowledge and influence

SELF-SERVICE INVESTMENT MANAGEMENT OBSTACLES AND OPPORTUNITIES

With proven demand for investment analysis tools at both an individual and institutional level, why has the investment management industry been slow to adapt? Well, some find comfort in complexity and for a long time there was simply no need to change. Operating margins were healthy and providers were quite happy with complexity. Nick Hungerford, CEO of UK online investment platform Nutmeg, argues that for a long while the industry has been “taking things that are simple, making them complicated and then charging to translate them.”[7] But with transparent simplicity topping today’s agenda, such behavior seems destined for extinction.

A low-level paranoia persists in some corners of the investment management community; a suspicion that sharing information freely might somehow lead to disaster, giving away an edge at best and empowering bad actors at worst.

> For decades, the industry hid behind secrecy and for many, changing that feels very uncomfortable. The fact is, clients will no longer tolerate opaque business practices.

The lingering legacy of the global financial crisis resulted in an ongoing crisis in trust. Now, top that with the current impact of the COVID-19 pandemic, and rebuilding faith in investment management means knocking down the walls of secrecy.

Boston Consulting Group’s “2019 Global Asset Management Report” said that managers must make “step changes in their uses of technology” if they want to prosper into the future, particularly when it comes to complying with regulations. There is then, of course the small fact that even when they want to, many firms struggle to collect and share accurate data. Plagued by data discrepancies and legacy systems, information sharing is fraught with difficulty. Even when new regulations, such as ESMA, NPORT, UCTIS IV and AIFMD demand more disclosure, the challenge to comply using complex, out-of-date systems and workflows is huge.

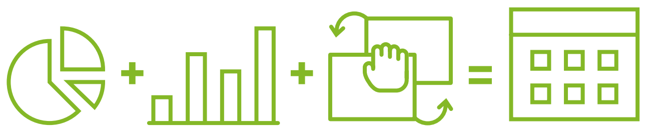
THE SOLUTION:

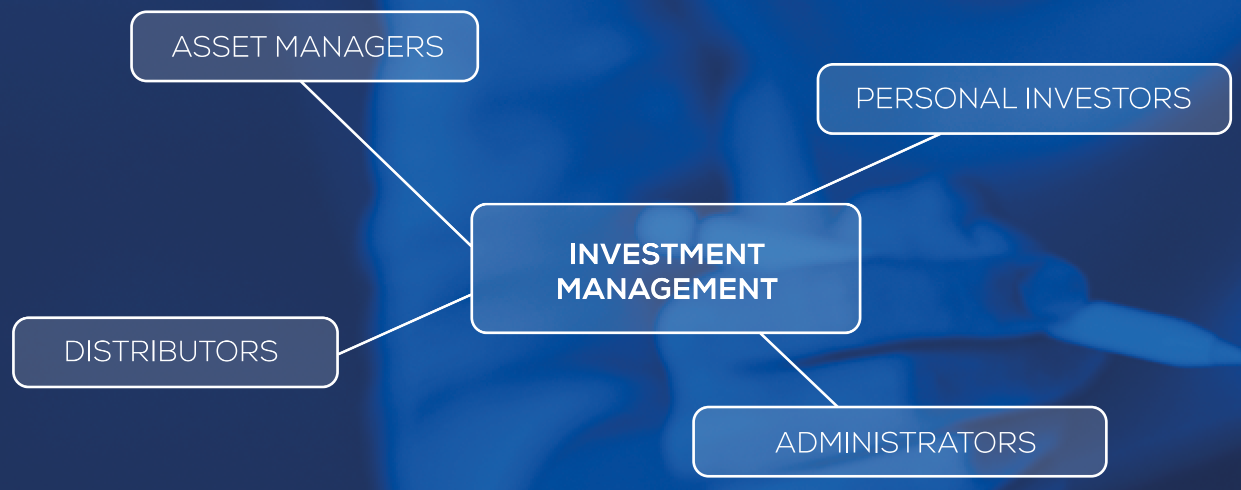
Investment analysis tools that connect the circle

Front-office operations have historically been kept separate from middle- and back-office functions, but today the lines are blurring and not everything needs to remain in silos.

"Assessing this evolving landscape is integral in establishing the operating model that will best support an investment manager's growth strategies," said Neal Chanksy, managing director at Olmstead Associates, a specialized consultant to global investment managers, in a 2018 blog post. As pointed out in the Olmstead Associates' blog, to be successful service providers must offer clients a "tightly integrated platform with trusted data that managers can rely upon for real-time portfolio analysis and decision making".

Amazon leverages value by selling the technology it has developed to support its own business to customers. Likewise, analysis tools that help investment managers to make decisions can be used by clients to track performance or by compliance officers for regulatory oversight. The result is cost efficiencies and competitive advantages that stretch across the whole business.





CREATING VALUE THROUGHOUT THE ECO-SYSTEM

Within the investment management ecosystem of asset managers, distributors, administrators, advisors and personal investors, there are issues that affect everyone. All participants, for example, want to be able to accurately track performance or monitor risk.

