Grant Thornton

Financial services CFOs embrace tech to drive growth

AI shows potential for improving services and satisfaction

Amid the growing excitement surrounding generative artificial intelligence and other emerging technologies, CFOs in asset management and banking remain keenly focused on the impact that these tools can have on their clients.

AI is enabling asset management firms to provide investors with valuable insights from extensive datasets, assisting them in selecting the most profitable strategies. Similarly, technology is aiding banks in serving their customers more effectively and efficiently, fostering long-term relationships with their depositors.

A recent survey conducted by Grant Thornton reveals a clear consensus among CFOs in the asset management and banking sectors: they see technology, especially AI, as a tool to better serve their clients, address their major challenges and drive future growth. The survey, which involved more than 100 asset management and banking CFOs, highlights several key technology trends and considerations:

- A primary focus for 2024 is to increase investment in technology for automation and other efficiency measures, with 57% of respondents anticipating a rise in spending.
- The most effective strategy to manage rising labor costs is automation and other efficiency enhancements.
- Streamlining operations is a major goal of technology investments, pursued by 71% of CFOs.
- Improving productivity and efficiency is the top goal for tech return on investment, as indicated by 65% of respondents.
- AI and machine learning are identified as top investment priorities by our CFO respondents.
- A significant 81% plan to use generative AI as a primary tool for enhancing performance this year.

Michael Patanella, Grant Thornton's National Managing Partner for Asset Management, noted that asset managers are increasingly integrating technology into every facet of their business, including trading. He acknowledged the initial costs associated with technology implementation, which can encompass not only the technology itself but also retraining staff, securing their engagement and incorporating their feedback during the process.

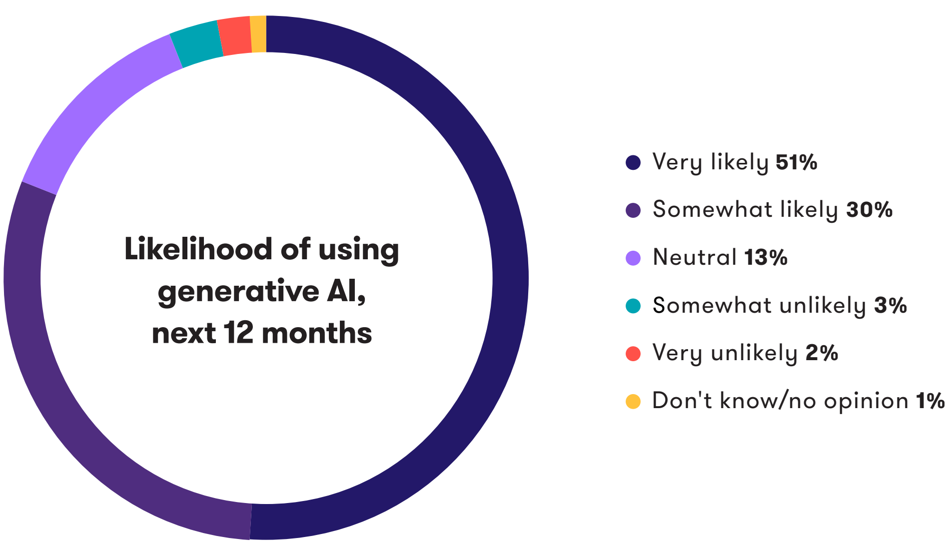
However, Patanella emphasized that, when executed correctly, the adoption of appropriate technology can boost employee satisfaction while delivering superior services to investors.

"There's a clear link between firms that have effectively implemented technology and their enhanced returns and ability to attract capital," Patanella explained.

Banks are also using technology to attract and retain customers and enhance their overall experience, as highlighted by Graham Tasman, Grant Thornton National Managing Principal for Banking. He pointed out that while banks aim to increase deposits, their ultimate goal is to create long-lasting "sticky" deposits, thereby securing lifelong customers.

In addition, banks are using technology to improve internal processes, strengthen regulatory compliance, cybersecurity and risk management, and manage their businesses more effectively through enhanced business insights.

"They need a technology strategy that aligns with their institution's challenges, strategic priorities and transformational goals," Tasman said.



Cybersecurity and governance priorities

The increasing emphasis on technology in the financial sector has elevated the importance of cybersecurity. Survey participants highlighted their primary concerns regarding generative AI as privacy and security.

Investors and customers would be dissatisfied if their tech-enhanced experience compromised their personal data, risking its exposure to nefarious actors. To address these concerns, more than three-fourths of respondents emphasized the critical importance of several cybersecurity measures for their organization:

- Regular security audits and vulnerability assessments (83%)
- Multi-factor authentication and other security measures (83%)
- Cybersecurity training and awareness for employees (79%)
- Collaborating with external security firms for expertise and support (77%)

Tasman noted that in the banking industry, continuous monitoring is considered the “holy grail” of cybersecurity. He emphasized that robust cybersecurity protection relies on frequent assessments and analyses of controls and organizational risks, enabling timely, risk-based security decisions to safeguard organizational information effectively.

“The ideal situation,” Tasman said, “is to have continuous monitoring that allows for real-time responses to changes in the environment rather than reacting to incidents and events after the fact.”

Concurrently, the surging interest in generative AI demands governance input from boards on emerging issues. A significant majority (81%) of respondents expect to use generative AI to enhance performance this year, indicating that nearly all boards in asset management firms and banks should be contemplating this matter.

In the financial services sector, the potential benefits of generative AI are balanced against the risks of unintended biases and evolving regulatory challenges that may arise in the foreseeable future.

Tasman emphasized the importance of staying informed about AI regulatory requirements, ensuring involvement from internal audit, and equipping the board to ask pertinent questions. "It's crucial not to hastily adopt new technologies without first establishing appropriate policies and procedures,” he said.

The survey reveals that 95% of CFOs believe their organization’s board and governance functions are at least somewhat prepared to undertake AI initiatives, including the ethical, risk and cultural implications. However, Tasman said bank boards should become more knowledgeable about AI for proper oversight. This is supported by the survey data showing that just 28% of respondents reported their boards actively engaging in understanding governance over generative AI.

Generative AI, in particular, demands careful governance regarding the data it uses, potential biases, and its impact on the workforce and community. However, just 54% of asset management and banking CFOs said their organizations have defined and are monitoring the risks associated with generative AI, and just 46% said they have clear acceptable use policies.

This highlights an area that will need more focus from boards and management in asset management firms and banks in 2024.

Struggling with regulatory compliance

Regulatory compliance remains a top concern for CFOs, with 38% citing it as their primary worry, slightly more than cybersecurity risks at 37%.

The SEC's recent cybersecurity disclosure regulations and anticipated ESG disclosure rules add to this challenge. There's also progress expected in regulations over AI and digital assets in the coming years. Meanwhile, increased scrutiny is expected from the Consumer Financial Protection Bureau, the Department of Justice and other primary banking regulators on issues as diverse as bank mergers, junk fees and fair lending rules.

Asset management firms are also striving to comply with new private fund regulations enacted by the SEC in August 2023.

"This compliance is leading to significant additional work and investment in technology," Patanella said.

Banking leaders face their own challenges, needing to adapt to new Community Reinvestment Act rules and the proposed Basel III Endgame rules, which would strengthen capital requirements for banks with assets of at least $100 billion.

