

CIBC MELLON

# Data Transformation in Asset Management:

## Canada vs. the World

2  
CHAPTER 2



## How can asset managers meet these digital imperatives to find organic and inorganic growth?

The need for better investment outcomes has driven the industry towards digitization for some time, but COVID-19 accelerated the trend. Business continuity and resiliency rapidly became urgent, going from a sensible planning exercise to a means of keeping businesses running day-to-day. The pandemic brought the connections between better investment outcomes, better data and transformed operations starkly into the foreground.

“

Digital technologies enable organizations to drive top-line growth by transforming the client experience.”

**Darcie James Maxwell**  
Head of OMNI Digital Services  
Canada



## Exploring Canadian divergence from the global consensus across data, technology and vendor intention.

Fundamental changes in the asset management industry have been building for some time as institutional investors have pursued innovation for competitive advantage. However, the pandemic market dislocation and remote operating environment have rapidly accelerated the pace of transformation. In a new and wide-ranging research study covering 200 asset managers from Canada and around the world, our global enterprise shows why such changes have reached a point of no return.

In the first chapter of “Asset Management: Transformation is Already Here,” we explored how as the sources and types of data have proliferated, the ability to interpret and convert it into usable, relevant information has become a key differentiator in the asset management industry.

Digital technologies enable organizations to drive top-line growth by transforming the client experience. How can asset managers meet these digital imperatives to find organic and inorganic growth?

The need for better investment outcomes has driven the industry toward digitization for some time, but COVID-19 accelerated the trend. Business continuity and resiliency rapidly became urgent, going from a sensible planning exercise to a means of keeping businesses running day-to-day. The pandemic brought the connections between better investment outcomes, better data and transformed operations starkly into the foreground.

Asset managers from Canada and around the world answered a range of questions about digital capabilities to put a data-driven future and a crisis-influenced present into context. They identified several foundational technologies and organizational obstacles they see on the path to improved investment outcomes and the operational transformation needed to deliver them.

Survey respondents also highlighted the importance of having service providers share this path with them. Asset managers recognize the need for robust services that help them navigate complex changes to their firm’s strategy, investment management approach and operations.

Many of the survey respondents commented on the impacts of COVID-19. Market volatility increased the need for faster responses to rapidly changing conditions. Remote working exposed the shortcomings of relying on manual and paper based processes. The ongoing pandemic resulted in extended needs for social distancing and remote work, making growth more difficult to achieve. Above all, it highlighted the importance of business process resiliency and the kind of agility that enables asset managers to respond to new opportunities and risks.

