

Future of Operations: Changing the Nature of Work



EXECUTIVE SUMMARY

Workplaces in the financial services industry were already in the midst of a dramatic transformation when COVID-19 introduced an unprecedented degree of disruption. Financial firms faced the challenge of radically overhauling how they did business almost overnight. After adjusting to having their workforces connecting from remote locations, companies throughout the industry have been working with employees to address an array of new challenges. As managers have worked to get a handle on the uncertainties of the present, they are also casting an eye on how their teams can use data and new technologies to innovate for the future.

OVERVIEW

The workplace has changed dramatically in recent years. Improving technologies, bottom-line imperatives and an unexpected public health crisis have forced managers to adapt rapidly to change, some of which they were able to plan for and some of which no one saw coming. In this white paper, Broadridge and SIFMA's Asset Management Group (SIFMA AMG) will examine the impact of these changes and more.

This white paper is the third installment in our Future of Operations white paper series. The first paper titled "Simplify, Innovate, Transform"¹ discussed the drivers for change and the vision to streamline requirements, eliminate steps and embrace innovation and innovative technologies to create genuine transformation. The second white paper, titled "Finding a Home for Fintech"², focused on harnessing the power of new technologies to transform operations, reduce human workload, increase efficiency and lower cost.

Well before the spread of COVID-19, competitive pressures, changing investor attitudes and an evolving workforce were coming together to reshape the way the industry operates. As technology has improved the ability of asset managers to understand and reach out to their clients, it's also created opportunities to speed up, simplify and transform operations.

This means that a broader range of workers have been expected to take a creative, hands-on approach to develop new skill sets, thereby creating efficiencies and solving for challenges in the middle- and back-office environments.

With the COVID-19 pandemic, managers who were preparing to, or already working toward, realigning their operations have now been hit with the biggest business continuity challenge of their lifetimes. Firms that had been reluctant to allow employees to work from home have been suddenly forced to migrate most of their operations to widely distributed remote locations. And as they deal with that difficulty, they are also facing the challenge of processing record volumes of trades, rapid flows of money and addressing novel client problems arising from the economic fallout of the pandemic.

As a public health crisis increased the urgency of their decisions, firms committed to expedite their adoption of fintech. Opting to push forward with projects to automate and streamline more of their operations was crucial to the industry's success in navigating an unprecedented and unforeseen series of problems, as was their workers' ability to rise to the challenge with ingenuity and resourcefulness.

¹[Link to Simplify, Innovate, Transform](#)

²[Link to Finding a Home for Fintech](#)

LEADING THROUGH CHANGE

Though evolution can happen fast in the securities industry, many feel that it can take longer to effect change in operations. Whether managers are driven by opportunity, such as the adoption of new technology, or by necessity, as with new regulations, it's their job to steer into the turbulence in order to lead through it. One idea that managers consistently cite as key to successfully implementing change is to provide people with clear goals and expectations, and a road map for achievement. It's also equally important to be open about the challenges of the moment that make change necessary.

The past two decades have been full of unexpected and extraordinary events that have tested the capacity and the preparation of leaders in the world of business, including the terror attacks of Sept. 11, 2001, the 2008 Financial Crisis and this year's pandemic and sudden recession. "I've learned to expect disruptions," says Jessica Zhang, senior vice president of investment operations at PIMCO. An important part of leadership is recognizing "our job is to solve problems, whatever that problem is," even when it's something that couldn't be prepared for, she says.

The resiliency in financial market performance, as well as the recent rebound in risk assets after the sudden downturn earlier in the year, has masked changes roiling beneath the surface. While most asset managers have notched solid, steady gains, their firms are wrestling with how to respond to changing customer preferences. One is the long-term shift of investors from higher-fee actively managed funds to lower-fee passive investment vehicles, such as index funds. The growth of indexing has put pressure on companies to reduce costs in their middle- and back-office operations. That's led many companies to consider outsourcing those operations, or to increase the amount of work they contract to such firms.

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- Jessica Zhang, Senior Vice President of Investment Operations, PIMCO



The asset management industry is "in a situation where we face declining fees, operating cost pressures and certain areas of our operational expenses going up consistently," says Kevin Brennan, head of investment operations at Western Asset Management. "You have to be constantly focused on this to figure out how to optimize the operating model, to adapt to change and position yourself for growth."

Collaboration and establishing common goals can bring an organization together. It's important "as leaders that we're empowering our teams," says Jesse Robinson, Managing Director of Investment Operations at State Street Global Advisors. By sharing the overall goals and explaining the benefits, "we can get that buy in that there's this mutual benefit for everybody involved. It's not about leadership driving the change, but really feeling that sense of purpose with the team in what we're trying to accomplish."

