

White Paper

The accelerating power of technology:
lessons for the future of fund distribution
in Australia and New Zealand

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Introduction – technology is disrupting financial services

The financial services industry is undergoing significant technological change, and the fund management industry will not be excluded from this, especially with the rise of new technologies such as blockchain and robo-advice. Fund managers, distributors, registries and platforms will all need to evolve in order to adjust to these changes and potential disruption.

The rate at which technology is developing and changing is unheard of in the modern era. Fund managers, distributors, registries and platforms need to ensure they stay ahead of the curve in exploring new concepts, trends and ideas. This requires firms to identify the opportunities that disruptive technology may bring, which could force some to adopt a completely different rhetoric and way of thinking about the commercial landscape.

Predicting change is not an easy thing to do, and even the best modern technology is not (yet) capable of enabling us to see into the future. What businesses can do, however, is put in place the structure, people and partners required to help them gain an appropriate understanding of technology. Only with this knowledge will firms appreciate how ‘tech’ can be leveraged to meet and drive future market demands, rather than being deployed to maintain the status quo. It is not just a case of seeing new technology as a means by which existing processes can be modernised, but as a tool to reinvent those processes altogether.

Understanding the changes that will come, such as altered buying patterns among clients and disruptive technology usages, and the possible implications of these evolutions is key for the funds industry to thrive. Once firms fully appreciate the impact disruptive technology will have, they will be able to build an effective strategy around it.

In this paper, we analyse whether these market participants have sufficient technological understanding to deal with the changes that will come, and look at how these firms can learn from other industries about embracing technological disruption.

As one indicator of whether companies are taking steps towards embracing new technology, Calastone has undertaken its own proprietary research to understand trends in the construction of boards and executive leadership teams of firms listed on the Australian Securities Exchange (ASX) and the New Zealand Exchange (NZX), to understand representation of career technologists.

Distribution is likely to evolve, and the upsurge in online platforms must be considered by fund managers in particular, if they are to grow their businesses across generational divides and barriers. Competition can come

from other non-traditional providers too. A State Street study, *“Opportunities for Optimism: A New Vision for Value in Asset Management”*, said 79% of asset management executives believed they would face competition from a non-traditional market entrant. Technology providers including Google, Apple and Alibaba topped the list as the biggest threats to fund managers’ businesses, added the State Street research.

Many firms are already known to be exploring new tech, including blockchain, to understand how it can be leveraged to create efficiency, although it may be too early today to be actively building the infrastructure around it.

The role of technology disruption in business

The industries that have successfully navigated huge disruption in the last 15 years are the ones that recognised change was coming, and evolved with it. As an example, the music industry and (some) high-street retailers recognised buying trends were changing among consumers. Music streaming sites overwhelmed CD sales while shoppers preferred to make purchases online from the comfort of their living room at the expense of high street shops. The sectors that broadly flourished or retained market share have adapted by allowing consumers to purchase their products online or through apps, and most importantly in the way that each consumer segment wanted to transact.

Technology is going to change the funds industry. It is critical that market participants are receptive to technological trends, and understand the implications that technology will have on their business and strategy. Those organisations that adopt this mantra are most likely to remain relevant.

‘IT’ or ‘Technology’ must no longer be viewed as a service function within businesses, but instead as a strategic resource. Firms must understand and leverage technology at the most strategic level, and it is critical that businesses equip themselves with the right mix of skills and experience in their leadership teams. Traditionally boards and leadership teams were dominated by lawyers, accountants and, more recently, management consultants. Given the importance of technology today, the professional technologist too has an important role to play at an executive level.