“

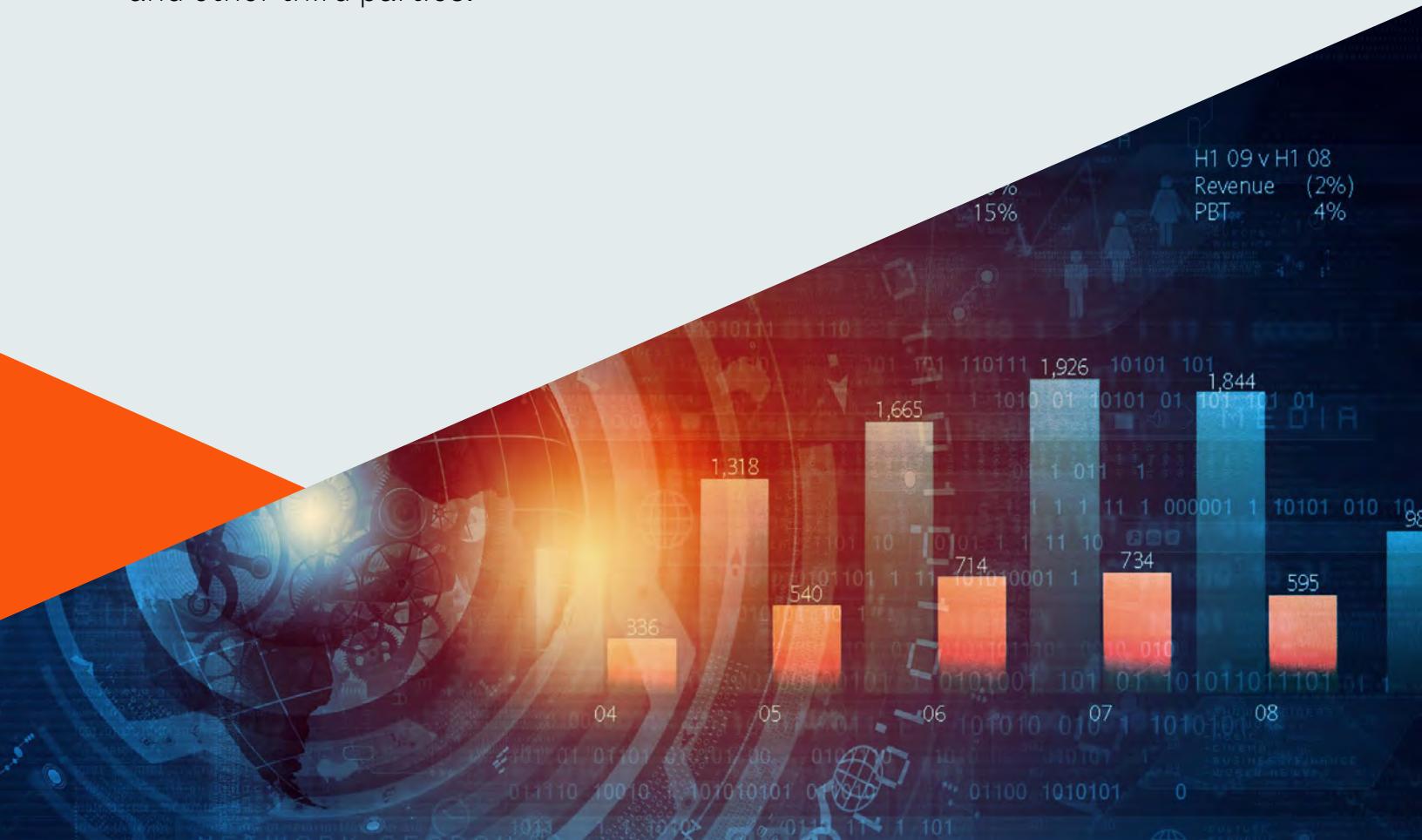
Asset managers recognize the need for robust services that help them navigate complex changes to their firm’s strategy, investment management approach and operations.”