"Because our industry is constantly evolving and moving so quickly... a lot of our focus, from a leadership perspective, needs to be about change management," says Patrick Townzen, director of operations at DoubleLine. "The pace of change in our industry, whether it's new types of accounts, new investments, new products" requires people to constantly evolve their capabilities, he says.

MANAGING UNDER PRESSURE

At the start of the year, when the economy was robust with stock indexes at record highs and bond yields near record lows, it would have been difficult to imagine the volatility that lay in store for financial markets. Practically with the flip of a switch managers had to uproot and decentralize their operations as the health concerns around COVID-19 forced employees to work from home.

The crisis tested the mettle and ingenuity of managers who suddenly had to dust off and quickly update business continuity plans, many of which didn't contemplate a disruption quite so universal. Regulators and market leaders around the world discussed whether financial markets might need to close for the public health risks to abate.

"Who should be prepared for "Black Swan" events, the government, or the business, or both? Or should we just use our intuition to manage through it, leveraging what we can from the planning" Zhang asks. "You can't really plan everything to a tee when you don't know the degree of the variables. And sometimes decisions are being made for you."

Market professionals managed to keep financial markets open and humming, and asset managers kept their phones and systems online. With investment firms open for business, market volatility and trading volumes soared³, adding another degree of difficulty to maintaining operations. Strong organizational leadership was crucial to keeping markets open and liquidity flowing. "One of the best things leaders can do in periods of high volatility and change is increased communication," says Dr. Edward Barrows, managing director at Duke Corporate Education. "That's what I found from my clients broadly, is that organizations are doing a much better job from the very senior levels [when they are] communicating what is known and what is unknown. And being frank with people."

The need to rapidly adopt strategies to allow key functions to migrate as the vast majority of people began working from home forced managers to reach out to their staffs and keep in close touch. "There was a need to over-communicate," says Brennan. Managers needed to make sure everyone was plugged in, understood the imperatives of the moment and ensure people knew how to support each other.



Some firms used the crisis to their advantage, making changes to automate or digitize processes that people had resisted in the past. "I believe driving change is often more essential during crisis periods," says Jason Minkler, head of operations at Jennison Associates. "My experience has been that driving change is sometimes easier when a company or industry is faced with adversity. In these times, employees across the firm are much more open to working together to find new ways of accomplishing tasks than they may have been otherwise."

From top to bottom the crisis "helped demonstrate our ability to innovate and create solutions for our clients," says Greg Turner, head of investment operations at Legal & General Investment Management America. "We've been pulling people from different parts of the organization together, figuring out ways to create solutions, and then building that as a process; and now we have that up and running, it's another tool that we have in our toolkit."

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- Dr. Edward Barrows, Managing Director and Head of Business Development, North America, Duke Corporate Education

³SIFMA: [COVID-19 Related Market Turmoil Recap 1](#) & [COVID-19 Related Market Turmoil Recap 2](#)

KEY SKILLS FOR A CHANGING WORKPLACE

As work in the back- and middle-offices becomes increasingly automated, the skills employers are looking for are evolving. While employers aren't seeking candidates with one unified set of specific skills, there are some abilities that are universally in demand: critical thinking, problem solving, the capacity to work in the absence of structure and the ability to learn on the fly.

Some managers, whose staffs have to interact with many different kinds of stakeholders ranging from customers to upper management, are seeking people with strong communications skills. Those skills are also at a premium because so much information in the workplace is now being exchanged via messaging platforms since people have fewer opportunities for face-to-face interactions.

When it comes to educational background, some managers say they prefer candidates who have studied business or a related field, such as economics or accounting, though that sentiment isn't universal. Similarly, some managers prefer it when people already have experience in coding, such as Python, for example. While not every manager views the ability to write code as a prerequisite, they do want people who can find opportunities to automate within their role and learn how to implement new solutions.

Some firms continue to look for people with specialized knowledge, particularly when it comes to more seasoned workers who have established track records in the industry. That's because some higher-risk areas, such as derivatives, bank loans or swaps require a depth of knowledge that is hard for a generalist to access. Specialists are also important because knowledge and information in some areas is becoming increasingly granular. That can create the opportunity for people with deeper knowledge to become more influential by blogging, making videos and building a public profile by sharing expertise.

Some experts suggest that as employees rise in financial firms, it's increasingly important in an interconnected world for them to build knowledge across market groups. People who aspire to lead organizations should have a refined sense of how different markets interact, and how those relationships affect their companies.



