

ICOOC Working Group Minutes –
Asset Management

Defining Innovation

Working Group 1: Friday, 11th March

Armstrong Wolfe Moderation and Facilitation



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Defining Innovation

Objective

- » The objective of the Innovation Working Group is to drive effective collaboration across the members of the International Asset Management COO Community to improve their ability to influence and manage the innovation agenda from within. This meeting of the Innovation Working Group started by debating the definition of innovation and the critical challenges to driving innovation internally.

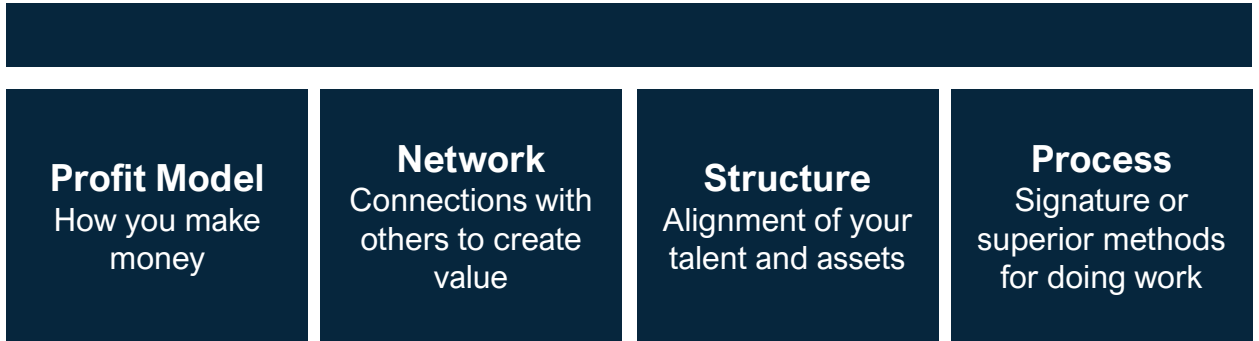
What is innovation?

- » Innovation is both the tactical (beta) and strategic (alpha) context, with some focused more on one than the other.
- » Doing things better than before is a form of innovation.
- » All the definitions of innovation have the words “new,” “better,” or “improvement.” So, innovation is anything new and better.
- » A marriage and integration of terminology around transformation and change.
- » Inventing a new approach to serving clients.
- » Targeting new business and revenues, improving efficiencies, and reducing business risk.
- » Creating value in business, clients and whether that’s new products or conventional improvements to products and services.
- » Do not differentiate between absolute and relative innovation.
- » Transformation and innovation are more traditionally and operationally focused.