**Gord Kosokowsky**  
Executive Director,  
Relationship Development  
and Segment Co-lead,  
Asset Managers

## Building Blocks for a New Client Experience

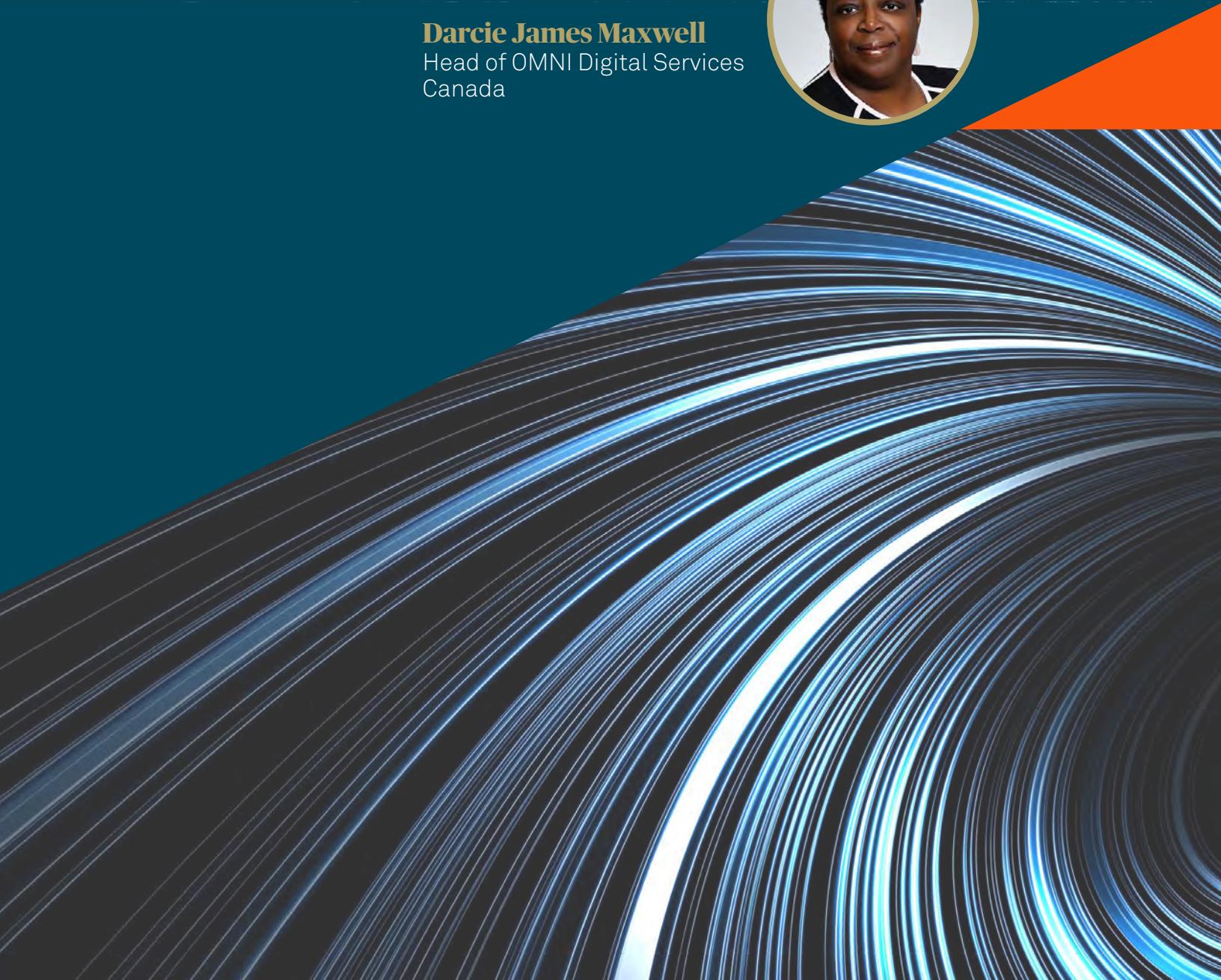
Survey respondents said they are prioritizing more established and proven technologies as they continue or embark upon their digitalization initiatives. Cloud computing has been noted to dominate today's digital imperatives. Across all regions almost all (96%) respondents said they are currently leveraging cloud computing to drive digital and operational transformation. Cloud computing has become universal to the point that the role it plays is also evolving. Using specific cloud-based applications, such as customer relationship management (CRM) platforms, has become a matter of course. The industry is now moving to using cloud as more than a way to access specific feature sets and save costs. Cloud infrastructure provides the building blocks for the adoption of advanced digital technologies, it allows managers to bring new digital services, products and experiences to clients. Furthermore, it provides the foundation for greater collaboration between staff. It is delivering advantages in business agility, allowing asset managers to work more seamlessly internally as well as with service providers and other third parties.



“

Due to perceived internal skills gaps, many Canadian asset managers are looking to outside experts to accelerate their digital transformation. Broadly, Canadian and global asset managers have evolved to seeing themselves as part of an ecosystem.”

