



# The Data-Driven Asset Management Firm of the Future

05 July, 2022



# Introduction

Extraordinary and unprecedented global factors continue to reshape the world's financial landscape. These include the lingering impact of a once-in-a-century pandemic, political instability and uncertainty, and inflation surges not seen in decades.

Against this backdrop, asset management companies are seeking to understand which of these themes will have the most lasting impact and how they should prepare. Some common strategies include prioritizing initiatives aimed at cutting costs and streamlining processes, introducing new products and revenue streams, and diversifying the firm's client base.

To realize these goals, asset management companies are increasingly turning to established and emerging technologies. A [recent survey](#) of more than 200 asset managers globally found that 96% currently use cloud computing technologies across their front-to-back offices, and 67% expect to increase their reliance on core financial service providers by 2024.

And according to a recently released [Gartner report](#), banks and investment firms will spend \$623 billion on technology products and services in 2022. To operationalize their digitalization visions faster, many will look to outsource elements of core projects to specialist technology partners.

In this paper, we'll explore some of the key challenges asset management companies are grappling with and shine the light on some data management techniques and tools they can use to advance their strategies in the year ahead.





# Understanding Asset Management Firms' Data Challenges

While effectively gathering and using data has been a pivotal competitive area for asset managers for some time, the massive acceleration of digital transformation spurred by the pandemic has quickly raised standards and expectations across the industry.

Many firms are still struggling with outdated systems that are unable to meet their daily needs and address data variety, data volume, and data velocity challenges.

Recent interviews with **decision-makers** at more than 40 investment management and institutional investment firms revealed their current biggest perceived challenges:

- More than half of respondents (62%) report that they lack valuable information about their credit investments. Most cobble together data from a variety of sources.
- This problem is especially severe for North American firms, three-quarters (76%) of which report that they lack quality data. Limited access to information creates an incomplete picture that impedes swift decision-making.
- A lack of transparency in the loans and private debt sections of the credit market is seeing it lag behind exchanged-traded markets.
- Despite the industry's best efforts to streamline and digitize, some credit instruments are still "paper-based."
- As portfolios become more complex, portfolio managers and traders are seeking more robust solutions that reduce their reliance on manual processes and enable them to manage their data more efficiently.



Right now, increased reliance on data and analytics is cited as a priority among 13% of asset management firms, as indicated in Figure 1 below.

### Top trends in asset management over the next 3-5 years as identified by survey participants

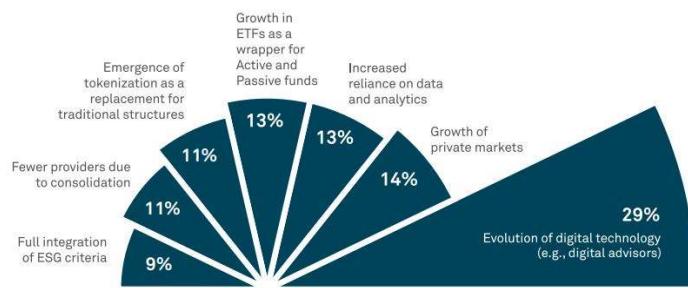


Figure.1

Source: <https://www.bnymellon.com/content/dam/bnymellon/documents/pdf/insights/asset-manager-transformation-is-already-here-overview.pdf.coredownload.pdf>

The good news is that the intersection of advanced data technologies and ongoing advancements in related fields and techniques is opening new doors of opportunity and paths to profitability for asset management companies.

Let's explore





# Data, AI, ML (and Others) Meet Asset Management

Data has transformed the way businesses across all industries and geographies function.

The thoughtful use and analysis of data introduces new ways for asset management companies to predict changes in the market, make more informed decisions, design better work structures, more accurately predict and respond to consumer behaviors, and more.

Today, data analytics and associated techniques such as machine learning (ML), artificial intelligence (AI), and natural language processing (NLP) feature prominently in business decision-making processes, and asset management firms are no exception.