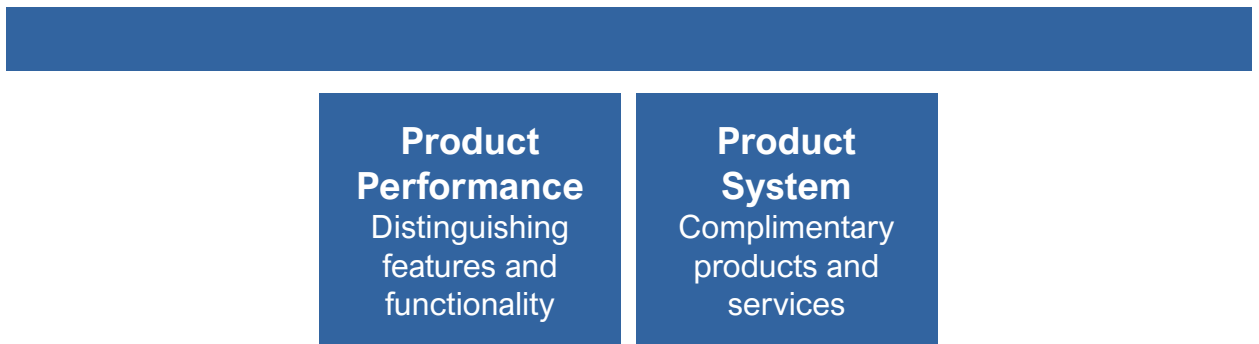
Innovation Framework

A common reference point for evaluating different approaches

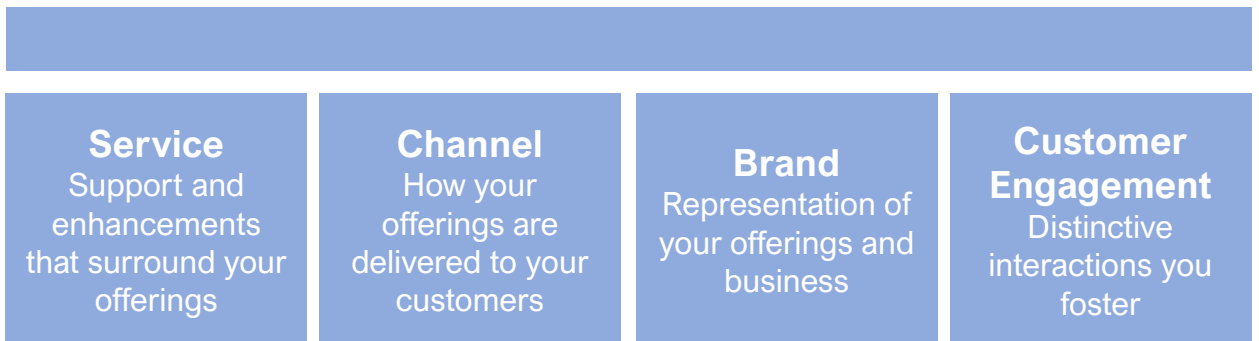
Configuration



Offering



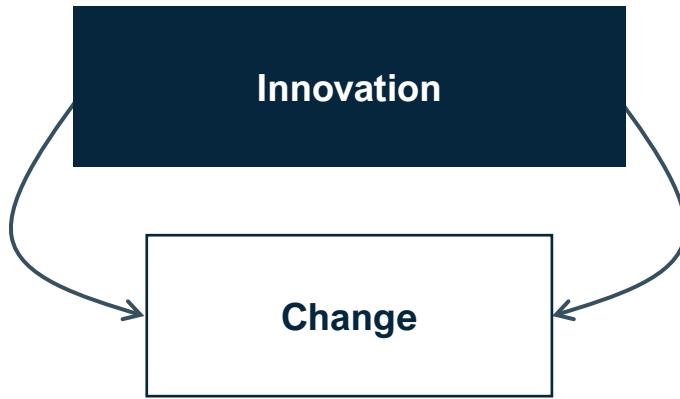
Experience



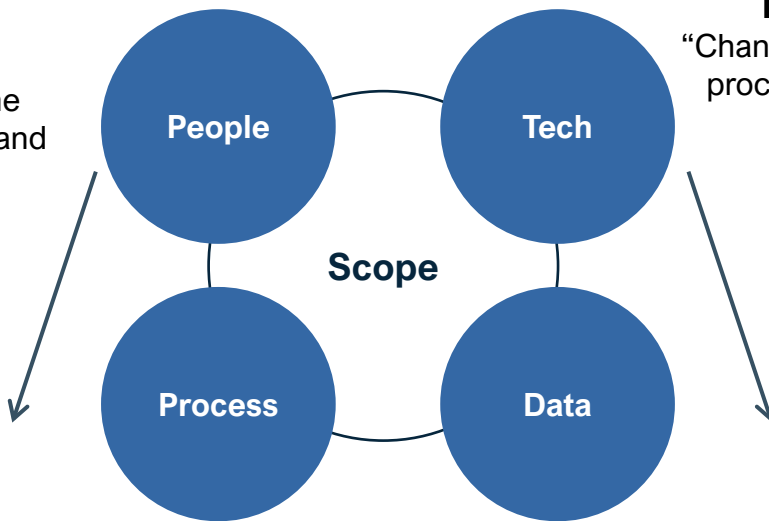
Innovation Framework

Applying Innovation to Asset Management

“Identifying and introducing new methods, processes, or capabilities to improve the business.”



Tactical
“Incremental improvements in the delivery of products and services.”