**Darcie James Maxwell**  
Head of OMNI Digital Services  
Canada



## Future Utilization

Which of the following digital capabilities / technologies are you planning on leveraging to drive digital and operational transformation in the next three years?



### Canada vs. the world



**75%**

Machine learning / Artificial intelligence

**78%**

**65%**

Robotics / Robotic process automation

**75%**

**95%**

Cloud computing

**87%**

**45%**

Asset tokenization / digital assets

**72%**

**85%**

Blockchain / distributed ledger technology  
to synchronize data and processes

**84%**

**65%**

Predictive analytics

**75%**

**35%**

Text / document comprehension

**49%**

Looking ahead, 85% of Canadian asset managers are planning to develop blockchain and distributed ledger technology to synchronize data and processes.

The uptake of blockchain technology goes hand in hand with plans to leverage asset tokenization, with 72% of global respondents planning to develop digital assets over the next three years. Canadian asset managers, however, trail behind their global peers with just 45%. These technologies could potentially open up product development opportunities and broaden investment options for new pools of investors as well as offer liquidity to investors in traditionally illiquid investments, such as alternatives.

Technologies that bring additional enhancements to clients' experiences and their investment returns also rank high on the list of digital imperatives for Canadian asset managers within the next three years. These technologies include machine learning and artificial intelligence (75%), predictive analytics (65%) and robotic process automation (65%). Effective deployment of these advanced tools will be essential for asset managers to remain competitive in an increasingly complex market.

## Embracing Transformation Challenges with Realistic Expectations

The research also finds that asset managers have few illusions about the ambitiousness of these digital imperatives for transformation. Achieving full-scale transformation is far from straightforward given the complexity of many managers' operations, which may span different markets, products and geographies. Internal resistance to change is a key barrier, cited as an implementation challenge for 39% of global respondents. A lower portion of Canadian firms experienced challenges in this area, with 30% of Canadian respondents citing this barrier.

“

Technologies that bring additional enhancements to clients' experiences and their investment returns also rank high on the list of digital imperatives for Canadian asset managers within the next three years.”

**Joe Lacopo**

Vice President,  
Relationship Management  
and Segment Co-lead,  
Asset Managers



Which of the following factors will pose the biggest challenge to the implementation of digital and operational transformation in your organization?  
(Select top three)



CANADA

**Canada vs. the world**

WORLD

**30%**

Internal resistance to change

**39%****60%**Size of investment required and / or  
inadequate funding available**46%****35%**Lack of appropriately skilled and / or  
specialist staff**48%****70%**Integration difficulties with  
legacy IT systems and technology**64%****65%**

Regulatory concerns

**68%****35%**Lack of client demand and / or  
client resistance to change**32%**

Canadian firms noted a slightly lower rate around regulatory concerns (65% versus 68% globally). Implicit in such concerns are issues around data protection, the difficulty of digitizing information and processes across jurisdictions with differing regulatory requirements, meeting mandated security and compliance requirements, and addressing the need to meet varying quality management standards.

With the asset management sector relying on a process of near constant renewal of its IT competencies, many worry about their ability to keep up in this arms race. Canadian respondents view integrating new technologies into legacy IT systems (70%) as their biggest challenge to implementing digital and operational transformation in their organization – slightly higher than global respondents at 64%.

A significant challenge for the majority of Canadian asset managers was related to their ability to secure the necessary funding to invest in the capabilities they believe they need: 60% of Canadian managers cited this as a top barrier, versus a lower but still significant 46% of global managers.

Like many organizations, asset management firms tend to operate using various disparate, closed systems installed at different times or locations, for multiple functions, or to meet specific regulatory requirements. M&A activity often exacerbates this situation because mergers typically face significant challenges achieving full IT integration. Such technology barriers create some of the most significant inefficiencies in asset management. When information is unable to flow to different departments, it leads to duplication of effort and unnecessary manual processes. Maintaining multiple separate systems also adds significant cost.