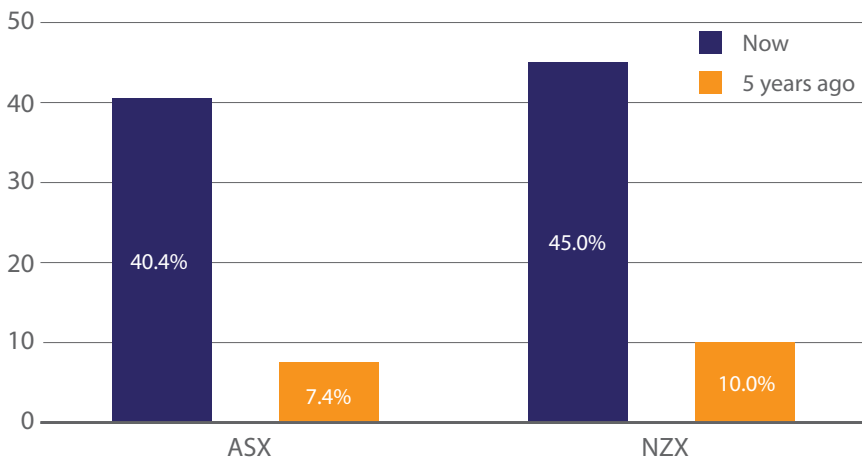
“ The successful innovators in finance will be the individuals who create a product which genuinely impacts peoples’ lives. Individuals who talk about innovation in terms of product pricing on day one will be the ones who perhaps struggle. The core reason for setting up a business should be to make a difference in or improve peoples’ lives. Airbnb started because the founders were frustrated with high rents and expensive hotel rooms in major cities. It challenged convention, and it is now a huge success. Fund managers and financial services have to think like those technologists, ”

said **Steven Seow**, head of wealth management in Asia at Mercer.

Australia and New Zealand show progress in number of technologists at leadership level

Calastone's research into the composition of executive leadership teams of 94 listed corporates on the ASX index and 20 listed corporates on the NZX index¹ found there had been an increase in the number of technologists in senior leadership positions. Data from the ASX shows 40.4% of the companies on the exchange have a technologist in a leadership position compared to 7.4% in 2011. Figures from the NZX sample of companies indicate growth as well, with 45% of companies having a technologist in a leadership position, compared to 10% in 2011.

Fig 1. Percentage of companies with technologists in executive level leadership positions



While growth is welcome, these findings may not be as significant as they appear. There are a total of 38 companies with technologists in leadership roles on the ASX, up from seven in 2011. Meanwhile, there are nine companies with technologists in leadership roles on the NZX, compared to just two in 2011. Admittedly, Australia has respectable representation, but it is clear that more work needs to be done to fill leadership roles with greater numbers of technologists so that they can remain competitive.

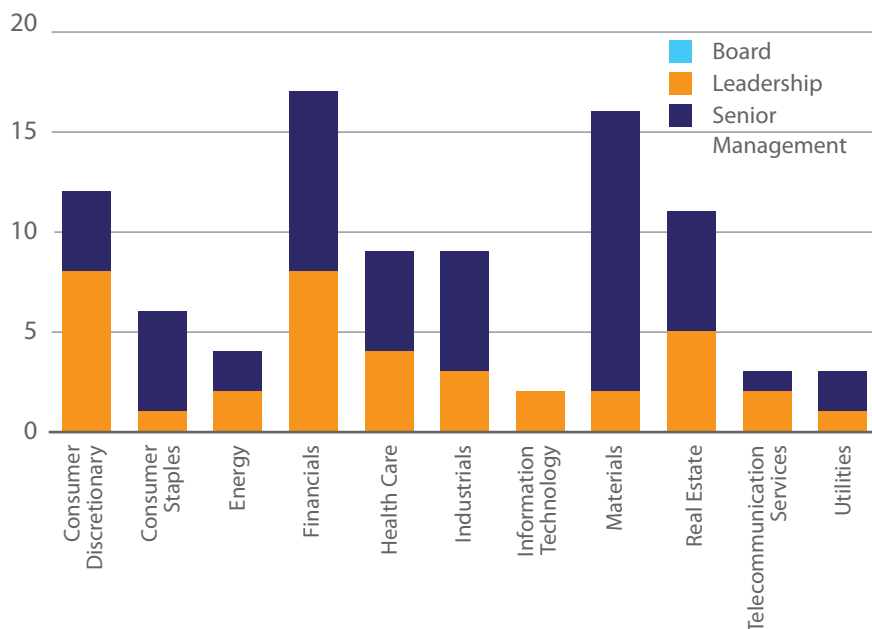
Commenting on the research, **Campbell Brierley**, Chief Technology Officer, Calastone said

“ We predict that the growing trend of further technologist representation in leadership roles will continue, but it is critical firms keep cementing their understanding of technology at a company-wide cultural level, and bring technological experience and skills into leadership teams. A strong comprehension of technology and its implications will be a business critical strategic tool, and help firms ensure their competitiveness. ”

¹ See the end of the paper for an explanation behind methodology and calculations.