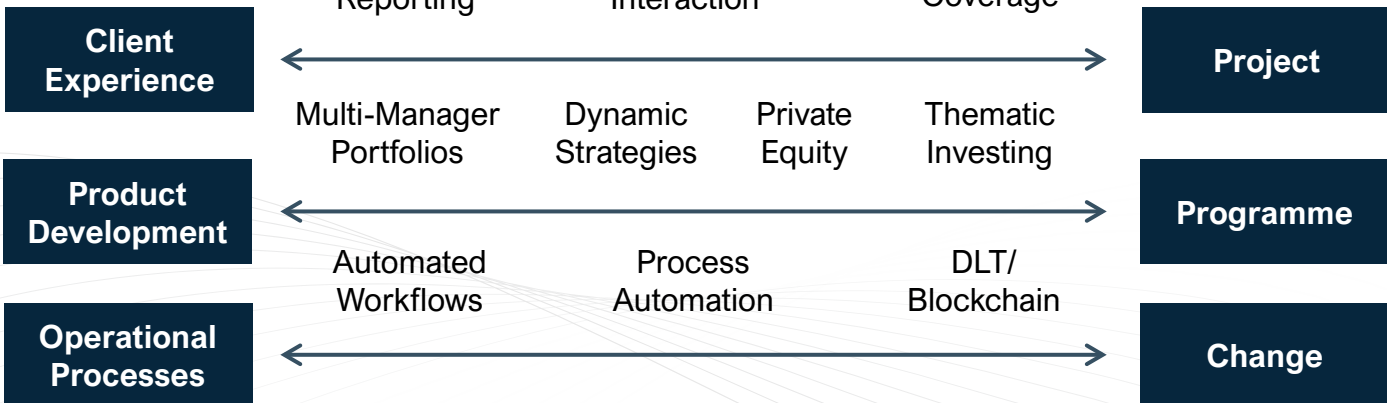


Transformation
“Changes that impact people, process, and technology.”

Strategic
“Fundamental shift in the way the organisation meets its core mission.”

Focus of Change

Management Tools



Challenges to Driving Innovation

Leadership Support

- » Senior leadership has a mantra, 'if it doesn't pay and it doesn't save, then it doesn't fly,' often severely limiting the time or budget to experiment or fail.

Culture

- » Teams are feeling left out of the conversation.
- » Businesses do not like a centralised team coming in and telling them how they should be running their operations.
- » Executing something innovative but struggling to define innovation.
- » Trying to fit innovation into existing cultures, existing budgets, or existing plans.

Organisational structure

- » Operations resources feeling left out in favour of technology resources.
- » Centralised innovation teams vs. distributed teams are a challenge; business rejects the centralised teams, but the distributed teams lack execution resources.
- » Prioritisation of resources goes to the BAU projects.
- » Innovation is often a side project for a lot of people, and we've all got full-time jobs to do.
- » Multiple models have been tried with no clear winner emerging.
- » Connecting strategy to execution.

Funding and Measuring Success

- » Businesses require a clear return from innovation efforts, which is not always possible as innovation is not always successful or provides a return on investment right away.
- » The need for quick wins to establish momentum and build confidence in the business.
- » There are smaller and smaller budgets for innovation opportunities.

Approaches to Innovation

Success stories

- » Successful innovation starts with a mindset shift towards experimentation, towards giving people a much longer runway to work with.
- » Take a step approach, step-change, or step innovation and do everything in baby steps; it will be easier to sell step innovation to have your team attempt to do something genuinely different.
- » Being comfortable with failure.
- » Create a culture of innovation.
- » Separate the strategy and the execution.
- » Align priorities and focus areas.
- » Standing up independent armies focus on innovation.
- » Give time to experiment.
- » Give small pockets of innovation.
- » Fix the foundation first to be receptive to innovation.
- » The ability to use your human capital to improve your human capital within the organisation.
- » Help people understand that innovation will lead to better job work, life balance, product, and service.

ICOOC Working Group Minutes –
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Challenges to Innovation