## What does it take to accelerate digital innovation? First and foremost, collaboration.

Asset managers believe that high levels of collaboration and trust between internal functions and external providers can help transcend the inherent barriers to achieving digital imperatives. In the past, many asset managers saw themselves as self-contained entities.

The research shows that view has shifted significantly. More than half of Canadian respondents say they are planning to streamline relationships with a few best-of-suite vendors and providers (i.e., those that can best meet the broadest range of business needs versus those focused on a small subset of use cases).

Due to perceived internal skills gaps (45%), many Canadian asset managers are looking to outside experts to accelerate their digital transformation. Broadly, Canadian and global asset managers have evolved to seeing themselves as part of an ecosystem. As a result, they place open ecosystems (55%) highly in the ranking of ways to accelerate innovation. This approach to infrastructure creates a balance between choice and openness. It streamlines the ability to integrate various vendor solutions according to their individual needs and strategies.

Which of the following strategies, if any, is your company planning to employ to accelerate digital innovation? (Select all that apply)



CANADA

**Canada vs. the world**

WORLD

**15%**

Acquisition of a fintech corporation

**20%****45%**

Hiring more specialist staff

**48%****55%**

Open ecosystem, with multiple vendors, data providers and middle-back-office service providers

**54%****75%**

Increasing the budget for developing in-house technology solutions

**60%****65%**

Third-party partnership(s) with a fintech corporation(s)

**65%****50%**

Increasing reliance on core financial service providers

**67%****60%**

Streamlining with a few best-of-suite vendors and providers

**69%**

Only half of Canadian asset managers plan to increase their reliance on core financial service providers in comparison to their global peers (67%).



Even though the majority of Canadian managers suggested the ability to increase budget and achieve necessary approvals to make the investments they needed, Canadian firms expressed a high ratio of intent to close their technology gaps through investing – especially in in-house technology and solutions. Canadian asset managers intend to increase their budget for developing in-house technology solutions (75%).

“Maintaining in-house technology capabilities and in-house expertise can be a challenge” - this is a consistent theme for institutional investors in a wide array of organizations. (**This was a key finding in an earlier research project undertaken by CIBC Mellon;**) Addressing skill gaps is difficult at a time when the economic situation is changing and most companies are looking to adapt. Increasing technology capabilities is challenging because of the significant downtime that is involved.

As we move through 2022 amid an environment that is seeing rapid acceleration around competition for talent, increasing turnover amid the “great rethink / great resignation,” and a recognition among managers that the very highest performers and specialists can in turn drive enormous outperformance, the challenges around skill gaps are likely to increase further.

For global peers who choose to rely on service providers to manage services, technologies and operations – as well as the associated talent required to do so - outsourcing offers opportunities to take advantage of the investments their providers have made in digital technologies, talent and innovation. It results in a common platform and an ecosystem where they collaborate closely with a handful of vendors and providers.

Nonetheless, across multiple industry engagements, client research and industry research, “there is no one-size-fits-all approach” is a consistent theme. Balancing choice and openness also creates a stable platform for collaboration with fintech companies, mentioned by 65% of all respondents. Such arrangements give them the ability to bring in compelling and pioneering innovations that may be slightly outside the mainstream—without losing the strength of core best-in-suite providers.

“

Maintaining in-house technology capabilities and in-house expertise can be a challenge. This is a consistent theme for institutional investors in a wide array of organizations. Addressing skill gaps is difficult at a time when the economic situation is changing and most companies are looking to adapt.”

**Joe Lacopo**  
Vice President,  
Relationship Management  
and Segment Co-lead,  
Asset Managers



## Asset Managers Have Strategic Expectations

What is your expectation of what financial service providers can offer to support your digital capabilities?  
(Select all that apply)



### Canada vs. the world



**60%**

Leverage to continuously improve operational efficiency

**67%**

**40%**

Provide data-based insights

**55%**

**50%**

Co-create new products / services with clients

**62%**

**90%**

Leverage to improve risk controls

**66%**

**55%**

Engage in industry leading partnerships / consortiums (e.g. distributed ledgers)

**63%**

**50%**

Provide advisory support

**51%**

In terms of strategic approaches, Canadian firms were broadly consistent with global views, with a few nuanced differences.