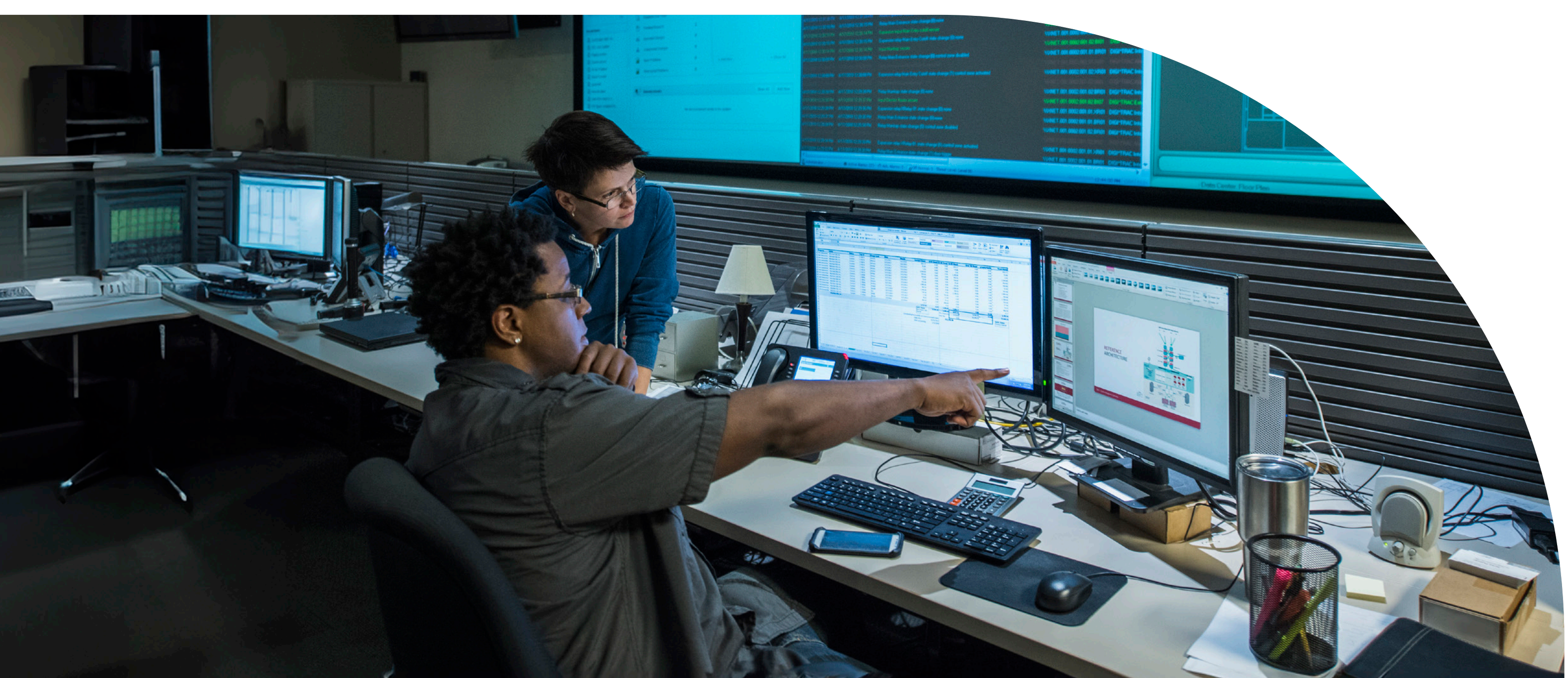
These rules pose a compliance and strategic challenge, as stronger capital requirements could reduce the amount of capital available for lending, potentially affecting bank revenue and funding for companies and individuals across the economy.

Technology is seen as a key solution to these challenges.

"Traditionally, institutions have allocated more resources to regulatory matters, but this approach has its limits. Using technology for remediation is becoming an absolute necessity," Tasman said.

"Traditionally, institutions have allocated more resources to regulatory matters, but this approach has its limits. Using technology for remediation is becoming an absolute necessity."

Graham Tasman
National Managing Principal, Banking
Grant Thornton

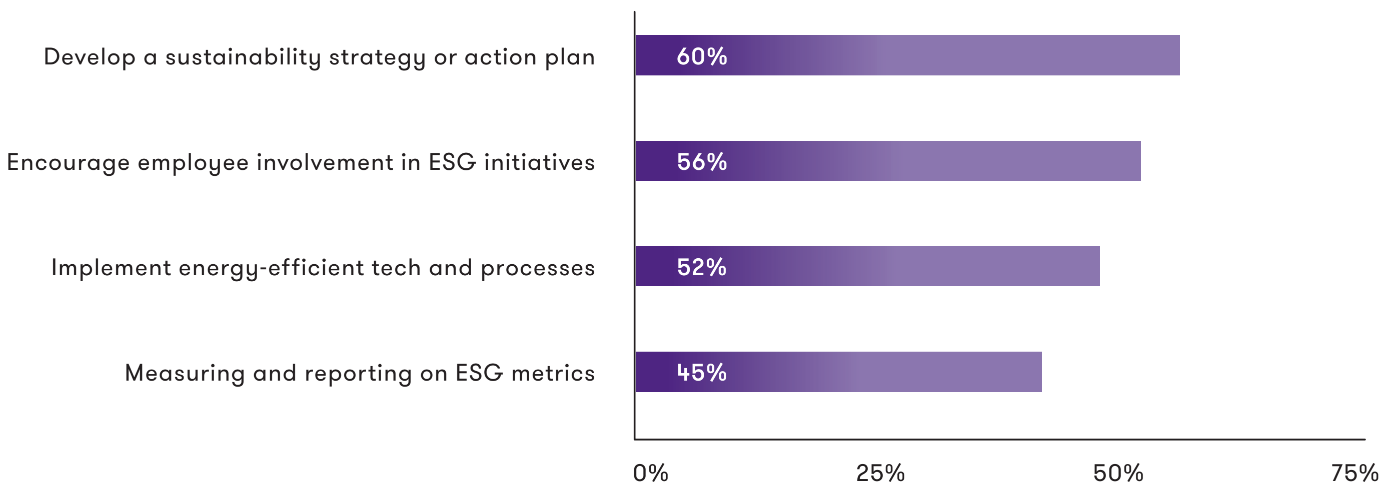


Patanella said ESG disclosures are already a significant focus for asset management firms, partly due to stricter requirements in the European Union. This gives globally present firms an advantage in data collection for upcoming SEC regulations. Even before the SEC's action, there's increasing pressure for such disclosures.

“Investors will be interested in seeing potential disclosures in their region, even if it’s not yet a requirement,” Patanella said.

Furthermore, asset management and banking leaders are incorporating ESG into their business strategies, with 60% having developed a sustainability strategy or action plan and 52% implementing energy-efficient technologies and processes. While not strictly necessary for compliance, such initiatives are favorably viewed by some investors and bank customers.

ESG actions taken



Other key takeaways

The survey also showed that:

- Almost two-thirds (64%) of respondents anticipate the need to raise capital in the next year, with 24% expecting this need within the next six months.
- To attract and retain talent, respondents are focusing on competitive pay and benefits (60%) and providing opportunities for development and growth (57%).
- When considering merger and acquisition opportunities, the primary factors are financial performance and potential synergies (38%), followed by strategic alignment with organizational goals and mission (26%).

Patanella said a strong interest in M&A within asset management reflects opportunities for growth.

"They're exploring ways to reduce expenses while increasing capital," he said. "Mergers can provide access to a broader investor base and reduce redundancies, leading to overall cost savings."