To illustrate the uptick in interest in AI and related tools and techniques in the realm of asset management, consider these statistics:

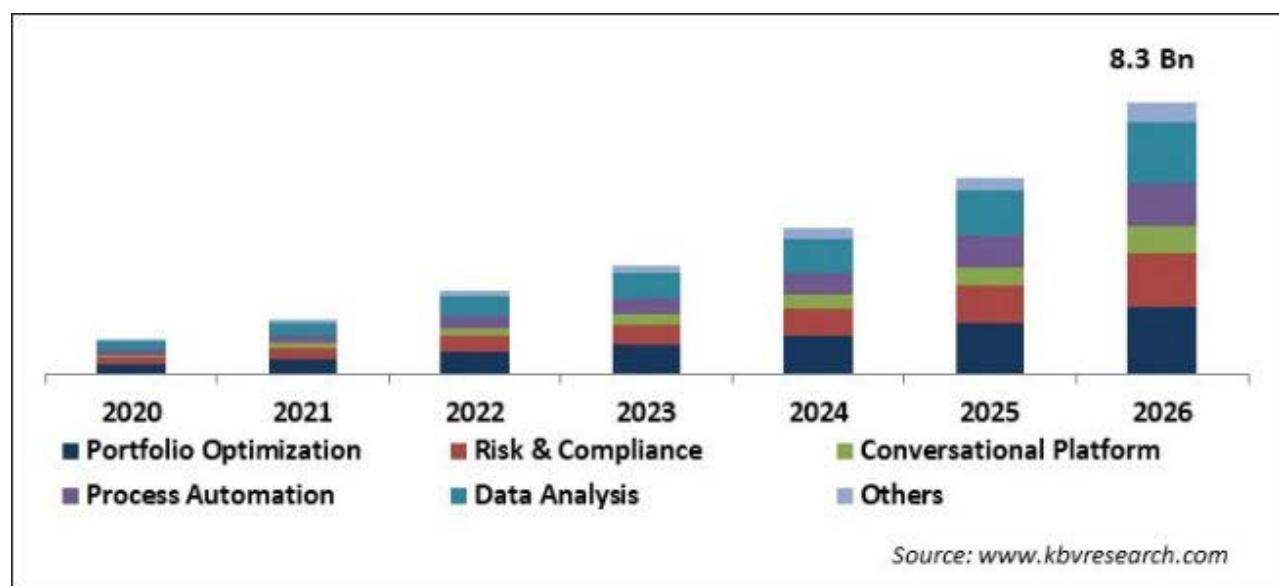


Figure.2

Source: [AI in Asset Management Market Size, By Application, 2020-2026](#)

Next, let's look at some common use cases and outcomes of these technologies in this sector:



## A 360-degree View to Inform Investment Decisions



In the past, when asset management firms used legacy analytics methods, the process was complex and often one-dimensional and/or subjective. Sometimes, asset managers made investment decisions based solely on stock price fluctuations.

Now, data analytics allows asset managers to make sense of large pools of data. They can use these insights to make investment decisions and help clients make the best use of their investments and grow their finances over time.

Specifically, asset management companies are increasingly looking at goal-based investment planning and leveraging robo-advisors who are capable of doing goal-based asset optimization.

### Spotlight On: Robo-advisors

While the pandemic had a negative impact on most businesses, the global robo-advisory market is flourishing. People who earlier preferred talking to a human advisor are now opting for robotic ones.

According to a [recent report](#) and several market findings, users of online robotic wealth management platforms doubled during the pandemic. Further, the increased use of digital communication tools like video conference and chat functionality is predicted to further ease the communication between robo-advisors and clients.

The global robo-advisory market is expected to generate a revenue of \$59,344.5 million by 2028, growing at a CAGR of 39.9% between 2021 and 2028.



## More Accurate Client Profiling

Data analytics allows asset managers to draw data from different client segments to identify characteristics that make them unique. This makes the overall client profiling process more accurate and efficient.

With good quality client profiling, asset managers can make more specialized financial decisions for their clients.