Working Group 2: Thursday, 5th May

Armstrong Wolfe Moderation and Facilitation



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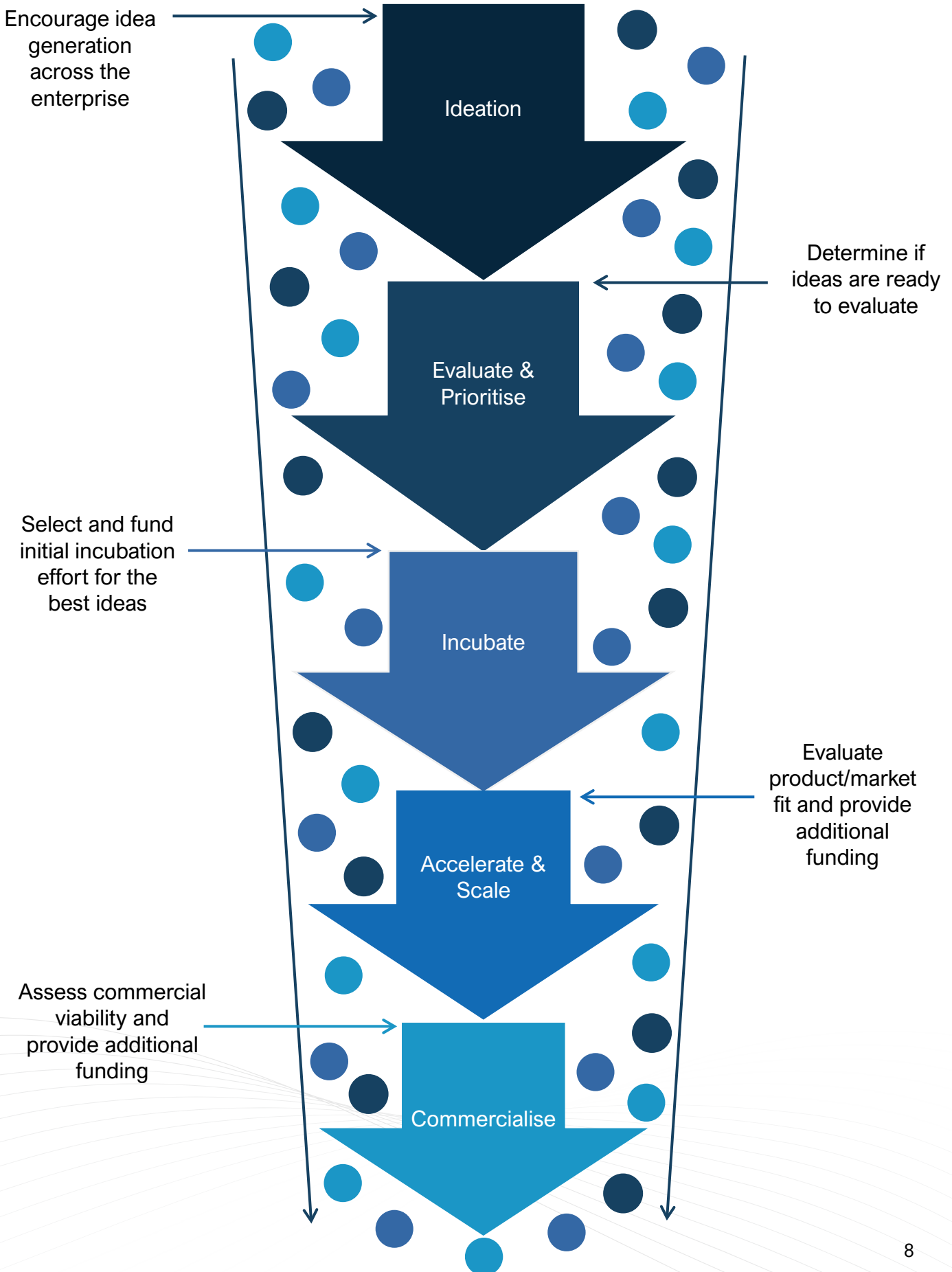


Matthew Kelly
SVP, Digital and Automation
Northern Trust Asset
Management



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Innovation Lifecycle



Challenges to Innovation

Objective

- » This session aimed to outline challenges to innovation, the leadership needed to drive it and the culture needed to foster innovation. The funding requirements and challenges institutions face, and the regulatory considerations were also discussed.
- » One of the most salient points that came out of the discussion was the fact there are several paths that lead to the same destination. The path that is chosen is dependent upon the strategic plan and culture of the organisation.

Challenges to Innovation

- » Organisational structure, talent, and culture.
- » Defining what success looks like.
- » Fear of failure and job loss / mandate change.
- » Determining how long an organisation holds onto an innovative endeavor before the programme is cut.
- » The need for patience in the innovation space and a willingness to wait on the return.
- » The entire ecosystem must shift because there is still a leaning towards how things used to be e.g., going from waterfall to agile.
- » In asset management there's a measure of complacency when it comes to innovation.
- » The amount of red tape to deploy projects makes people inherently risk averse.
- » The nexus between regulatory and culture are two things that must be worked out.

Overcoming Challenges to Innovation

Approaches to Overcoming Challenges to Innovation

- » The approach should look to change how we are going to market with client services, with customer satisfaction, and with reporting.
- » Having leaders (including the C-suite) who believe in the innovation journey long enough for the project to come to fruition.
- » Better tooling will increase speed to value and speed to market.
- » Innovation should be looked at as a task force, mission driven with a timeline versus a forever existing endeavor.
- » Does a timeline or a ROI kill creativity? As soon as you talk about governance or, ROI, creativity and innovation is killed.