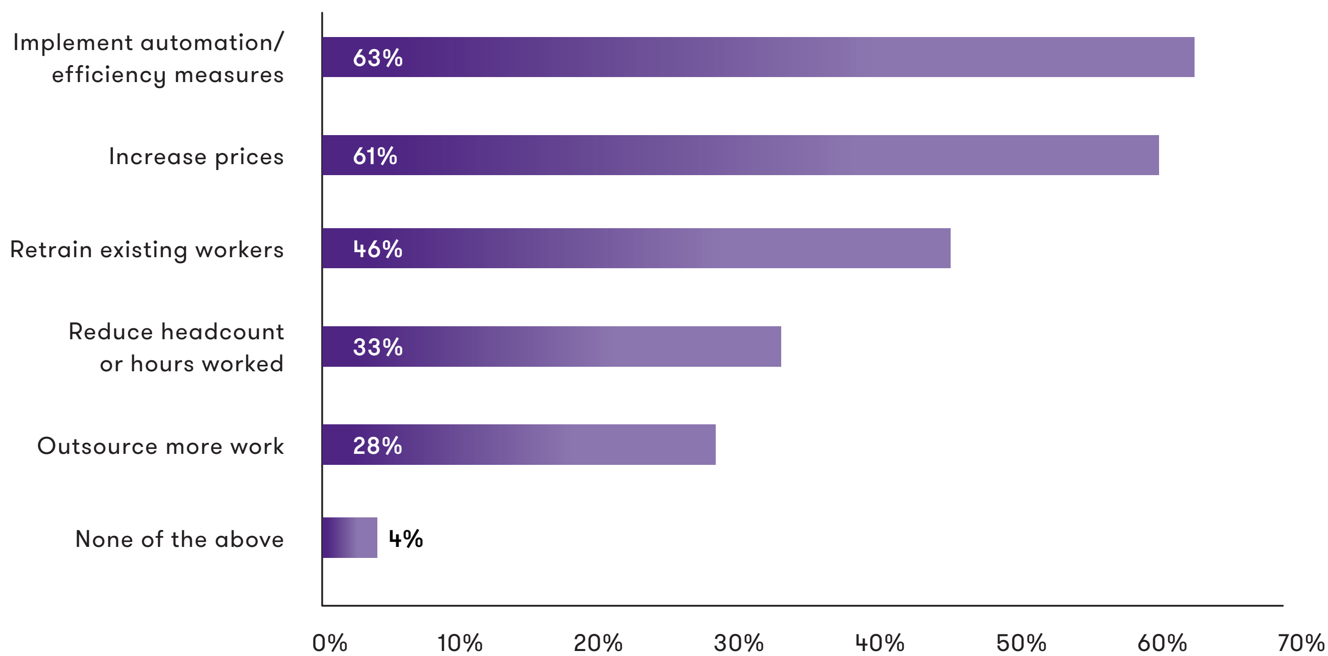
Tasman said banks also look to M&A for growth and scale, but in a manageable fashion, as numerous acquisitions could lead to the complexity of managing multiple technology platforms. For banks to scale through M&A requires a standardized, scalable platform with consistent technology.

He also highlighted the survey finding that maintaining or improving organizational culture is the top human capital priority for asset management firms and banks for the next 12 months.

"Like most industries, banks are in competition for talent," Tasman explained. "Since their services and career paths are often similar, they can differentiate themselves as well as attract and retain talent through their organizational culture."

Addressing labor costs

What are you doing to mitigate the impact of rising labor costs?



Action needed

The survey underscores a clear imperative for asset management and banking CFOs as they aim to propel growth in 2024. Despite the potential for sudden economic shifts, a strong stock market finish in 2023 and decreasing inflation are fueling optimism for stable or even declining interest rates this year.

These economic developments, combined with the enhancements that technology offers, present opportunities for significant improvements in the operational results of asset managers and banks. The survey suggests several steps that CFOs can take to capitalize on these opportunities:

- Conduct a thorough review of your technology capabilities and requirements. Identify any existing gaps to determine necessary investments.
- Develop policies and procedures for AI, especially generative AI, aligning them with your organization's principles. Encourage your board to gain the knowledge needed for effective governance and direction regarding generative AI.
- Strengthen cybersecurity controls. Regular security audits and vulnerability assessments can pinpoint critical weaknesses, and insights from external cybersecurity specialists can help protect assets, accounts and customer data.
- Stay vigilant with regulatory compliance. While regulations can be burdensome and costly, they may also offer strategic advantages. For instance, digital asset regulation could enhance public trust in new applications. Similarly, ESG disclosures could lead to the development of eco-friendly strategies or funds that resonate with younger investors or customers, turning compliance costs into strategic opportunities.

Technology can also strengthen loyalty among investors and bank customers, particularly in sought-after "sticky" relationships. Tech-enabled, personalized experiences can model the impact of various strategies on individuals and businesses, leading to more informed strategic decisions.

"It goes beyond just analysis," Patanella said. "For example, technology allows us to consider an investor's tax implications. What would be the tax impact if they sold a certain investment? What would their K-1 look like? Technology offers numerous benefits; it can enhance efficiency and lower your costs as you integrate it more deeply into your operations."

Appendix - Technology is top of mind

Chart 1: Likelihood of using generative AI, next 12 months
Q: How likely are you to use generative AI tools to drive performance in your organization within the next 12 months?

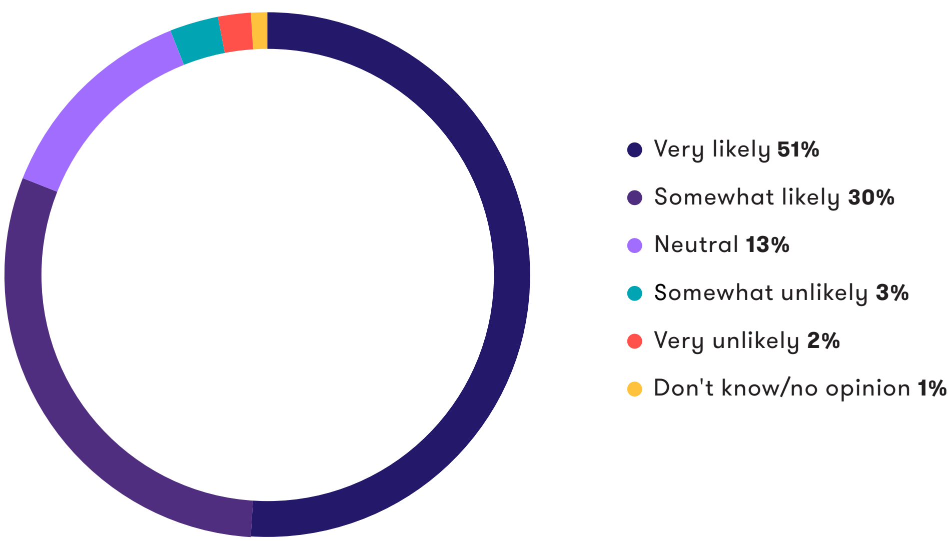


Chart 2: AI uses and plans
Q: Of the following, what is your organization doing or planning to do with artificial intelligence to drive business value and innovation? Please select all that apply.