Australia

Fig. 2: Number of technologists by sector in ASX*



In terms of individual sectors, financials and consumer discretionary perform strongly, both with eight individuals who have technology backgrounds in leadership. Australia – like its counterparts in Hong Kong and Singapore – is trying to encourage innovative technologies in financial services. The Australian Securities and Investments Commission (ASIC), the financial services regulator, has announced plans to allow financial technology businesses to test products and services prior to obtaining an Australian Financial Services (AFS) license or Australian Credit License.

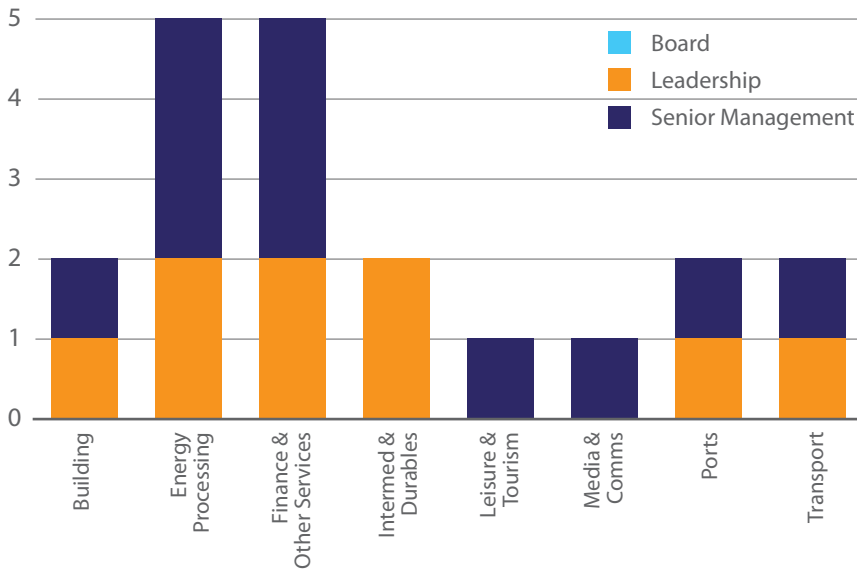
Furthermore, ASIC and the Monetary Authority of Singapore (MAS) have signed an Innovation Functions Co-operation Agreement. This is designed to help speed up regulatory authorisations for financial technology companies from both countries in each's respective jurisdiction. Examples of innovation in the Australian market include the ASX decision to work with Digital Asset Holding to develop distributed ledger technology solutions in the clearing and settlement cycles in its cash equities market. This could encourage other exchanges globally to consider similar distributed ledger technology solutions.

Despite this, Calastone's data shows that businesses within the ASX still need greater focus on improving technologist representation in leadership functionalities. It is essential for all industries on the ASX if they are to proactively deal with technological changes. This is also critical for Australia if it is to retain its competitiveness in the region.

* See appendix for definitions of senior leadership positions

New Zealand

Fig. 3: Number of technologists by sector in NZX*



In terms of sector-by-sector analysis, all industries on the NZX barring Media and Communications and Leisure and Tourism have at least one technologist in a leadership role. The sectors with the most technologists in leadership (2) are Finance and Other Services; Energy Processing; and Intermed and Durables.

The NZX is one of the smaller exchanges, but it faces similar challenges to other markets. Many industries in New Zealand, especially Media and Communications, and Leisure and Tourism are facing challenges from disruptors. Media is currently under threat from online challengers, while Leisure and Tourism in many countries has been redefined through price comparison and booking websites. These corporates need to elevate technologists to senior roles, and adopt a changed mindset to technology if they are to compete with these start-ups.

