

# An investigation into technological market competition

Asset Management  
Technology Perspectives



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*“Competition is the most promising means to achieve and secure prosperity. It alone enables people in their role of consumer to gain from economic progress. It ensures that all advantages which result from higher productivity may eventually be enjoyed.”*

**Ludwig Erhard**

It is understood that lack of choice can stifle innovation and negatively impact pricing. To counter monopolies and/or oligopolies, cost for a single company market entry is a significant barrier to exploration, investment, and access. This builds the case for multi-company, cross-sector collaborative approaches within a product development cycle. Many argue this would deliver the challenge in creating competition, that is needed to drive innovation, deliver enhanced product services, and manage monopoly fee inflation.

## Example case studies:

» Bloomberg

## Debate schedule:

**July to October 2022:** advanced thoughts gathered and presented anonymously

**October 2022:** COO roundtable dinners in London (19th October) and New York (27th October)

## Setting the debate

**Background:** Many Asset Managers lack the capital or technological know-how to self-build solutions to support business needs and have opted for 3rd party solutions to meet this requirement, securing best-in-breed in doing so.

## COVID creates impetus

The pandemic has accelerated the move to digital, artificial intelligence, cloud, and mobile applications.

## Industry requirements

In a dynamic, worldwide open economy, the asset management sector can justifiably expect new solutions to be presented for consideration, based on open source and cloud technologies, giving greater choice and flexibility. In this context, the post COVID has provided a new dawn of opportunity for technology vendors to provide such optionality.

This optionality gives the industry the ability to choose specific services or to be able to pick a suite of products that best fits their business requirements, and from an evolutionary perspective to be working with a service company that also provides the software.

Technology companies, such as Microsoft, are putting forward a strong case that the days of in-house coding and development are largely over; stressing that the innovation, the ah-ha moment is to be born from within, through business analysis, then defaulting to a Microsoft for its development.

This creates options for new product development and market entry through such collaborations.

## Objectives

- » What opportunities does this new dawn provide or the industry?
- » How can such opportunities be exploited?

## The following are responses and contributions gathered from the Asset Management COO community

**Respondent one informed us:** “Our selection process (when choosing principal platforms or solutions) was akin to the market position of IBM of the 1980s; no one got fired for choosing IBM. You seek best-of-breed, you look at precedent and industry feedback, this frames your decision. My view, however, we can’t all end up using one platform as this will stifle innovation and competition.”

**Respondent two added:** “Covid did promote an industry flight to best of breed, whatever the solution, offering security at a time of need, where decisions to do so did not necessarily fully evaluate concentration risk. There is a second driver, the primary industry-level reasons being two-fold:

1. Continued fee pressure is creating a need to scale the business with no negative margins impact; scale should allow one to compete on fees without destroying the business – this makes the need for a scalable platform for product and risk management more acute.
2. Need a scalable foundation on which to innovate – new product launches, new technologies improving existing strategies, delivering services beyond “the standard”, all require a solid foundation.

Covid accelerated the need for digital client engagement and a strong internal platform is the foundation for a strong digital offering, but in my view that’s secondary.

**Respondent three replied:** “We should seek to discuss target operating models and total cost of ownership of one’s technological set-up, this will add flesh to the context.

### Risks and costs are going up:

- a. Cyber risk and operational resilience require continuous investments
- b. Key people risks will go up in an industry that is struggling to attract talent
- c. Regulatory requirements and ESG also call for the same steep investments from all asset managers (data integration, reporting, etc.)
- d. (Maybe above all) being stuck in a “rigid” or limiting architecture will hinder your ability to innovate and adapt in the future...

Ideally on top of technology, industry participants could expect more of a one-stop shop, offering services: data management, trading, middle-office, and reporting - to offer a full front-to-back offering, perhaps through a partnership with other parties/asset servicing companies.

Supposition 1: There is only one version of the code for all clients, so everyone benefits from the innovation and progress of the platform and most importantly to also contribute to functional evolutions. Everything offered is modular so people can choose what they are interested in, in terms of additional modules and services but do not have to.

The provider would be able to plug to any system the client wants to keep if they need to maintain their “secret sauce”, thus creating a strong advantage to each engaged party.

### Which leads to:

You should build architectures and TOMs by making choices about what you want to outsource and improve costs on without giving away your freedom and your ability to innovate and to evolve.



## In this context, the narrative so far has been:

- a. you are either stuck in a black box which is not cheap (you pay for what you get in a de facto monopolised market space)
- b. or you must carry the full load of maintaining software and carrying all the constraints on your shoulders.

**Supposition 2:** We are trying to define a way in the middle via open architecture, collaboration, creating a mindset of continuous innovation.”

**Respondent four added:** “Nobody can be everything to everyone and via partnerships some are convinced there exists a path to provide stronger solutions to clients and make businesses progress faster. This approach has not been often taken on the buy side as far as I know and could probably go much further.”

**Respondent five replied:** “I don’t disagree with what is written, but perhaps recognising the “risk and costs”, it would be a good idea to understand what asset manager needs out of a platform.

1. Do people feel there is any competitive advantage to be had in operations except perhaps lower costs and lower risk? The value add of active managers is in the research and stock selection. In fixed income & quant, analytics and risk might be a source of competitive advantage, but you still need a generic platform to check these. Passive managers only competitive advantage is in scale and low costs, hence their interest in owning their own platform.
2. With a generic platform, managers are effectively outsourcing much of that to a platform of their choice with more and more of the operations work outsourced e.g., outsourced trading as well as outsourced middle-office, you can even outsource model portfolio management. That allows them to focus on stock selection (and distribution).

Are these platforms an enabler of outsourcing or an impediment? In that you have already paid for the platform so you might as well do the work and not outsource. Typically, they are an impediment in my experience. The ability to buy only selected modules of a platform would be an enabler of outsourcing.

3. Modular platforms with good interfaces (APIs) also enables firms to add value by adding additional functionality but this only matters if it is a competitive advantage or cost reducing. Why are monopolies bad? There might be pressure on costs, but platform charge is a small component of cost (<1bp out of 35-45bps average revenue), compared to staff costs this is insignificant. You might say groupthink on risk management and systemic risk are a regulatory argument. So, it’s good for the industry to have multiple platforms. For many asset managers this a moot issue and all they care about is distribution and managing money, if operations don’t mess up, and if you can lower their costs/risk that great, but it’s very hard to move the dial on this.”

If you would like to contribute to this debate and/or are at managing director level within asset management and a COO, head of innovation, transformation, or technology, and would like to attend one of the dinners, please contact **Hollie Wakefield** ([h.wakefield@armstrongwolfe.com](mailto:h.wakefield@armstrongwolfe.com)).

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