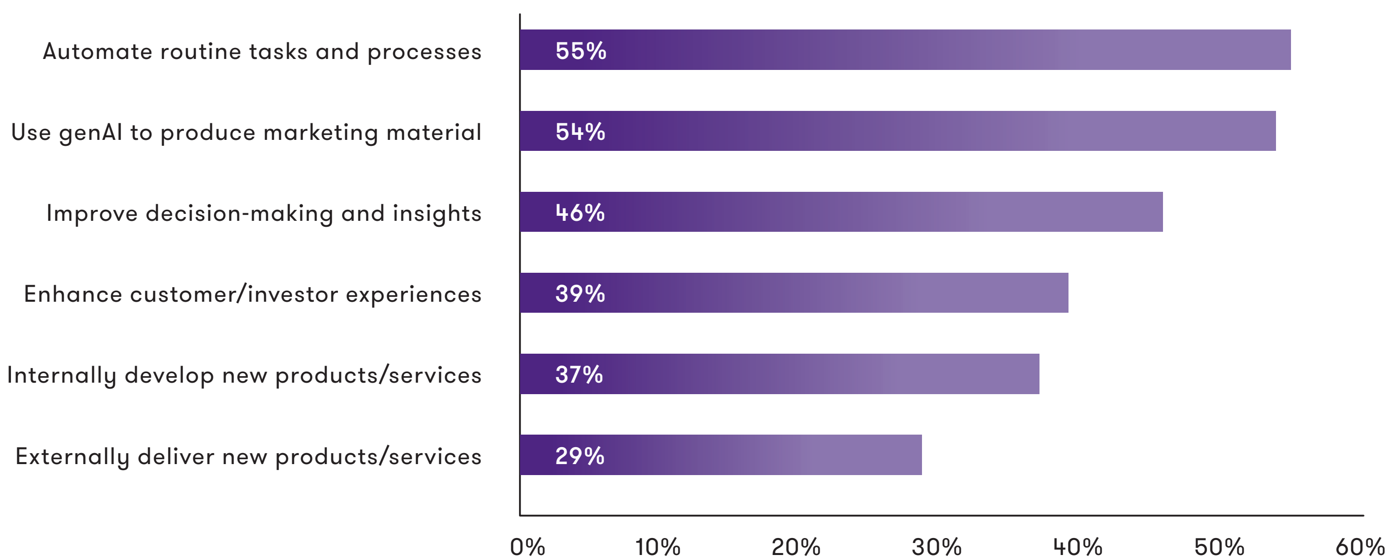


Chart 3: Generative AI concerns

Q: What are your top concerns around using generative AI tools to improve business performance in your organization? Please select all that apply.

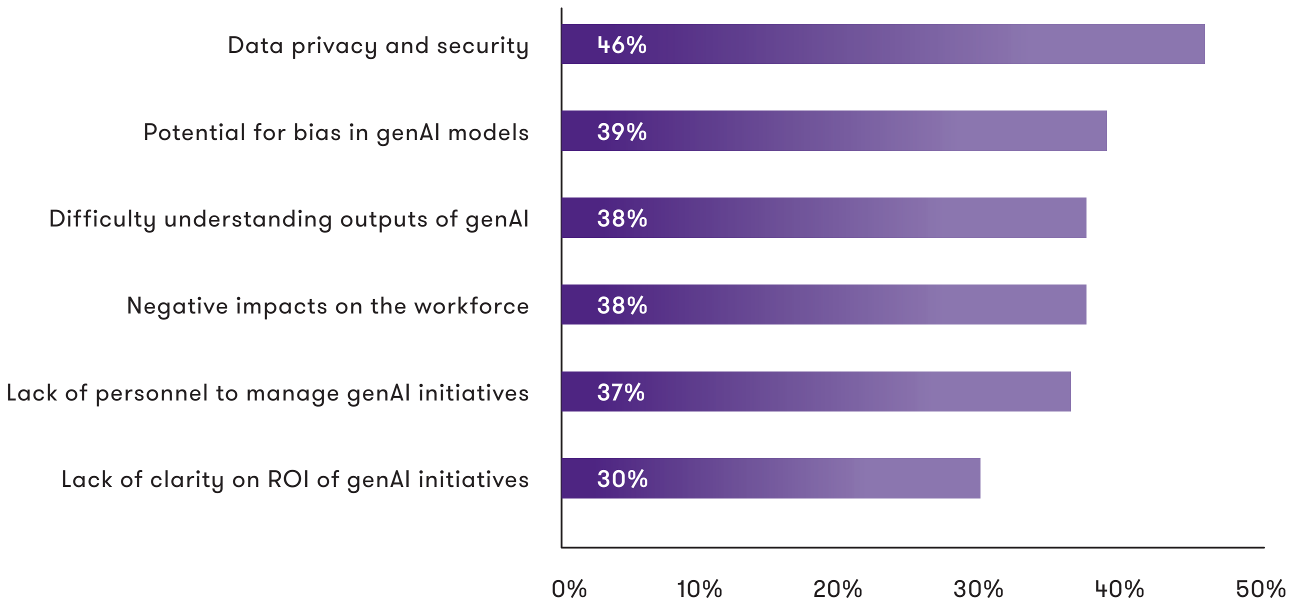


Chart 4: GenAI policies/oversight

Q: If you are currently or are planning to use generative AI, what policies have you enacted around the use? Please select all that apply.

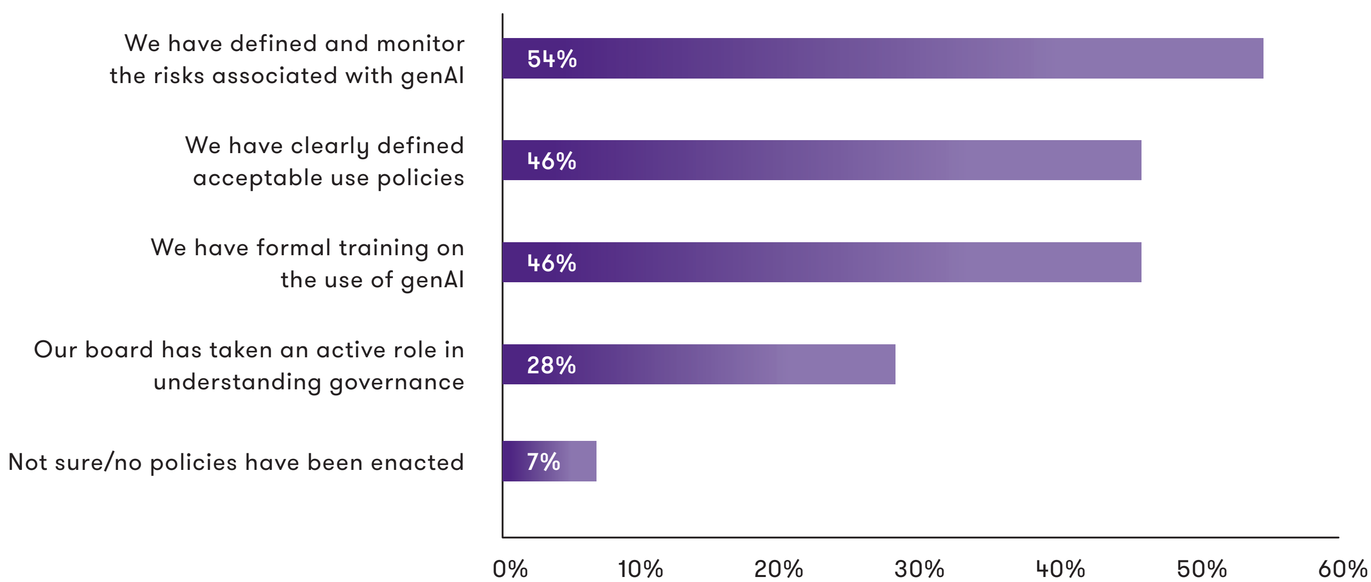


Chart 5: Talent for genAI implementation

Q: Does your organization have access to the necessary talent to successfully implement generative AI initiatives at your organization?

