

# Rethinking the operating model

MELIOSA O'CAOIMH, Northern Trust's Country Head, Ireland, outlines why Northern Trust sees the operating model as the roadmap to delivering value for asset managers – and shares ideas from its whitepaper on how they may enhance business efficiencies and support future growth.

**F**inance Dublin readers will be aware that the investment management industry remains under pressure. Costs are escalating and margins are compressed for many participants, at a time when the industry is facing increasingly complex regulatory and compliance challenges, and growing technology demands.

It is no surprise that to drive performance in this challenging landscape, asset managers are increasingly exploring scalable solutions for reduced cost and greater operational efficiency. But where does a firm begin when rethinking the traditional way of doing things?

## Rethinking the operating model

As one of Ireland's largest global custodians and asset servicers, Northern Trust works daily with investment managers seeking to re-evaluate and optimise their operating models to more closely align their infrastructure with future opportunities and challenges. In 2020, we see this pace of change increasing further, as managers seek to take advantage of new opportunities, innovative thinking and new methodologies.

To share these perspectives, we recently issued a whitepaper highlighting potential opportunities for managers to drive efficiencies and positive change across their businesses. *Managing Assets Around the Globe – Rethinking the Operating Model* sets out several ideas for where a 'rethink' may help asset managers more closely position their investment operations for the challenges and opportunities of the future.

## Use technology to gain a competitive edge

The operating model comprises the people, processes, and technology that define a company's business approach and vision for the future. It addresses how resources should be allocated, how client and other key business relationships are serviced, and how critical functions, such as the back or middle office, are supported.

Today's operating models are increasingly complicated networks with



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technology at their core. Technology is already estimated to make up 15% to 20% of the industry's cost base<sup>1</sup>, and asset managers have to stay ahead of the curve in order to remain competitive. Further, technological innovation plays an increasingly decisive role in separating the 'winners' from the 'losers'.

Industry commentary outlines how, as technology in the form of automated advice and client service becomes prevalent, the asset management industry is likely to consolidate in certain developed markets, with up to 20% of the firms currently in existence either being acquired or eliminated<sup>2</sup>. This is why we see firms continuously evaluating the role of technology in their operating models, so to create integrated, holistic cross-platform solutions.

Technology offers a host of new possibilities, from use of machine learning to perform repetitive tasks faster and more accurately, to using public and private cloud capabilities to gain efficiencies and scale in powering businesses. By placing architecture in the cloud, managers are able to reduce development cycles and create a more flexible cost base.

But the most successful investment firms do not just move to agile solutions, they also adopt an agile mind-set. This includes placing cross-functional teams around products and services – and

empowering those teams to achieve results. Successful asset managers are hiring technology talent to drive a new and creative vision and culture in their organisations. They identify disruptive technologies, and re-design long-standing processes.

As they fine tune their strategies, many are splitting technology into 'core' and 'non-core' functions – adopting distinctive approaches to each in order to help maximise operational efficiency. Investment firms should also sunset legacy applications as new technologies are introduced, to help prevent regulatory concerns that may arise later from fractured data and operations.

## Creating an 'ecosystem' of trusted outsourcing partners

As asset managers move into new areas of business and diversify their strategies, the tools they use and the approaches they take to manage different products and services can change. As they grow, firms may look to outsourced providers to enhance or replace their in-house capabilities. By embracing outsourcing and developing an 'ecosystem' of trusted partners, asset managers can create solutions that provide greater scale, flexibility and speed-to-market.

But supporting a legacy 'silo' structure of outsourced providers can also pose problems. Monitoring complex assets can become a resource drain, and may become economically unstable for many investment firms. As activities duplicate, greater potential exists for errors, misunderstandings, and misalignments. Operational frameworks may spring up to consolidate fragmented data sets or to oversee different outsourcing suppliers – this can result in duplicative, inefficient processes and systems taking root within parts of the organisation.

How can investment firms address these challenges? Our paper has some ideas; firstly, technology must be organised so data is accessible and flexible for all parties and platforms. Secondly, asset managers should avoid 'vendor lock-in' – a situation where technology, process, and partners are inextricably linked and impossible to

separate. Finally, investment firms and their service providers should be 'technology agnostic' and have the flexibility to change suppliers or approach as required.

The most successful investment firms are holistic in their thinking. Rather than working on a case-by-case basis, they adopt a broad strategy for building their systems, and are mindful of how technology selection and integration may impact future requirements for expansion.

### **Incorporating fund distribution into your operating model**

As global asset management becomes increasingly competitive, many fund managers are looking outside their home markets to raise assets, turning to new asset types and markets for asset growth as they do so. The Irish funds industry, of course, plays its part in supporting this trend, as a global hub for the distribution of funds into Europe and Asia.

Raising assets is the lifeblood of any asset management firm – and distribution is thus a vital component of the operating model. Asset managers must therefore ensure their operating model has the

capabilities to support the demands of asset growth – and of investor expectations.

At a time when distribution shelf space is shrinking, and the number of mutual funds in developed markets is expected to decline, our paper suggests now is the time for asset managers to build suitable operating capabilities around distribution which meet the needs of target investors.

Fund distribution success will increasingly hinge on managers being able to support investors with the investment information they need – in a local time zone and while accommodating local languages and other cultural nuances – and provide them with 24-hour access to their data. Asset managers should ensure their technology architecture and product can meet the needs of their underlying global investors – and incorporate these considerations into their operating model.

### **Rethinking the Operating Model: The Future is Now**

The investment industry is changing, and now more than ever, agility and flexibility are keys to success. Successful operating models lead to successful businesses – while inefficient ones are unlikely to survive in the long-term.

Whether the solution involves embracing new technology, leveraging the right outsourcing partners, or taking a fresh approach to distribution, the successful asset manager of the future will integrate people, processes, and technology - and prioritise all three. While the pressures are significant, so are the opportunities.

*Meliosa O’Caoimh is Northern Trust’s Country Head, Ireland. For more information on the topics outlined in this article and to access the [whitepaper](http://www.northerntrust.com/rethink), visit [www.northerntrust.com/rethink](http://www.northerntrust.com/rethink)*

<sup>1</sup> Morgan Stanley and Oliver Wyman Blue Paper “Winning Under Pressure” March 2018.

<sup>2</sup> PwC “Asset & Wealth Management Revolution” October 2018