Being able to provide self-service portfolio analytics and reporting to all stakeholders is an essential part of any investment managers digital strategy. However, every end user of portfolio analytics is different, and they all have very different needs and desires. From the front office to sales, everyone wants to see the analysis in a way that makes sense to them and their role in order to be able to quickly deploy them to stakeholders.

Control is a crucial factor when it comes to self service, but a solution where one can centrally manage and control all the dashboards, as well as user permissions, puts you in complete control.

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In Conclusion...

The case for digitally powered investment analysis platforms is clear.

For businesses, there are efficiencies to gain and improvements to make; for clients, the benefits of increased transparency cannot come soon enough. For too long, investment managers have trusted high set-up costs and cumbersome regulations to keep the wolf from the door.

Now, cloud computing has slashed the costs of doing business, clients' expectations have been raised significantly and the regulators are queuing up to encourage competition from new entrants. A rapid shift to digitally enabled self service is inevitable.

The only question is, who will seize hold of the opportunities first?

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1 *James McQuivey, Digital Disruption: Unleashing the Next Wave of Innovation*
https://www.forrester.com/james-L.-mcquivey
2 *2019 Pew Research Center Study*
https://www.pewresearch.org/fact-tank/2019/04/22/some-americans-dont-use-the-internet-who-are-they/
3 *YouTube by the Numbers*
https://www.omnicoreagency.com/youtube-statistics/
4 *2020 LinkedIn Usage and Revenue Stats*
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5 *2020 Instagram by the Numbers*
https://www.omnicoreagency.com/instagram-statistics/
6 *Influential Executive – Fortune 500 CEOs on Social*
https://influentialexecutive.com/fortune-500-ceos-on-social/
7 *FT Advisor – Q&A with Nick Hungerford*
https://www.ft.com/content/aec5f510-7674-11e4-9761-00144feabdc0

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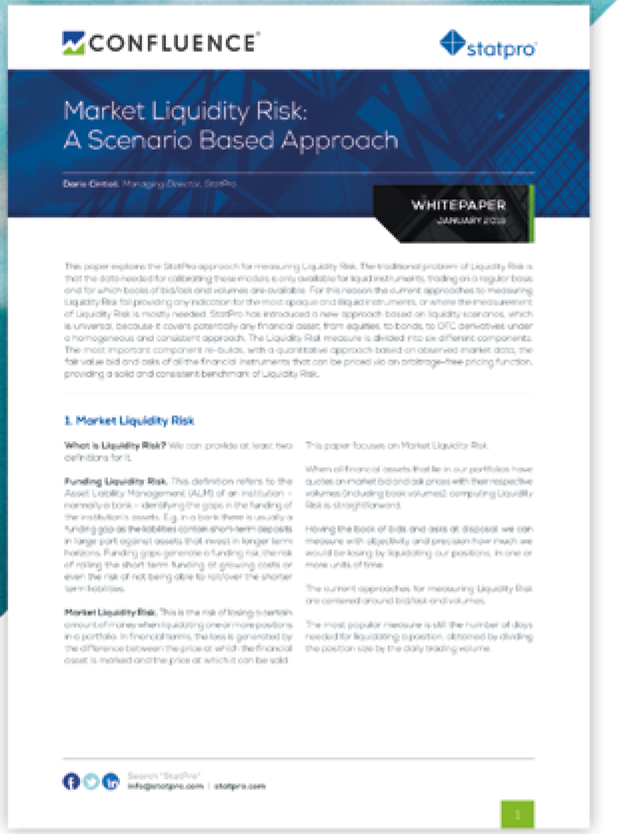

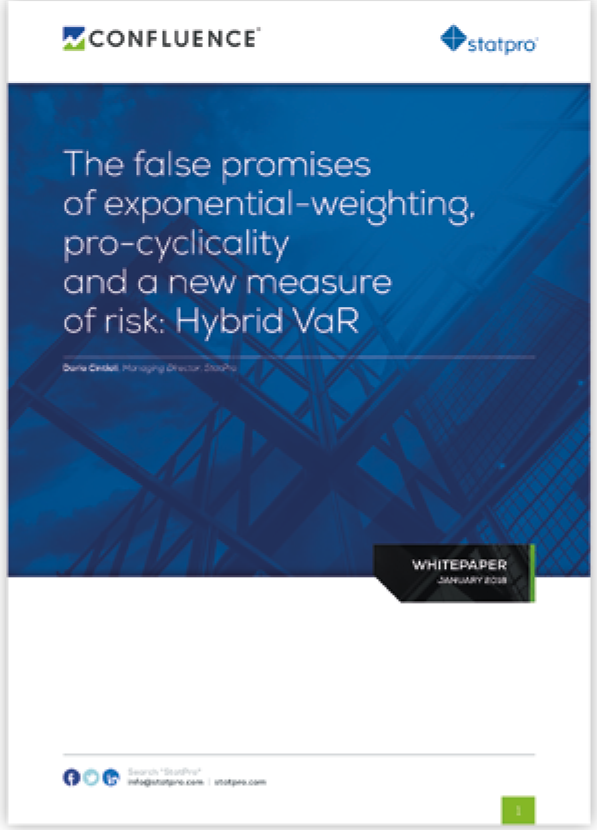

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