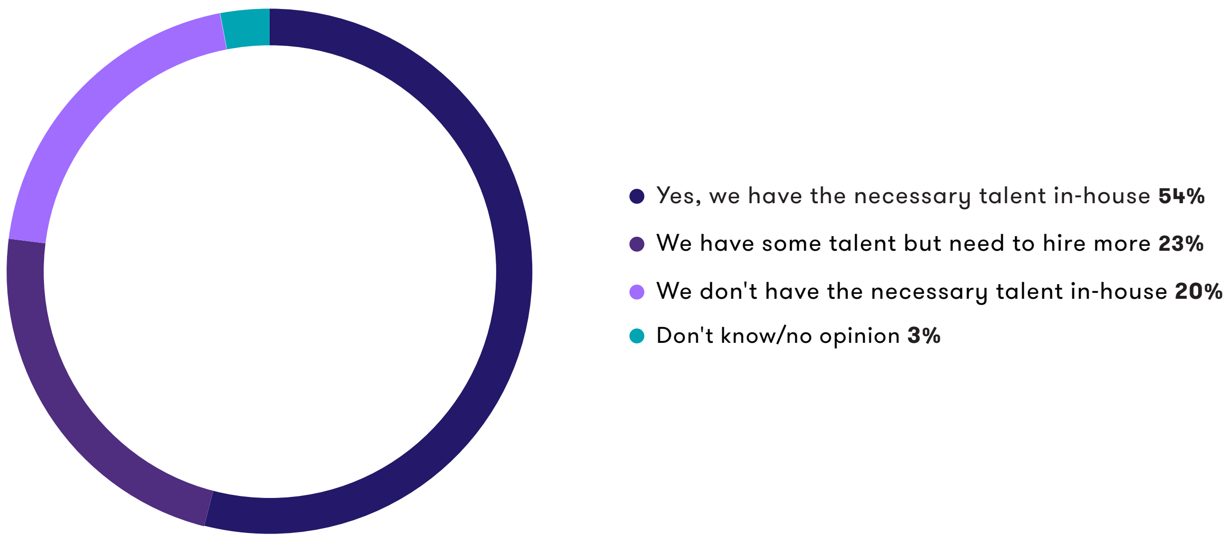


Chart 6: Board readiness for AI oversight

Q: How ready is your organization's board and governance to oversee artificial intelligence (AI) initiatives, including the ethical, risk and cultural implications? Please select one response.

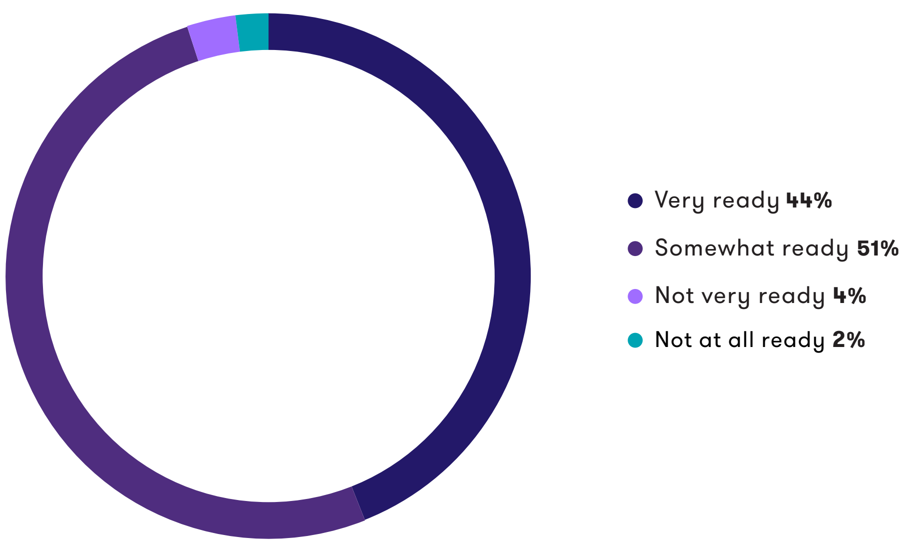


Chart 7: Using tech for productivity - Measuring ROI of investments

Q: Of the following, what do you use to measure the ROI of your organization's technology investments? Please select all that apply.

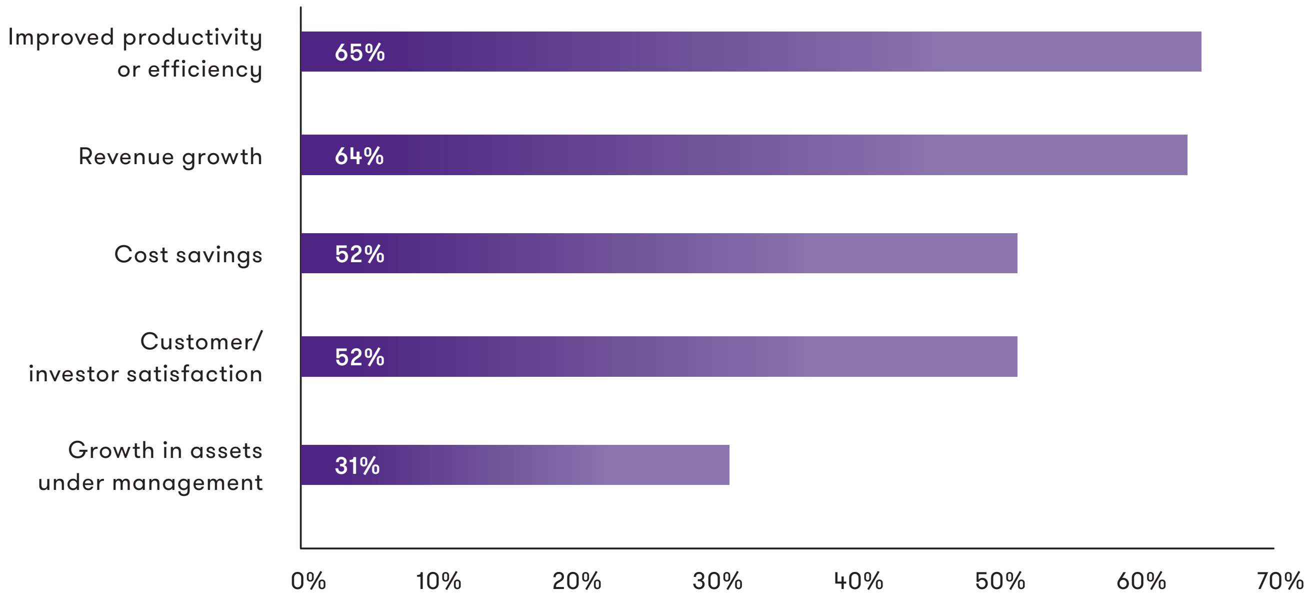


Chart 8: Technology priorities - Seeking growth and strategic fit

Q: Of the following, what do you consider most to prioritize your organization's technology opportunities?

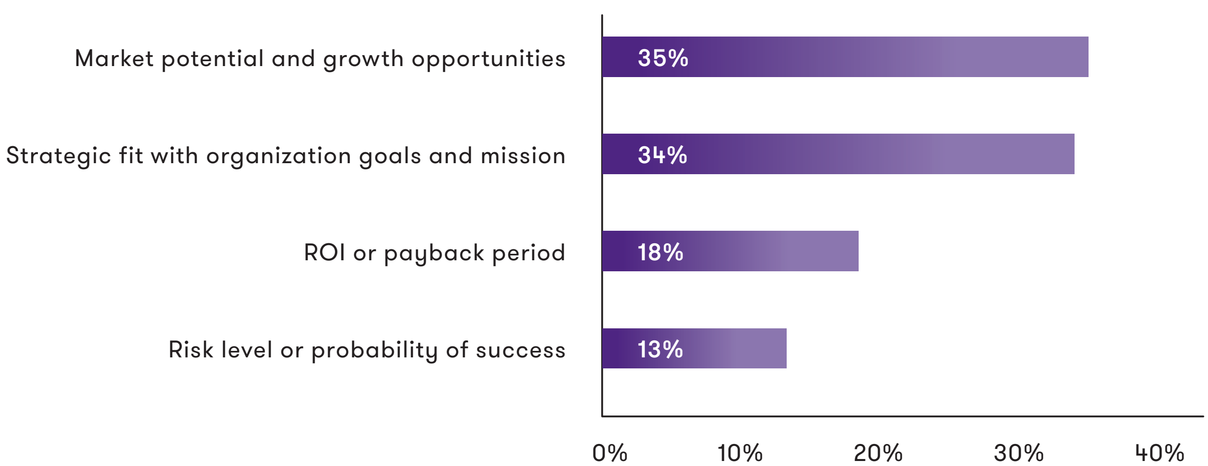


Chart 9: Importance of cybersecurity audits

Q: How important are regular security audits and vulnerability assessments?