Having an Innovative Culture

- » The conversation compared how PayPal approaches innovation, demonstrated by its high number of products that generate no revenue. PayPal encourages innovation, with a large percentage of products completed and put into production. Even though many of them do not get sufficient traction in the marketplace, PayPal still considers this a practical approach to driving innovation because their most successful products came out of the same process.
- » Many asset management organisations do have the ability to create new and innovative financial products, and often those products take time to catch on. New funds are focused on new assets or markets.
- » The move from waterfall-based project management methodologies to agile should make innovation more accessible, but many organisations are in the early stages.
- » Some approaches to innovation that form a separate organisation or team focused on innovation create a second-class citizen concept that negatively impacts parts of the organisation that must operate the legacy business.
- » The importance of leadership was also highlighted as a critical factor in setting the tone across the enterprise to the significance of innovation.
- » Bias was also identified as a potential cultural obstacle to driving innovation. Many leaders and managers have preconceived notions about getting something done that suppresses the teams trying to make a change.

Overcoming Challenges to Innovation

Hubs/Labs

- » Labs allow the members to progress an idea faster if they are freed from the burdens of other responsibilities and the constraints of operating within the institution's legacy processes and procedures. The lab concept's primary challenge is that deliverables are usually in POC or pilot form and require significant effort to scale.
- » An Innovation Hub is different from a lab in that it includes leadership and other operational roles that connect the hub to the broader organisation. The hub evaluates ideas and opportunities, prioritises those with the best chance of success, and provides funding and resources to drive execution.
- » There are many differing opinions as to whether an Innovation Hub should be part of the corporate strategy. Strong leadership also needs to be in place ensuring innovation is connected to the asset manager's vision and strategy for them to come to fruition.
 - » A lab with end-to-end responsibilities, including sales, marketing, and P&L ownership, was discussed.
 - » There is also the school of thought that treats innovation as a separate entity altogether.
 - » Move the hub into a silo where it is away from the cash cow, allowing the hub/lab to fail while it tries to innovate.
 - » Use a scalable model versus a silo model where it is a hub outside of the asset manager.
 - » Have a standalone PNL funded by the business but a standalone entity.
 - » If you keep innovation inside of your cash cow entity, the best you'll have is linear innovation.
 - » For outside of the box thinking you need a common platform.
 - » The most innovative thing right now is blockchain and distributed ledger.
 - » There is the question of who the innovation group reports to: the COO, the CEO, or another C-suite member?
 - » Having a separate hub can disconnect from strategy.
 - » Cross-functional teams for innovation.

Overcoming Challenges to Innovation

Regulations

» The financial services industry regulators are not keeping up with the pace of change, making it difficult for regulated institutions to drive innovation from the inside. The crypto/blockchain space is a perfect example where asset owners want their managers to provide crypto asset products, but the regulator has not provided sufficient guidance on the rules. The result is that many innovations are driven outside the industry by unregulated or less regulated VC-funded startups. The regulatory burden on public institutions was also discussed. In the regulatory environment the shareholder demand is missing.

Funding Innovation

» Many organisations manage their funding and accounting processes by separating BAU operating expenses from capital investment, making it challenging to fund innovative programmes. The run vs. change tracks creates an artificial delineation. Also, the financial return expectations are often unclear, and many innovative efforts produce non-financial results. This highlights the need to establish clear objectives and measures of success for an innovation programme before it commences.

» The group discussed how the venture capital industry approaches its investments, including making many small investments in new innovative ideas, understanding that many of them will fail. Still, a few will succeed essentially in producing an overall positive return. The other key aspect of the VC model is that they are very good at evaluating the progress of an idea and making the often-difficult decision to shut something. These concepts are challenging for large asset management institutions because they are uncomfortable with failure, so they are reluctant to fund and kill projects once started as they are both potential failure indicators.

» Some funded innovative solutions require agreement and collaboration to succeed. A blockchain solution for an asset class, like loans, requires asset managers, banks, depositories, market data providers, and clearing companies to all agree on the approach to applying the new technology to the asset class, complicating the implementation effort.

Conclusion

» The working group generally agreed that innovation requires a set of conditions that allow it to grow and prosper. Ideas need to be generated, prioritised, funded, nurtured to a certain point, and eventually connected back to the enterprise to scale and deliver benefits. There are multiple approaches to creating these conditions, and the selection process is driven by the scope and complexity of the change. Large innovative programmes require more professional constructs, while incremental change can often be accomplished.



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