The majority of Canadian asset managers (90%) expect financial services providers to offer leverage to improve risk controls of their digital capabilities. This is a significantly higher portion than global peers, two thirds of whom cited this focus area.

More stakeholders such as underlying investors and clients are all looking for assurance that investment decisions are being undertaken appropriately and effectively. Given the complexity of the challenge, many asset managers have invested in building highly customized accounting and reporting frameworks which they have grown, amended and adjusted as their investment and reporting needs evolved over the years.

Having a trusted third party develop and invest in new technology creates opportunities for users to come together as peers of a shared platform, capturing best practices from one another. Even prior to COVID-19, institutional investors were evolving their technological roadmaps. The rapid move to remote work that separated users from one another brought new urgency to the need to digitize in a manner that can be securely and effectively deployed across teams.

Canadian firms planned to consider fintech acquisitions – 20% of Canadians versus 15% globally. Canadian firms were also more likely to focus their vendor suite – 69% of Canadians intended to streamline with a few best-of-suite providers, versus 60% globally.

In terms of vendor strategies, Canadian firms were consistent with global peers in terms of reliance around advisory support (50%), but showed higher intent to rely on vendors in a few key areas including leveraging them to continuously improve operational efficiency (67%), providing data-based insights (55%), co-creating new products / services with clients (62%), and engaging in industry leading partnerships / consortiums (63%).

More broadly, the research shows that asset managers no longer view financial service providers as merely third parties working in the background to process transactional information. Instead, asset managers want to tap into service providers as strategic assets that can help support growth and innovation. The digital imperatives for business transformation call for intensive, high-trust collaboration.

**The majority of Canadian asset managers (90%) expect financial services providers to offer leverage to improve risk controls of their digital capabilities.**



“

In today's challenging market environment, building on the right outsourced operational platforms positions AGF to invest our team's time and expertise in the areas where we can drive greatest impact for our stakeholders. We expect our service providers to not only deliver resilient and efficient operations, but also to invest in continuous improvement around access to data and technology tools that help us quickly respond to market needs, capture opportunities and mitigate risks - and in turn better meet the needs of our investors.”

**Chris Jackson**

Chief Operating Officer  
AGF Management Limited



## Questions for clients to consider:

1. What do I do in-house, what do I outsource?

---
2. Do I have the necessary talent to manage and maximize the impact of my technology?

---
3. How will the war for talent and the great resignation present risks or opportunities for my organization?

---
4. Where is my organization investing in technology and operations? How are we ensuring our stakeholders are seeing value in our investments?

---



“

Having a trusted third party develop and invest in new technology creates opportunities for users to come together as peers of a shared platform, capturing best practices from one another. Even prior to COVID-19, institutional investors were evolving their technological roadmaps, but the rapid move to remote work that separated users from one another brought new urgency to the need to digitize in a manner that can be securely and effectively deployed across teams.”

**Cynthia Shaw-Pereira**  
Vice President  
Client Solutions & Business  
Development





To register for advance copies of forthcoming research or to learn more about some of the performance, accounting and data solutions available through our global enterprise, contact your relationship manager.

CIBC MELLON

► A BNY MELLON AND CIBC JOINT VENTURE COMPANY<sup>SM</sup>

©2022 CIBC Mellon. CIBC Mellon is a licensed user of the CIBC trade-mark and certain BNY Mellon trade-marks, is the corporate brand of CIBC Mellon Trust Company and CIBC Mellon Global Securities Services Company and may be used as a generic term to reference either or both companies.

011 - AM05 (2) - 05 - 22