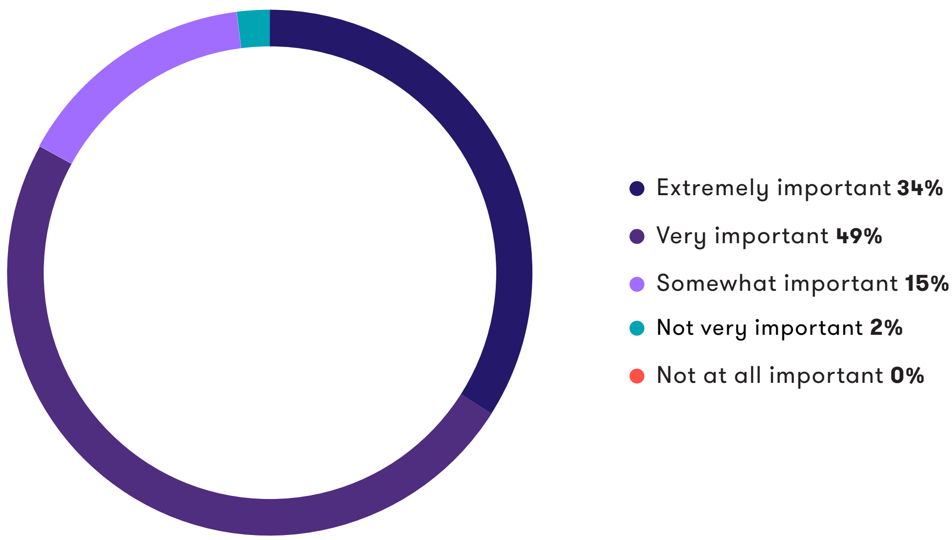


Chart 10: Importance of cybersecurity training

Q: How important are investments in cybersecurity training and awareness for employees?

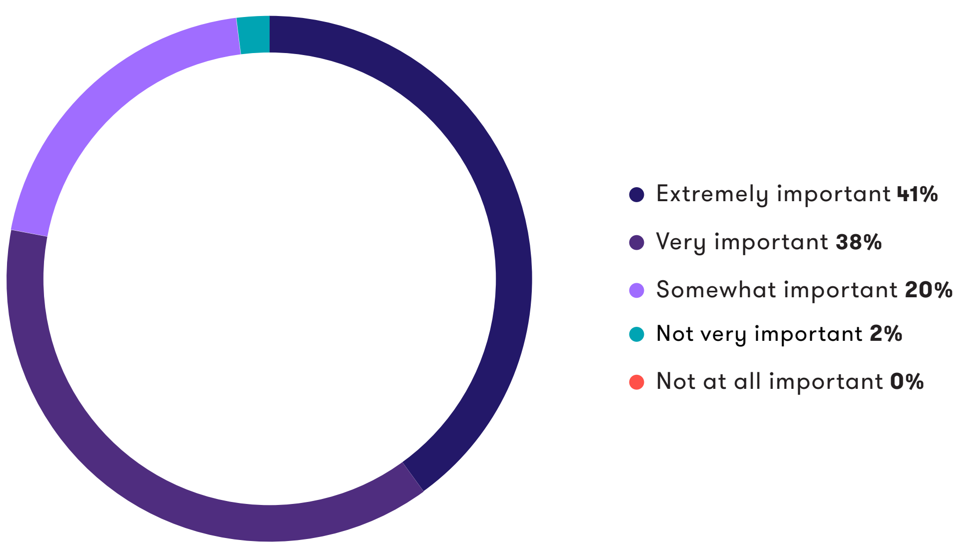


Chart 11: Importance of multi-factor authentication and controls

Q: How important is implementing multi-factor authentication and other security measures?

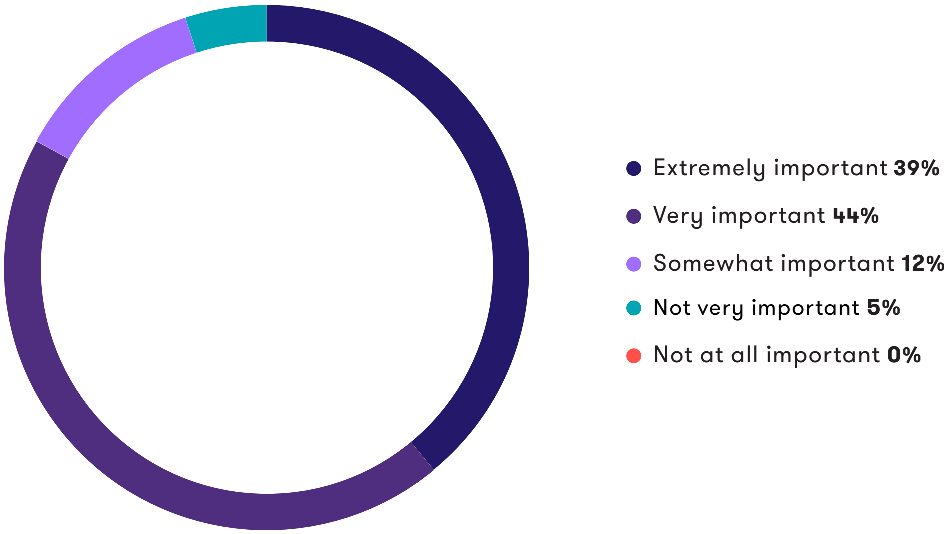


Chart 12: Importance of external security partnerships

Q: How important is it to partner with external security firms for expertise and support?

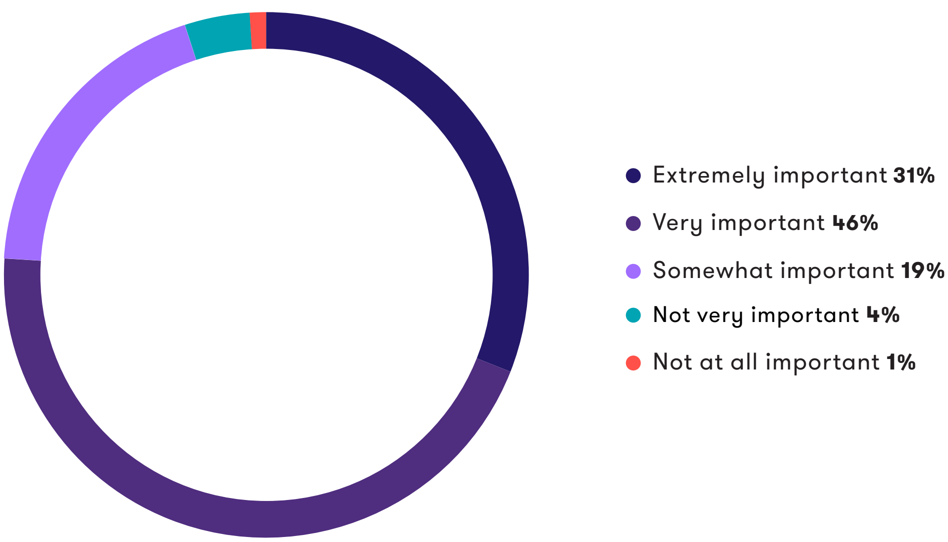


Chart 13: Digital transformation streamlines operations - Customer-centric approaches also are critical

Q: How is your organization likely to approach digital transformation and design? Please select all that apply.

