Tech investments forced by lockdown are good, but should have been made sooner

At the height of the dotcom boom two decades ago, investors were ecstatic about the possibilities of the internet. However, while investors were pouring billions into companies looking to capitalise on this cutting-edge technology, the asset management community itself failed to invest in tech for its own purposes.

As the industry opted to prioritise executive salaries rather than investing in new technologies, savers ultimately missed out on money-saving efficiencies and were forced to cope with antiquated methods of communication and security.

With technology currently under the spotlight, as large swathes of the population work remotely, there is an opportunity for wealth and asset managers to emerge stronger post-crisis. Widespread lockdown measures are finally forcing companies to invest in basic technology – namely increasing network capacity, enhancing cybersecurity protections and improving channels of communication. These investments should eventually result in valuable cost savings for investors.

The long road to change

There was very little utilisation of internet technology in B2B financial services before the 2008 financial crisis. While hundreds of online marketplaces emerged in the internet craze, from property bazaars to chemical exchanges, the idea of SaaS, cloud technology and web-based B2B sales and marketing were still in their infancy. Meanwhile, Salesforce was a relatively small company and cybersecurity had yet to become a segment in its own right.

It took until 2012 for the financial services space to truly undertake efforts to integrate internet technology into business models.

Today, digital transformation is no longer a vanity exercise for wealth and asset managers – it is key for survival. The need to cut costs, drive up AUM and adhere to regulatory change has driven the industry into the arms of technology providers.

Omnichannel solutions offer the opportunity to consolidate myriad on-premises software and siloed business processes into a single platform. Asset and wealth management is now being completely transformed through digital paradigms such as Kurtosys, where a combination of technologies leveraging the cloud and interface creation can all be done through a highly efficient SaaS model.

However, adoption remains slow. Now, due to lockdown measures requiring most in the industry to work from home, companies still lagging in the adoption of tech solutions are finally being forced to upgrade capabilities.

The tech imperative

As the investment industry strives to catch up on tech, it is the savers who still suffer. Notably, investment fees, which are approximately 20-30 basis points for buying a fund, could be lowered to 2 basis points through tech efficiencies. Compounded over 20 years, this can represent a substantial difference in pension outcome and can have a drastic impact on someone’s retirement.

The chart below illustrates the compounding effect of fees on a retirement pot over 25 years. Series 1 estimates an annual return of 3%, with Series 2 representing 2% fees and Series 3, fees of 1%, achieved after the implementation of a digital strategy. The difference between Series 2 and Series 3 can be substantial in the case of lifetime savings.

We are waiting for the last remnants of this bloated industry, characterised by inflated individual compensation and lofty corporate margins, to come to its natural end. The coronavirus crisis may provide the necessary impetus to finally put an end to the underinvestment in technology and change the lives of millions of savers.

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