On a less senior level, many managers have lean staffing budgets, which leads them to prize people who are generalists with solid knowledge along a broad range of markets or other expertise. Some managers said that one benefit people with a wide knowledge base have is that they are often more able to adapt when faced with unfamiliar situations. Their broad foundations give them familiarity with similar kinds of problems which can help them find ways to move forward. People who can communicate with and understand the needs of diverse market groups, such as private equity and mortgage-backed securities are particularly useful, said one manager overseeing a small team. Companies appreciate employees who exhibit traits under the broad category of self-reliance.

“At the same time, employers are looking for people who can collaborate, share information and build bridges, which they see as vital skills for leveraging knowledge and learning new skills and about different markets,” says Robinson. “Key skillsets for operations professionals include business and technology acumen, understanding data analytics, being able to manage change, and being client centric.”

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- Jesse Robinson, Managing Director of Investment Operations,
State Street Global Advisors

FOSTERING AN ADAPTIVE WORKPLACE



People looking to build careers in financial services face two competing imperatives. On the one hand, pressure to keep operations lean has led some managers to seek employees who can develop versatile skills and become capable of shifting between different roles within an office. On the other hand, financial markets grow ever more complex and specialized by the day, and some managers are looking for employees who can drill down and become experts in areas that are sometimes very narrow. Those imperatives, which appear to exist in opposition, actually sometimes need to co-exist within an organization.

For people to be able to navigate and thrive in asset management requires the ability to adapt as needs change. “There’s a heightened requirement for individuals to show their flexibility, adaptability, versatility,” says Richard Pooley, a Partner at leading executive search firm, Odgers Berndtson.

One way to foster those skills is to emphasize the way that developments in the workplace don’t follow a preset course. “If you consider the traditional classroom setting where most things are predictable, that’s not necessarily how each operation works,” says Zhang. “If you come in with the expectation that 80% of your day is spent on managing changes and only 20% of your day is predictable, then you have a better mind set to be open to things coming your way.”

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The spread of COVID-19 forced executives to turn to and expand on business continuity plans as the pandemic threatened to interrupt critical operations with the asset management industry. “Late March and early April was a chaotic, hugely volatile period,” says Eric Bernstein, president of Broadridge Financial Solutions Inc.’s asset management group. Trading volumes soared, yet operations didn’t buckle amid the unprecedented transition to having key investment functions run from managers’ homes. “The industry proved it has the ability to continue to do business regardless of the environment that we’re working in,” Bernstein adds.

Workers should be prepared for an environment where businesses are increasingly willing to rethink what kinds of tasks and responsibilities need to be managed in-house and what they can do by others. “I am expecting more firms to outsource their core operations in the future,” Bernstein says.



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- Patrick Townzen, Director of Operations,
DoubleLine

Soliciting suggestions can spur creativity by getting an exchange of ideas going, even if there isn’t a problem up for discussion at the moment. “I often encourage my team to make suggestions and tell them don’t get discouraged if the proposal is not implemented,” Minkler says. “Even if only a small percentage of recommendations work, keep trying because sooner or later an idea is generated that either reduces risk, lowers costs, or makes us more efficient.” he says.

Giving people autonomy is helpful in fostering growth, but their development is enhanced by a discussion of the risks involved with their projects, and by “listening, asking questions and really drawing out from them how they’re approaching” their tasks, says Robinson. This process helps employees come to their own conclusions and also “ask the right questions” when tackling assignments, he says.

As leaders push for more automation that reduce time spent on repetitive activities people will be freed to do work of a more analytic nature. Managers cite critical thinking as a key skill that workers will need, or should work to develop. “When it comes to the skill set of my team, critical thinking has been a priority,” Townzen says. “I don’t think that having that skill set coming in the door is necessarily as important as curiosity and a willingness to take the time to learn.”

Many offices offer opportunities for employees to train and improve skills because markets and regulations aren’t static and skill sets shouldn’t be either. “Whatever skill set you have when you come in the door is not necessarily the skill set you’re going to need two years from now,” Townzen says.

Managers should also appreciate that younger workers, particularly those just beginning their careers, have different frames of reference and ways of consuming information. It’s a manager’s job to “help people contextualize and make sense of and reframe what’s happening in ways that maintain an organization’s productivity,” says Barrows.