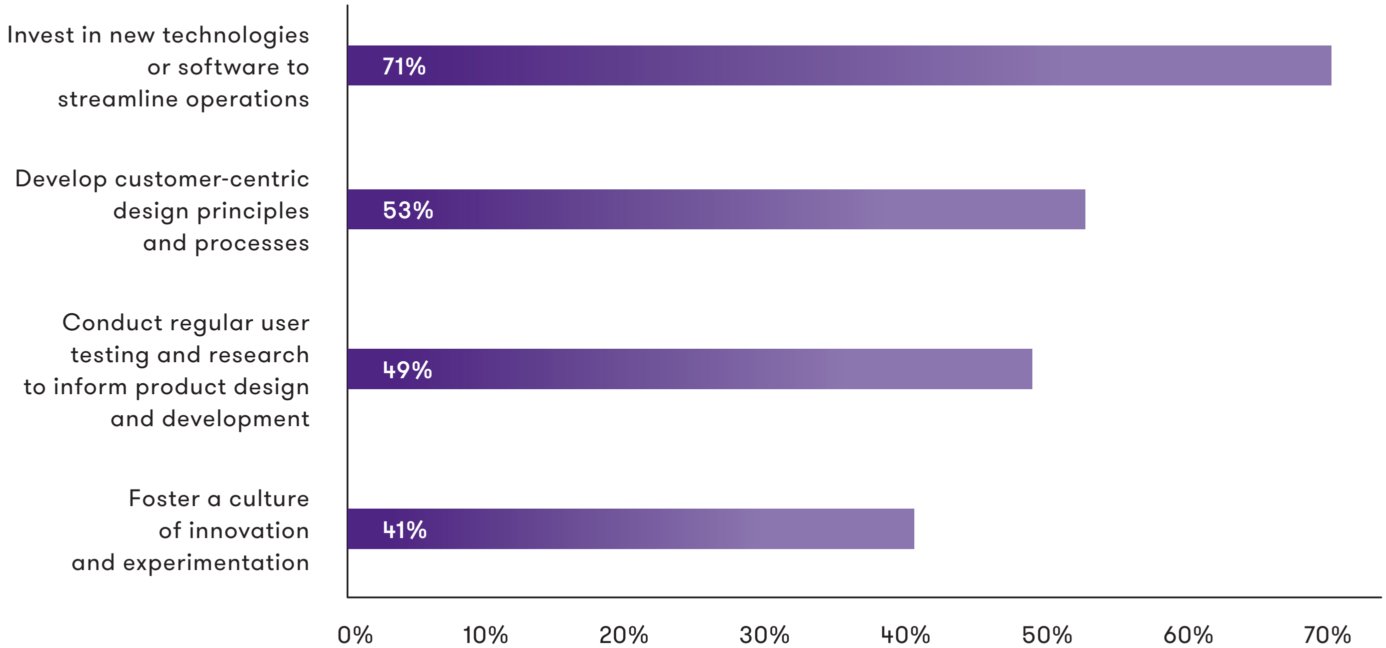


Chart 14: Pursuing decentralized finance - Considering applications for web3

Q: Of the following, which innovation is your organization most likely to pursue?

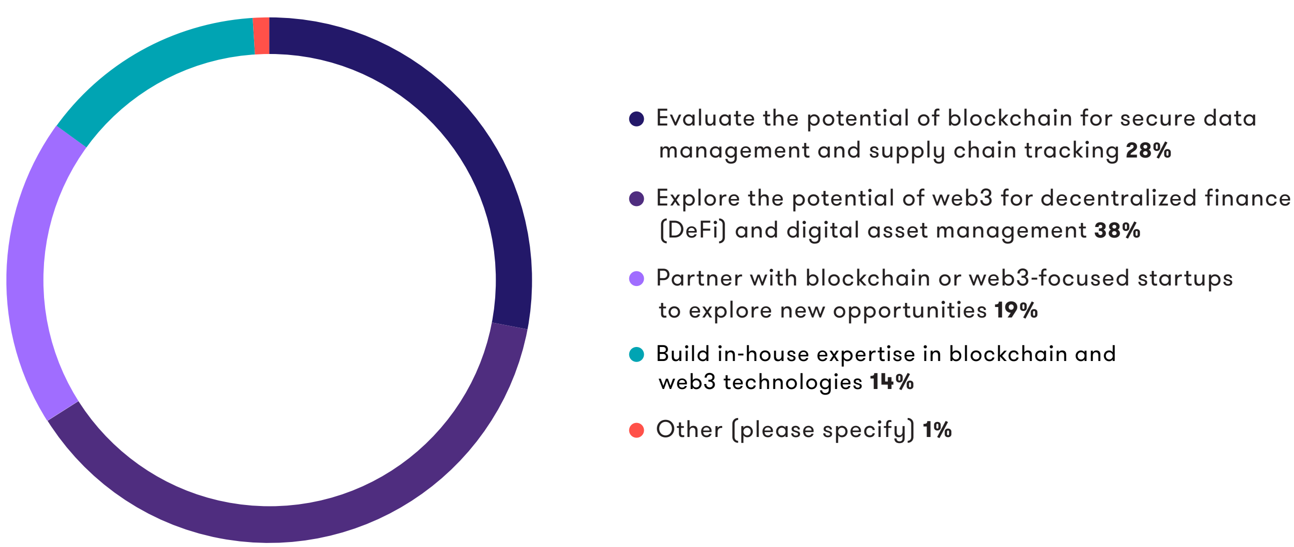


Chart 15: Compliance is the top challenge - Increasing regulations take a toll

Q: Of the following, which, if any, do you think are the top three biggest challenges your business will be facing over the next six months? Please select up to three choices.

