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KPMG Perspectives

Act now on innovation as disruption revolutionizes the rules

INVESTMENT-MANAGEMENT (IM) organizations are struggling to keep up with the unprecedented disruption of their markets and business models. The immediate need for strategic new approaches to innovation that will keep today's businesses on a competitive path to future growth and success has, perhaps, never been greater.

In the 2016 KPMG Global CEO survey of 73 CEOs from the IM industry, nearly half of the IM CEOs surveyed, 47 percent, said they expect their organization to be "transformed" into a significantly different entity over the next three years. The IM industry is one that, traditionally, has not invested heavily in new technology, but as the rules of the game evolve so dramatically, businesses can no longer sit back and rely on the status quo. The need to address transformative innovation is rapidly rising to the top of the agenda for many organizations and their boards, as they realize that the immediate challenges ahead are immense and unprecedented. Redefined business models and new competitors continue to fuel a major push toward advanced automation involving cognitive processes and artificial intelligence to improve operational efficiency and deliver improved products and services. The impact of digitization in all sectors, meanwhile, is raising customer expectations everywhere—including IM—for instantaneous, around-the-clock access to services and information. On the regulatory front, there's the need to anticipate and respond to continuing regulation changes and compliance issues.

CEOs are voicing worries about customer loyalty

THE KPMG global survey shows that CEOs in IM are certainly expressing concern over how to solve issues that will define their future. About 90 percent are concerned about customer loyalty, and nearly all, 92 percent, are worried about the impact of millennials on their business. Meanwhile, 87 percent are concerned that regulations could inhibit future growth, and 85 percent are concerned about integrating basic automated business processes with artificial intelligence and cognitive processes.

The vast majority are also worried about competitors' abilities to take business away (84 percent); keeping up with what's next in services and products (82 percent); keeping up with new technology (81 percent); and the quality of data

used in their decision-making (81 percent).

Having remained largely focused on its traditional products and processes, today's IM industry does not appear particularly well positioned for what lies ahead, as digitization shifts the focus toward customer expectations and the customer experience.

The status quo no longer works. And while businesses recognize the current trends driving the need to reshape the industry, many are clearly struggling to intelligently address their immediate need to innovate and transform.

Strategic innovation will need to integrate technology, people and processes in order to deliver transformational benefits and revolutionary advancements that include:

- A vastly improved customer experience and greater customer retention overall, as the competition to keep current customers and attract new ones grows fierce amid the proliferation of new players, products and services. Innovating to improve the customer experience via delivery and acceptance (D&A), for example, will enable firms to better identify, respond to and eventually predict customer expectations and behaviors in areas such as service and products, delivery channels and around-the-clock access to information and accounts.

- Enhanced control of the flow of funds outside of the organization, including enhanced authentication and identity management to create a secure and trusted online experience for customers.

- Productivity and efficiency gains via automation of lower-value repetitive tasks.

- Improved oversight, quality and consistency of data to drive smarter decision-making and precise reporting for clients, investors and business partners, plus improved reporting to regulators amid increased scrutiny. Innovation in this area also positions firms possessing highly accurate and reliable D&A capabilities to eventually automate their decision-making in revolutionary new ways as regulations evolve.

- Eventual automation of data-based decision-making, via cognitive processes and artificial intelligence, in order to also enhance operational efficiencies, service, deployment of talent, risk management and the ability to respond to customer needs and expectations.

- Improved cyber security that provides a continuous understanding of the immediate cyber-attack/financial fraud threat environment, and the ability to respond quickly by matching

the firm's controlled operational environment to the current threat environment.

Given the critical benefits that innovation is expected to deliver in terms of cost and operational efficiencies, customer experience, compliance, risk management and overall competitiveness, most CEOs should be saying to themselves today: "I can't afford NOT to innovate."

The ultimate threat for companies that are not boarding the innovation train now could be consolidation that's already taking place in the industry: Companies that are acquiring will be the ones that are ahead of the change curve, and those being acquired will be the ones behind the change curve. There is clearly no time to lose in defining who the winners and losers will be in the race to innovate and transform.

Reassessing leadership's role in driving innovation

WHERE to begin with a strategic approach to innovation? Firms should be asking themselves exactly where they expect to fit in as the playing field beneath them changes, and who will they be competing with in the future? Businesses first need to quickly figure out how they will effectively make intelligent decisions regarding their own operating model and the changes that they cannot ignore, amid what is a constantly shifting field of decision points.

Second, firms need to quickly establish what the right capabilities are for the organization going forward. That includes potential changes to traditional infrastructure, as well as exploring new partnerships with third parties, such as financial technology or fintech, that can provide new services and solutions quickly and cost-efficiently.

As a result, some are starting to organize innovation strategies and initiatives, whether acquiring fintech, or coming closer to accelerators or, at the very least, learning more about viable options and potential solutions that fintech can offer.

Organizations should be reexamining various leadership responsibilities within the business, in particular, what boards and senior executives should be doing to proactively drive more strategic discussions on innovation and disruption. Senior leaders will increasingly need to act as "agents of change", constantly driving innovations that keep their business model current and competitive. **To be continued**