UK takes lead in technologist representation in the boardroom

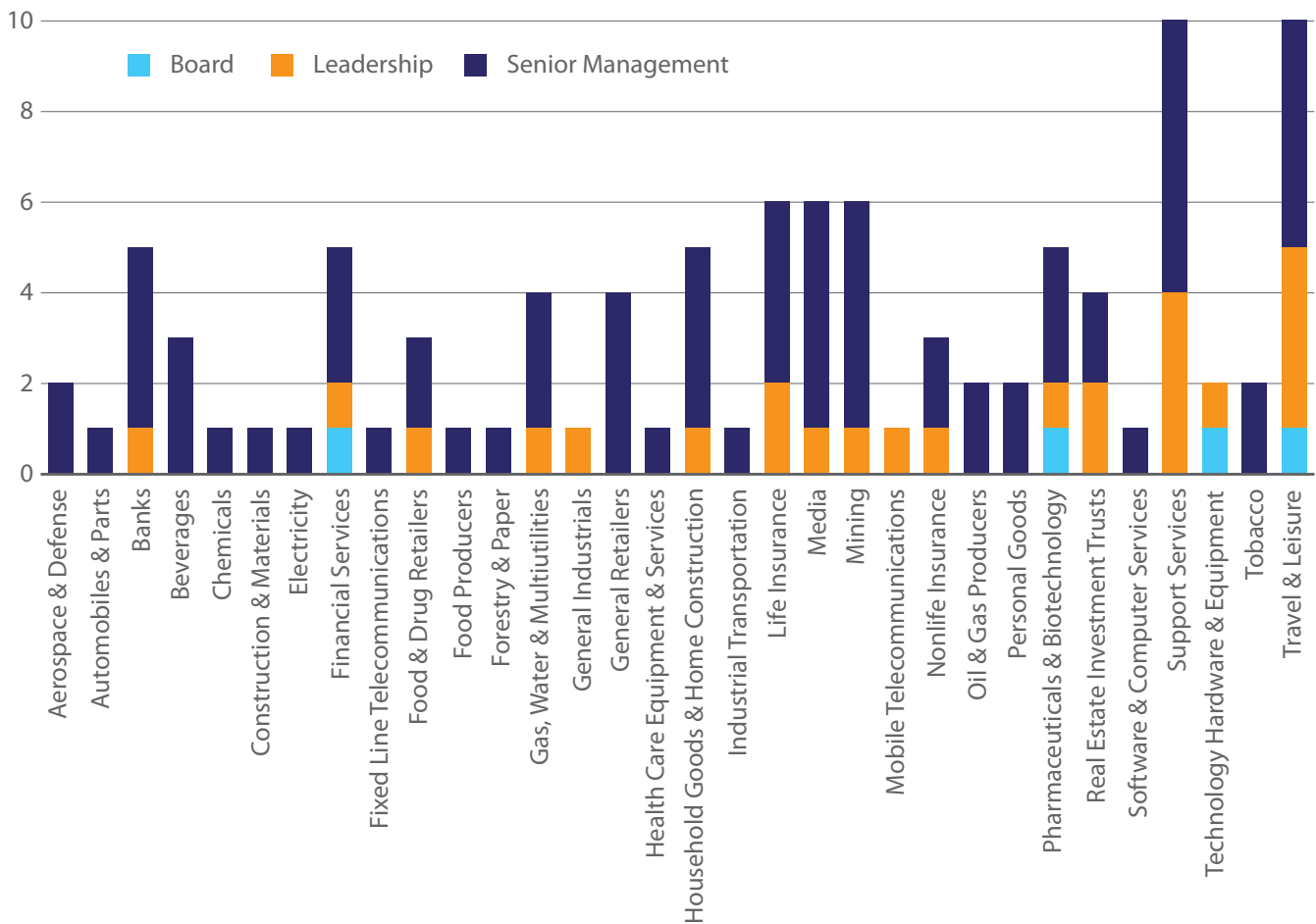
One consistency between both the Australia and New Zealand markets was that no companies analysed have any technologist representation in the boardroom. A previous study by Calastone, that similarly analysed the FTSE100 index, showed that the UK has made greater progress, with 4% of companies now having a technologist at board level. Hargreaves Lansdown, for example, is one of the only financial services businesses in the FTSE100 that has a technologist in the boardroom, and this could explain why they are further ahead than most in regards to technological development.

* See appendix for definitions of senior leadership positions

A supportive and progressive regulatory environment combined with having technologists in senior positions has allowed some UK-based financial services firms, such as Hargreaves Lansdown, to remain competitive because of their investment in digital technology. The firm recently made plans to set up a technology hub in mid-2017, allowing them to expand their development capability, further increasing their ability to improve their services.

Australia and New Zealand are comparatively lagging behind the UK, and it is clear that further opportunity remains to improve the population of technologists in corporate leadership positions across both regions to ensure companies remain competitive.

Fig. 4: Number of technologists by sector in FTSE 100



An absence of technologists in leadership positions may put firms at a disadvantage, as the strategic direction of the company could lack the appropriate vision or long-term view to deal with changing markets and behaviours. Having technologist representation at a senior level has a significant impact on giving firms the ability to cope with change, both within the business itself and among consumers, and build success off the back of it.

