

Now is the time for asset managers to redesign their global operating model

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In prosperous times, the asset management industry tends to pay less attention to its operating model. The vast majority of resources are targeted at growth and a little inefficiency is often tolerated. During financial downturns, the focus at many firms tends to shift to maximising immediate cost-savings with less focus on the long-term impact cuts might have on quality or risk management.



Many industry observers feel the industry is neither in an exuberance nor retrenchment phase at the moment. The pendulum seems to have swung back towards the middle which means now may be the time for asset managers to revisit their operating model. By doing so, they can bring all the dimensions of managing an asset management firm, revenue growth, expense control and risk management, into balance and strongly position themselves for the future.

Why a redesign is needed

The asset management industry is being shaped by several trends that are changing the essence of the business and are likely to have an impact far into the future. The regulatory environment continues to be a top concern for firms and ensuring operational compliance with these reforms is driving up expenses. Asset managers are also faced with an aging population that is likely to shift product demand and asset allocation strategies.

At the same time, wealth creation has slowed in the developed world but is increasing in many emerging markets, requiring firms to expand into new geographies. Fees are also under being challenged, due to the growth of passive investment products causing pressure on revenue.

Efforts to keep costs low in the last few years have resulted in under-investment in technology platforms just as demand for new capabilities, such as in the mobility arena, are emerging, and assets managers cannot delay the technology investment forever. The combined effect of these trends is putting pressure on profit margins, thereby incenting asset managers to tightly manage costs and increase efficiencies: one effective way to do so is by redesigning your operating model.

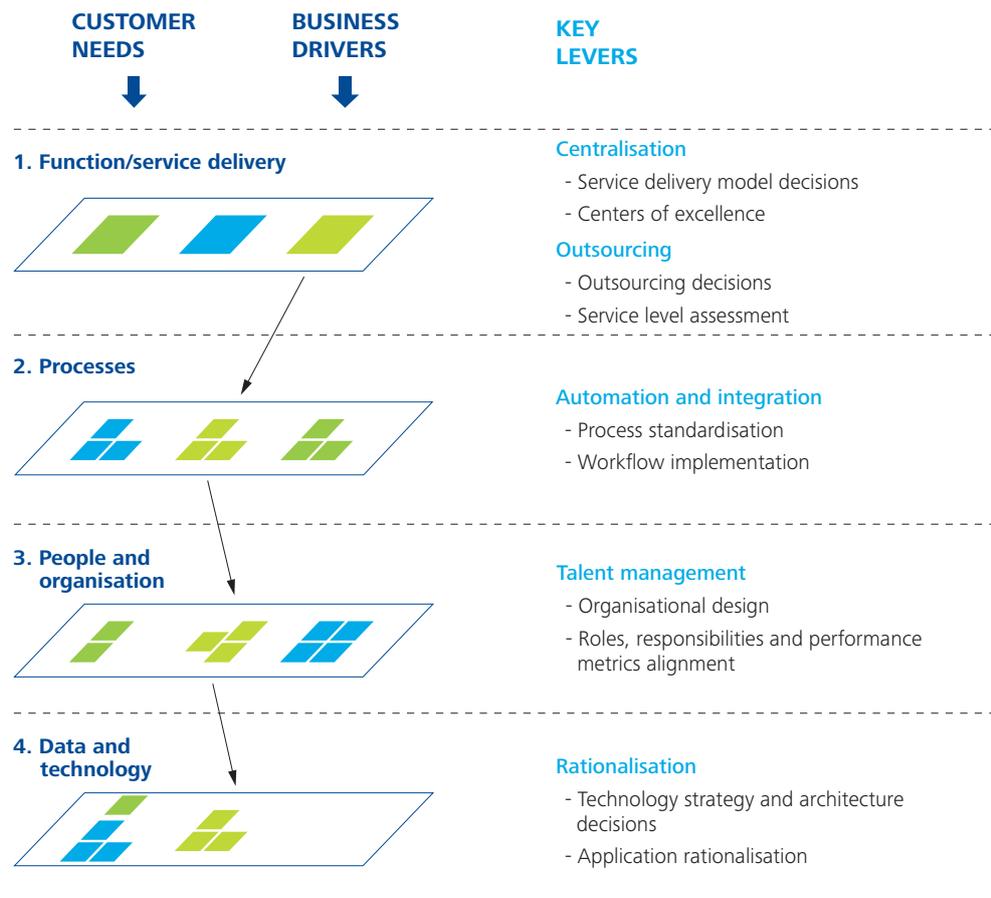
Operating model components and levers

In exhibit 1 below, key components of the operating model are identified, along with the key levers that can be pulled to impact these components. This approach of breaking the operating model down, understanding the specific issues that an asset manager may face and knowing which levers can be pulled is the key to making improvements. By using this process, the uniqueness of each firm can be accounted for and

specific action can be taken to resolve each firm's challenges. It is also a very effective way to make progress without being overwhelmed. More than one asset manager has launched an operating model review, tried to change too many things at once and ended up making little overall progress. Using this methodology allows you to identify tasks and prioritise them into manageable projects.