Organizations are also going to have to adapt to changes in the economy stemming from the COVID pandemic. People are going to have to be more self-reliant and capable of working remotely outside of the traditional collaborative office environment.⁴ Companies will have to accept that there will be less business travel, and that they may be able to consider job candidates who live outside of the business’s geographic footprint in order to find the right person. When companies are willing to hire people to work remotely, workers will have a broader set of potential employers and asset managers will have more candidates. “That’s going to be — I hope, from a positive standpoint — one of the most critical areas of evolution in people’s attitudes to recruitment,” Pooley says.

⁴See also SIFMA’s “Considerations for Return to Office”

INCLUSION AND DIVERSITY

The killing of George Floyd in Minneapolis has put front and center questions about systemic racism in society, leading many Americans to grapple with them for the first time. While the securities industry has been working for many years to reach out and increase the diversity of its workforce, the widespread response to Floyd's death, and those of many others, is a reminder that there is more work needed to create a more equitable society.

These events were so powerful because they touched people on "the most basic human level," says Louis Rosato, who oversees Industry Engagement and Strategy at BlackRock. "We need to be continually talking about this."

The need to recruit, hire and retain workers from a robust diversity of backgrounds has never been more apparent than it is today.

Leaders in the financial services industry have been working for many years to increase its efforts related at recruiting, hiring and retaining a diverse community of workers who can thrive and grow in their jobs.

Many SIFMA members have focused recruiting efforts on institutions with broad racial diversity, including Historically Black Colleges and Universities and developed specialized internship programs to promote hiring diversity. Several firms offer early pipeline programs that aim to attract undergraduate and MBA students who might not otherwise pursue a career in the securities industry.

Company leaders also recognize that inclusiveness needs to extend beyond the hiring process and must include creating a culture where no one is overlooked because of their background and where everyone is valued for their contributions. Firms in the industry are working to address bias and to take advantage of opportunities to improve their internal and external processes. SIFMA firms have instituted Diversity & Inclusion advocate programs for all employees with the goal of encouraging inclusive behavior and the diversification of employee networks.



Creating and maintaining an inclusive, diverse work environment requires not just the commitment of a firm's leaders but also the engagement of all employees. That includes a willingness to have conversations about topics and events that may sometimes be uncomfortable or difficult, and which are part of a continuous process, not one-time events, executives said.

When one distills a company's efforts to build an inclusive workplace into a list of programs, some people can mistake the process for simply instituting a checklist of measures, executives said. Yet, it requires a broader and consistently renewed effort. "It takes a mindset," Rosato said. "This is a complicated long-term problem. It's going to take a lot of effort and energy in the long-term."

TECHNOLOGY AND INNOVATION

The current revolution in financial services technology is about efficiency as companies focus on finding ways for machines to take work off of people's hands. It's also about profit, with more than half of CEOs in a recent survey measuring the success of innovation by value creation, while more than one-fourth look for improvements in the bottom line.

"We're focused on innovation to drive change, reduce risk and increase efficiency," says Rosato. "When we work on improving workflow through lower touch and shift our focus from processing-oriented tasks to a consultative approach in servicing internal stake holders and external partners, then we've seen an improved client experience converging with a ease of doing business and lower risk and cost over time."

However, the highly regulated nature of the asset management business has historically dissuaded some managers from encouraging business processes innovation.

In the past "we didn't focus enough on grass roots efforts to change processes and to enhance the operating model," Brennan says.

That's changing as "data and technology have gotten to a point where we now have the ability to put more tools in people's hands," according to Brennan. "You don't need highly technical people to do complex coding in order to automate processes using new tools that are now widely available."

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- Kevin Brennan, Head of Investment Operations,
Western Asset Management

"Our most successful employees are curious and collaborative. They are team players that work together to analyze current processes, understand how it's done today, and then

re-engineer and automate where possible," Brennan adds. The reward is a more efficient environment with fewer errors, better recordkeeping and lower costs. And with better data in hand, people can focus more on analyzing and evaluating information.

The adoption of new technologies raises questions about how to step back from legacy systems that may not be connected to the real-time, continuously functioning programs that are increasingly in use. Migrating key data and functionality now living on static spreadsheets is going to be an important and potentially labor intensive task. There's also the problem of bringing along those who feel more comfortable working with old technology.

"You have all this information coming out and all this data coming at you," Townzen says. "There does come a point where that becomes hard to manage. I think for some people it can be a little bit overwhelming. The key will be having team members with the ability to synthesize all that information in a way that highlights potential issues more quickly and supports improved decision making."

For some managers, that raises issues of how fast to push. Managers also have to make sure they are aligned with the technology needs of their internal peers and that they do not adopt solutions that have not been broadly accepted within the industry. And because technology changes so rapidly, managers say organizations shouldn't hesitate to move on from initiatives that aren't working because such projects don't produce the best results while also consuming time and labor — the very things technology should be saving.