## Swift and Simplified Research and Analysis

When coupled with AI and ML, big data analytics can surface valuable insights using both unstructured and structured data. Together, these technologies pick out useful information about investment markets and create digestible summaries and recommendations that asset managers can use when making important investment decisions.

Asset management also involves a lot of manual secondary research on companies' financial reports. Many asset management firms are exploring AI tools that can distill only the relevant tabular and peripheral data needed for decision-making using [Natural Language Processing \(NLP\)](#) methods. NLP is also being widely used to monitor investment guidelines and read IMAs, prospectuses, and statements of additional information (SAIs).

### Text at-your-Service!

One of the key aspects of digital transformation is the digitization of legacy documents and analytics on the text content. For example, investment bankers and financial analysts have to pour over several annual reports every quarter, where summarizing content and doing analysis can take considerable time and effort. NLP and Text Analytics present an elegant solution.

Indium Software's '[teX.ai](#)' – an AI-based Text Analytics suite of solutions offers impeccable data scraping, validation, classification, summarization, clustering, topic modeling, and much more.



## Hyper-personalized Investment Experiences

Establishing meaningful connections with clients and understanding their priorities is vital to maximizing advisor effectiveness. Equally, a lack of customized advice and service can irreparably damage personal relationships between wealth managers and their investors. Younger and high net worth investors, in particular, expect customized portfolios that take into account their emotional response to investments, for example, by factoring in account risk-taking ability and sector variation.

Some 82% of executives believe that wealth managers who increase product personalization will be most likely to succeed.

Right now, we're seeing retail asset management companies leading the charge in this area. They're exploring ways to use data-related techniques to deliver clients a hyper-personalized investment experience based on their existing portfolio and inclination towards certain industries, as well as developing more personalized loyalty rewards programs.

## More Effective Risk Management

Effective use of data also helps with risk management. An asset management company's failure to understand investment risks and execute strategies to mitigate them can lead to major financial repercussions for the firm and its clients.

Traditional approaches to investment risk assessment focused on identifying standard deviations in share prices using legacy tools such as spreadsheets. These aren't highly accurate for understanding risks as they don't take into account every market variable.

New data analytics tools allow asset managers to create stress models for stock market performance and company operations. They can test different scenarios that simulate different market conditions.





## Data Privacy and Compliance

Asset management companies must ensure strict compliance with data privacy regulations like GDPR. Now, firms are exploring AI methods that automate the process of making both their data and processes compliant with these privacy norms.

[Privacy-enhancing computation](#) (PEC) is one way to secure the processing of personal data in untrusted environments. It uses a variety of privacy-protection techniques to allow firms to extract value from their data while still abiding by compliance requirements.

Gartner predicts that by 2025, 60% of large organizations will be using one or more privacy-enhancing computation techniques in analytics, business intelligence, or cloud computing.

Within asset management companies, adoption of PEC is on the rise in use cases such as fraud analysis, anti-money-laundering, intelligence operations, and data sharing.

## Increased Team Productivity

AI tools are also evolving in terms of accessibility. The no-code movement means that AI is now accessible to both technical and non-technical end users such as analysts, data scientists, and engineers in financial services environments.

This means that asset management company employees with little or no technical background can build and work with AI models for data analytics.

That makes it quick and easy for the whole financial team to identify, analyze, and track events that can impact the firm's portfolio, such as supply chain issues, early warnings of credit migrations, or ESG concerns, ultimately leading to more informed investment decisions being made.

## The Case for Outsourcing Data Management

As financial and competitive pressures intensify, asset management companies need to ensure they prioritize critical technology and data management/analytics investments and activities. Specifically, they need to:

- Access the expertise, tools, and infrastructure required to turn large volumes of data into actionable insights that can drive growth both in investments and their



overall investor base

- Find ways to stand out from the competition and meet the evolving demographic preferences of their increasingly outcomes-focused investor base
- Eliminate inefficiencies and build innovative, customizable, and scalable solutions that help them extend their reach in a hyper-competitive marketplace  
Many firms understand that it's impossible to bring all of the required expertise in-house and are opting to outsource some of these functions as part of their growth strategy.