Exhibit 1: Operating model components and levers

Each component of the operating model can be improved by using a specific set of levers:



Some of these core components are discussed in more detail in the section below, along with common challenges faced by asset managers. Some options to overcome these challenges are also highlighted. However, it is essential to understand that no two asset managers are the same, and there is no one-size-fits-all approach to improving an operating model.

Function/service delivery

It is not uncommon for existing service delivery models to exist merely because of inertia. A model may have been set up years ago but may no longer be the best fit. A common issue identified involves replication of responsibilities, where teams in different locations perform similar functions, resulting in duplication of effort. For example, redundant activities might be performed across functions, or by different teams within a division and across geographies. This is often caused when dispersed responsibilities create a need—real or perceived—to replicate activities. As a result, boundaries between functions are not clear, and key activities for each function not consistently aligned with the core functional objectives. Centralising core functions into 'centres of excellence' is one way to eliminate redundancies and maximize efficiencies while creating a consistently high-quality result. Centralisation can also drive clarity of roles and responsibilities, while ensuring consistency.

Outsourcing, which can take many forms, is another option to consider. Outsourcing is a critical decision for many firms because it can bring substantial benefits while also bringing potential risk. One two-pronged benefit of outsourcing is the ability to migrate onto modern technology platforms that can scale to support growth, while at the same time spreading the cost of system enhancements (such as for regulatory updates) across a wide customer base. Risk and cost can be reduced and quality improved, via shifting to variable-cost structure and a shared service model.



Another advantage of outsourcing is that it allows asset managers to focus on core competencies, such as portfolio management, marketing, sales, or customer service. Additionally, outsourcing can lead to the ability to access new product lines or geographies quickly, often with a lower up-front investment.

Processes

Process considerations focus on reducing the overall complexity of an organisation. Ineffective processes may hold an organisation back from achieving its highest operational potential, often because of significant manual processing which can result in limited integration between systems. This disconnect is often compounded by unclear ownership of tasks, and potential overlap of duties between groups that can result in multiple handoffs and processing delays.

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Inefficient processes are important to evaluate, as they can consume excessive resources and be very costly to maintain. For example, one asset manager had a highly manual fee-billing process for its non-registered products. When a new large account was on-boarded, a required system setting was missed. The result was that the account was not billed for the first two months it was managed by the firm. When the error was discovered at the end of the quarter, the firm was faced with a stark choice: it could admit its error to the new client, and retroactively bill them, or absorb the loss of the fees. To ensure future compliance with on-boarding processes, the firm decided to implement an automated workflow to prevent these types of errors.

The goal of process redesign is to reduce complexity as much as possible. This includes identifying and lowering the number of features that are costly to maintain, yet provide limited value to clients. It also requires eliminating duplicate activities, such as those with low value-add. Whenever possible, firms need to consolidate similar activities across the organisation, in order to drive integration between teams and platforms. The focus of these activities should be on enabling efficient handoffs. In general, increasing automation and keeping manual activities to a minimum can have a powerful impact on the firm's operations.