Moving to remote workforces was only possible because of earlier investments in technology. Managers whose firms have historically pushed for the adoption of continuous workflow processes reported minimal disruption as people transitioned to working from home.

An important goal moving forward for some managers is to improve the link of their firm's automated trade, post trade and asset servicing processes and work with their industry counterparties to drive STP. The goal of better connectivity between firms and functions is the same as within them — greater efficiency and lower trading costs. "We're continuing to put focus on linking workflow through the full life cycle and ecosystem to drive better processing and fewer exceptions," Rosato says.

INDEXING'S IMPACT



This year's disruptions did nothing to alter the significant pressures asset management firms were already facing. Competition for investment dollars is as keen as ever, with discount brokers slashing commissions to zero and new, increasingly targeted and esoteric exchange-traded products rolling out at a rapid pace. And even more pressing is the long-term shift of retail and institutional investors away from actively managed accounts and toward indexed funds, which could wind up accounting for more than half of the assets under management in the U.S. as soon as next year.

Investor concern about fees is a long-term trend that many asset management executives expect will continue. The asset-weighted expense ratios have declined by about half in the past 20 years, including both active and passive funds. The impact on fund companies is significant: Morningstar estimates lower fees accounted for \$5.8 billion in lost revenue. Actively managed funds with high costs have lost assets. The flip side of that is that asset managers who have done the best job at holding down expenses have seen a surge of inflows. This has fueled the push by firm managers to automate processes, reducing costs by freeing people from repetitive, time-consuming tasks.

"We've been in this environment for quite a long time," Brennan says. "Most firms for the last three to five years have been very much focused on changing their operating model, reducing costs and re-deploying resources towards growth opportunities and solving for complex needs."

While technology isn't replacing humans, it's taking on some roles that were once seen as requiring a more personal touch. For example, some people are now getting investment advice from automated algorithms. These so-called robo-advisers,

many of which are offered by large discount brokers, have become increasingly attractive, offering customers customized blends of low-cost ETFs to meet their investment needs.

"You see the large asset managers putting out more passive investing vehicles and products than ever before," says Barrows. Many individuals have adopted the thinking that "the way to excel in investing is to minimize fees," he says.

However, human nature suggests that there will always be people who want to try to beat the market, and who will look to active management for that reason, investment executives said. "There's still always going to be some level of active management that is needed as clients balance their strategic investment objectives," Robinson says.

It's not just retail investors who are driving concerns about fees. Risk-averse institutional investors are also behind the move, forcing firms that had once had no trouble gathering assets for active accounts into creating new indexed products to keep their clients' assets. That's given additional weight to the shift toward passive investing. "You're seeing, and will continue to see that a lot of people are looking for some level of market return and either don't want to pay up for alpha or take that risk of having some potential underperformance," Robinson says.

While passive approaches may not be able to siphon money from active accounts at the previous pace, that approach is still going to have an impact on fee revenue. "That's going to continue to drive what we need to do as an industry and in our individual companies to continue to meet our clients' changing needs," Robinson says.

CONCLUSION

The upheaval seen in the workplace this year has been extreme, but even as the pace of disruption slows, the turmoil is far from over. It could take more than a year before we understand which of the unexpected changes wrought by the pandemic will stay with us. The asset management industry, and operations particularly, should take advantage of the lessons learned from handling operations during the pandemic. That means continuing to embrace change and not reverting back to the old ways of doing things. And at the same time, the pressures regarding fees and new technology that existed before the pandemic will still be with us, and will remain powerful drivers of necessary adaptation for financial firms well into the future. Into this setting steps an increasingly capable and diverse workforce who will need guidance about improving their skills and finding paths toward growth in an uncertain environment. The Greek philosopher Heraclitus said that change is the one constant of life. Professionals in the financial industry are surely familiar with that concept, given how much their jobs can evolve. This imposes a duty for leaders to manage new developments as they guide their teams toward necessary goals. That's because markets don't favor those who stand in the way of change. For leaders in the 21st century, one way to succeed is embracing change by encouraging their teams to be creative, ask questions and learn from the new. And another is to expect the unexpected.





SIFMA AMG's members represent U.S. asset management firms whose combined global assets under management exceed \$34 trillion. The clients of SIFMA AMG member firms include, among others, tens of millions of individual investors, registered investment companies, endowments, public and private pension funds, UCITS and private funds such as hedge funds and private equity funds.

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