For fund managers and fund distributors, this is becoming increasingly important. The funds industry is currently going through tremendous technological change. This is not only driven by changing consumer requirements and the increasing power of technology, but also by tightening regulation and lowering revenues.

How can the funds industry react to this change?

The successful fund managers of the future will be the ones with forward thinking CEOs, who recognise that change is happening in the technology landscape. These CEOs will have the support of boards who possess technology backgrounds.

“ Banks – particularly in their retail units – do deploy technology intelligently. Investment banks like Goldman Sachs are also making major changes and increasing their technology spend. Asset managers are more varied. A handful of major asset managers will engage in significant technology investment in-house, whereas the small to mid-sized (SME) firms will typically outsource. SME asset managers simply do not have the resources to retain the cost of internal technology hires and systems. There does appear to be a technology skills shortage among asset managers and the industry as a whole when it comes to more nascent technologies, ”

said **Virginie O’Shea**, research director at Aite Group.

One senior executive at a leading institutional money manager agreed.

“ The large asset managers will have whole departments or multiple departments dedicated to technology or technological innovation and fin-tech incubation. Furthermore, many of these large asset managers will have technologists embedded across numerous business lines. Senior executives and maybe board directors at these major outfits will have technology backgrounds. The opposite is true at SME asset managers. I have yet to see a small asset manager with a board director who is a technology specialist. At present, most board directors are drawn from custodians, administrators, law firms or perhaps individuals with portfolio management or risk management expertise but no technologists. These small fund managers also do not have the budgets to implement huge technology spends. ”

The funds industry in these jurisdictions needs to acknowledge that cultural and technological change is in train, and their organisations need to identify how they can meet these challenges. One way is to identify where they have limited expertise or skills, particularly in areas related to technology.

The funds industry is generally forward thinking, and it is important it starts addressing issues like a lack of technological enterprise or experience at the board or senior management level. Solving this issue will bring about diversity of experience, which can enable firms to more easily solve challenges, but also realise opportunities. This will help them navigate the technological changes that will impact their industry and the evolving distribution trends.

Some leading firms in the funds industry are bolstering their technology hires, and many firms are mindful that the chief technology officer (CTO) role has expanded, with CTOs starting to play an integral role in business strategy and development.

Proactive and thoughtful engagement by the funds industry with regulators is essential. The regulatory regime in Australia –in particular - is placing enormous significance on technological innovation. Having competent technologists at fund managers, distributors, platforms and registries leading these conversations is important.



Conclusion

- While industries listed on the NZX and ASX are hiring more technologists to leadership roles, it is evident that this needs to be accelerated if these firms are to weather change effectively.
- The funds industry should look to sectors which have made more significant (albeit not enough) inroads into the technology space, and learn from them. Retail banks have made enormous strides through digitisation of customer-facing functionalities, which has dramatically enhanced the client experience.
- The funds industry must incorporate technological innovation into their businesses – either by implementing cultural change within their companies, reinforcing the importance of technology in their strategies, liaising extensively with technology friendly regulators or promoting technologists to leadership roles. This will help them compete in the long-term with potential disruptors and support an evolving client base in this period of extraordinary technological change.

Appendix

A Brief Note on Methodology

Calastone analysed the board, leadership and management composition of companies listed on the ASX 100 and NSX 20 exchanges as at January 2017. Calastone analysed published company data in the form of Annual Report and Accounts, corporate websites and other public information sources to compile this research. A small number of organisations were excluded from this study, where company data was not published/publicly available or the organisation followed a non-traditional business structure, e.g. investment trust or similar.

Definitions

Board: Those who are on the official board of the company

Leadership: Those who are part of the executive leadership team

Senior Management: Those who we found on our research with senior job titles, and were not part of the published executive leadership team or board

About Calastone

Calastone is a financial technology company. Our mission is to make markets friction-free by connecting trading partners through our global fund transaction network. With connectivity across 34 countries and territories, more than 1,200 customers are now processing domestic and cross border transactions via Calastone, benefiting from the cost and risk reduction opportunities transaction automation can offer.

Our purpose is to use smart technology solutions and industry collaboration to enable global distribution, reduce operational risk and enhance client profitability. Calastone has offices in London, Luxembourg, Hong Kong and Sydney.

In order to represent the best interests of the industry, Calastone is actively involved with the following organisations; TISA (Tax Incentives Savings Association), TEX (TISA Exchange), WMA, ALFI, SMPG, FPG, FSC, HKIFA, IMAS, ACSA and Irish Funds.

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