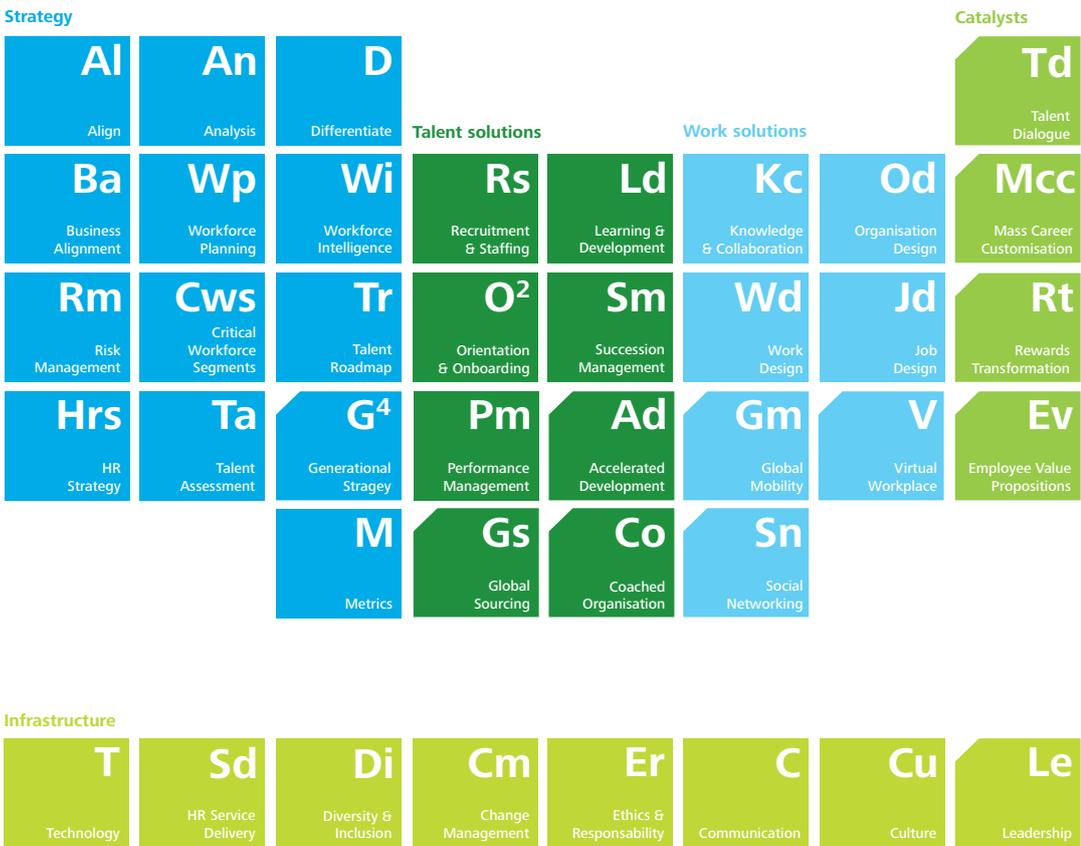
People and organisation

Many firms are now preparing to readdress their organisational model after years of more tactical approaches, with talent providing a significant set of challenges. Large organisations in particular tend to have operational concerns related to their workforce, including high staffing costs, complex management and organisation structures, and workforce demands or needs that are hard to address in the current model. This often leads to difficulty with engagement, development and retention of the workforce, thereby directly impacting the firm's ability to execute its business mission. The combined effect of these issues can add a significant drag to a firm's performance.

Exhibit 2 depicts the portfolio of solutions in the talent arena that need to come together in bringing the operating model to life for employees. The solution does not solely consist of having the correct talent; aligning people with the appropriate position within the firm is also critical. The chemistry of talent illustrates our view of how talent strategies and approaches can come to bear in the model. Once organisational design is complete, these elements—if crafted correctly—enable the people components of the model to function.

Exhibit 2: Chemistry of talent

Talent management is taking care of having the right people with the right skills in the right position in your organisation:



Core Differentiating

The success of operational redesign may require cultural adaptation. Culture is defined through strategy, vision, and mission, but it is reinforced and sustained in the talent programs built and employed within the operating model. Therefore, educating and aligning people programmes to evolve with model changes is important. A culture that supports and remains agile to changes in operational models will be more adept and competitive.

The greatest opportunity in the talent area is to redesign the organisation to ensure that resources and management layers most efficiently meet the needs of the business. This often includes increasing spans of control and reducing organisational layers. Redesign can also include an assessment of alternative delivery methods such as shared service centres and centres of excellence. The goal is that roles and responsibilities are thoughtfully designed in order to avoid redundancy. The introduction of more streamlined processes where people focus on exceptions, not clerical tasks, is critical. Clearly defining the skills and competencies needed to effectively execute business operations, while raising workforce effectiveness, can have a substantial impact on performance.

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Data and technology

Perhaps the greatest area of opportunity for asset managers is the alignment of a technology strategy and architecture with the operating model and business needs. The need for alignment is becoming more acute, as many asset managers still lack a comprehensive technology strategy that supports an operational model. Firms tend to support multiple fragmented databases and legacy systems with different standards and hierarchies that result in data inconsistencies.

These complex systems also require substantial effort to manage. This lack of integration between disparate systems often requires manual work to connect systems and reconcile the final output. The result is often higher costs and increased chance for human error. The great exuberance years (2003-2007) produced high growth, but also saw the adoption of multiple systems and applications that ultimately cost some asset managers scale and flexibility. As a result, functions such as risk reporting were made more difficult. Firms that decide to streamline these processes today can help reduce manual workarounds while making activities less labour intensive, resulting in increased efficiency and reduced operating cost. For example, one asset manager was supporting both a transfer agency system and a brokerage platform for its retail accounts. After an operational review, the firm realised that it could eliminate one of these systems, saving several million dollars a year in support costs, without losing any essential functionality.

Conclusion

Redesigning an operating model takes significant effort, yet can unlock benefits that may improve efficiencies within a potential range of 5% to 30%, according to estimates from Deloitte's Enterprise Cost Management practice. This indicates that operational redesign may result in a real impact felt in the form of lower costs and better delivery.

In a time of structural change in the asset management arena, operational updates can make a profound impact on the long term goals of your organisation. Undertaking such a project is never an easy decision, and there are always plenty of reasons not to go forward. However, it is not necessary to take on every challenge at once. By breaking your operating model down to its core components, identifying the challenges unique to your firm, and prioritising the efforts that will have the greatest impact, substantial benefits can be gained. Taking on such a project might seem daunting, yet the current market environment of balanced normalcy appears to be ideal to moving forward with operational redesign.

To the point:

- Now is the time to re-evaluate your global operating model since we appear to be in neither an exuberance nor in retrenchment phase
- Function/service delivery, processes, people and organisation, as well as data and technology represent key areas to consider
- Redesigning an operating model takes significant effort, yet can unlock benefits that may improve efficiencies within a potential range of 5% to 30%, according to estimates from Deloitte's Enterprise Cost Management practice