When asked in a recent survey about which areas they plan to leverage external expertise, nearly all **asset manager survey respondents** (97%) said they would apply it to data management infrastructure, followed by back-office needs (90%), data operation (78%), middle-office processes (61%), and front-office activities (41%).

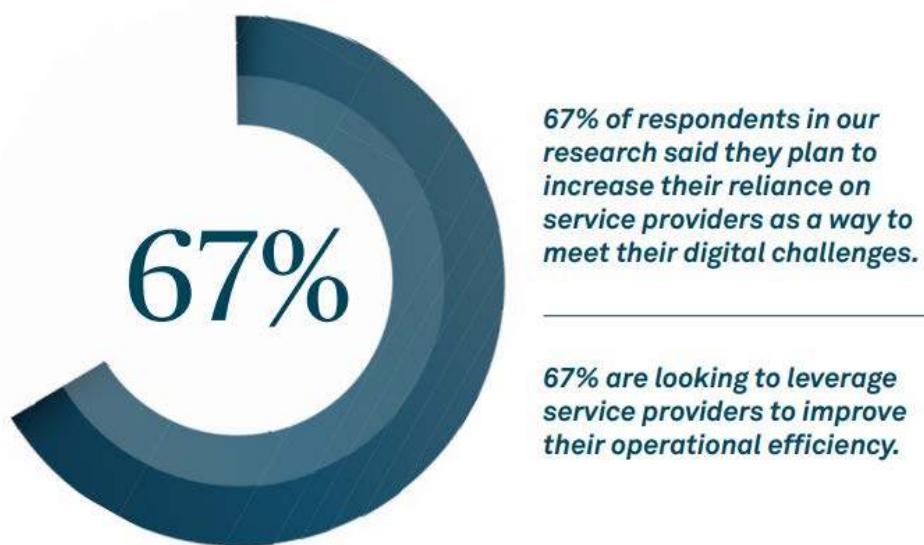


Figure.3

Source: <https://www.bnymellon.com/content/dam/bnymellon/documents/pdf/insights/asset-manager-transformation-is-already-here-overview.pdf.coredownload.pdf>

## Final Words

As we move through 2022 and beyond, asset management firms will be distinguished by their use of technology and their ability to turn data into relevant, timely, and actionable insights.

Those that succeed will be rewarded with client loyalty, profitability, and market dominance



# How Indium Software Can Help



At Indium Software, we understand that digital transformation is not just about moving data to the cloud and collecting data from different sources. It's about filtering, segmenting, and drawing out relevant insights from it to make business decisions.

Asset management companies are looking at AI tools that can distill only the relevant tabular and peripheral data needed for decision-making.  
Indium Software has a solid track record in helping investment firms use data to accelerate their digital technology transformations:



Indium can assess your AI readiness and build a roadmap for your AI-first journey through a consulting engagement.



We can then implement the roadmap once you've gained the approval of your key stakeholders



Building such an AI system requires assimilating data from various sources. Indium helps with building streamlined data lakes and warehouses.



Indium can assist you in migrating from a legacy tech stack to a modern cloud-based platform – putting you in a position to unlock the full potential of your data and AI investments.



## Client Success Story

### The Challenge

Our client's institutional investors need to constantly value and comprehensively track the array of stocks on their watchlist on an immediate basis. That was an impossibility without the proper crawling, automation, and analytics infrastructure.

The client needed an analytics development partner to create a solution that would take publicly available information about companies, analyze their past performance, and project their future growth potential.

### The Solution

Indium Software's solution gathered every piece of available public information (ranging from stock exchange releases, press releases, third-party investment sources, domain-specific sources, news sources, etc.) It analyzed companies' past performance across growth potential using highly sophisticated algorithms and advanced predictive analytics.

### Results

A disruptive technology solution for deeper insights into the performance of prospective companies.

### Key Highlights

- Automated collection of robust, diverse, and comprehensive data for each stock
- More than 98% accuracy in predicting the effect of releases on stock performance

*Read the full story [here](#) or get in touch to speak to one of our experts.*



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