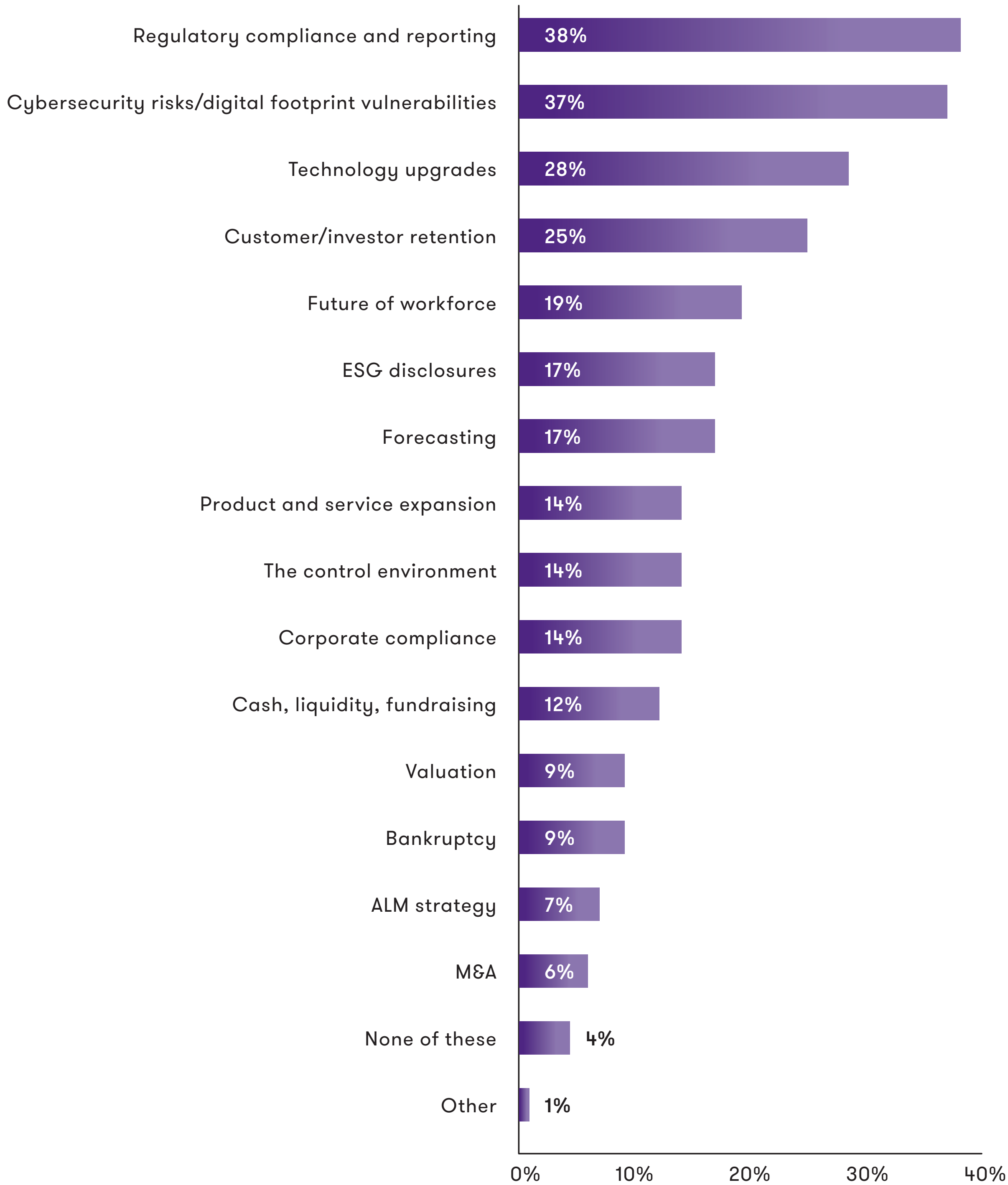


Chart 16: Mitigating labor costs

Q: What are you doing to mitigate the impact of rising labor costs?

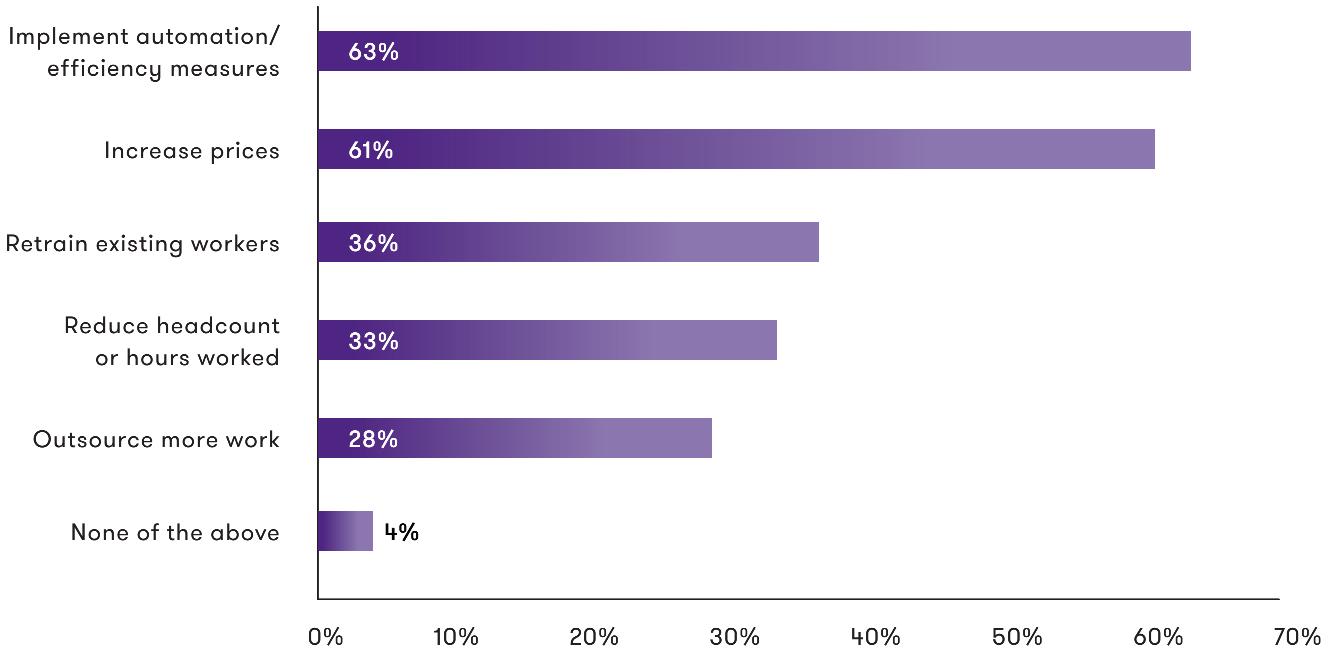


Chart 17: Mitigating risk - CFOs find strength in partnerships

Q: What steps are you taking to mitigate risk ahead of a potential recession?
Please select all that apply.

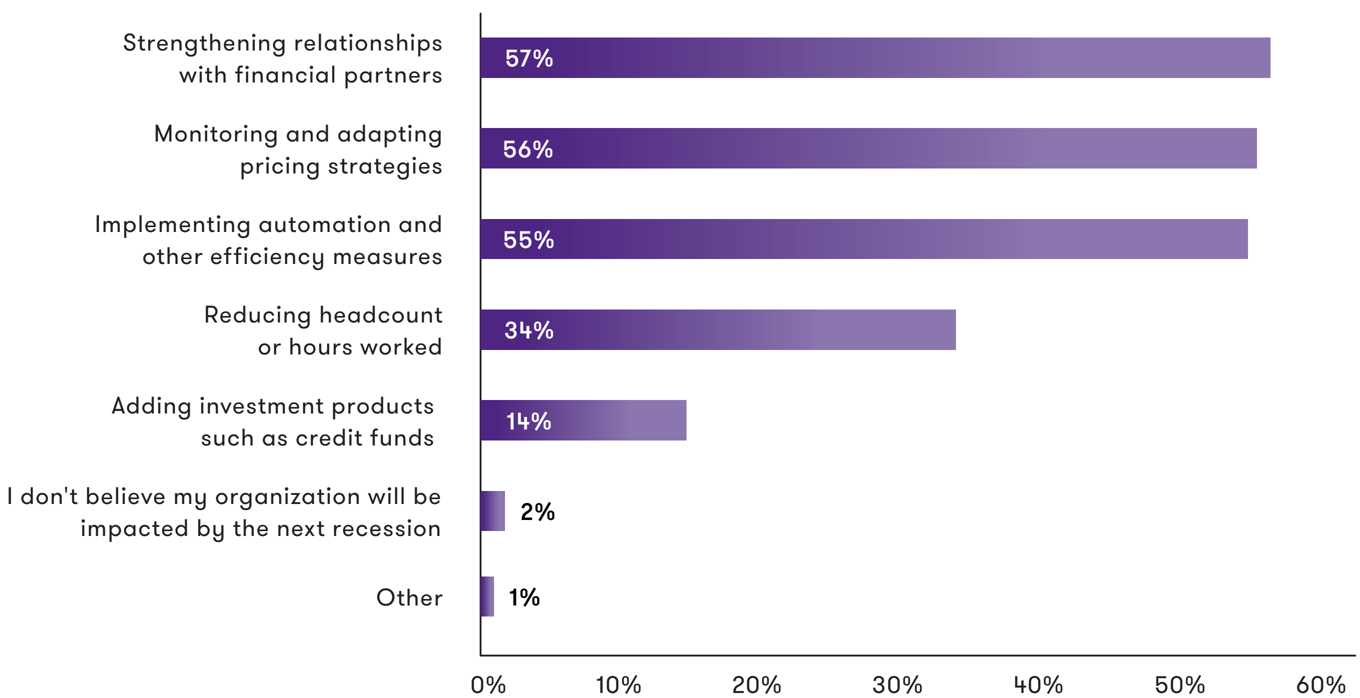


Chart 18: Managing debt - CFOs proceed with caution

Q: Of the following, what do you do to manage debt and capital expenditures? Please select all that apply.

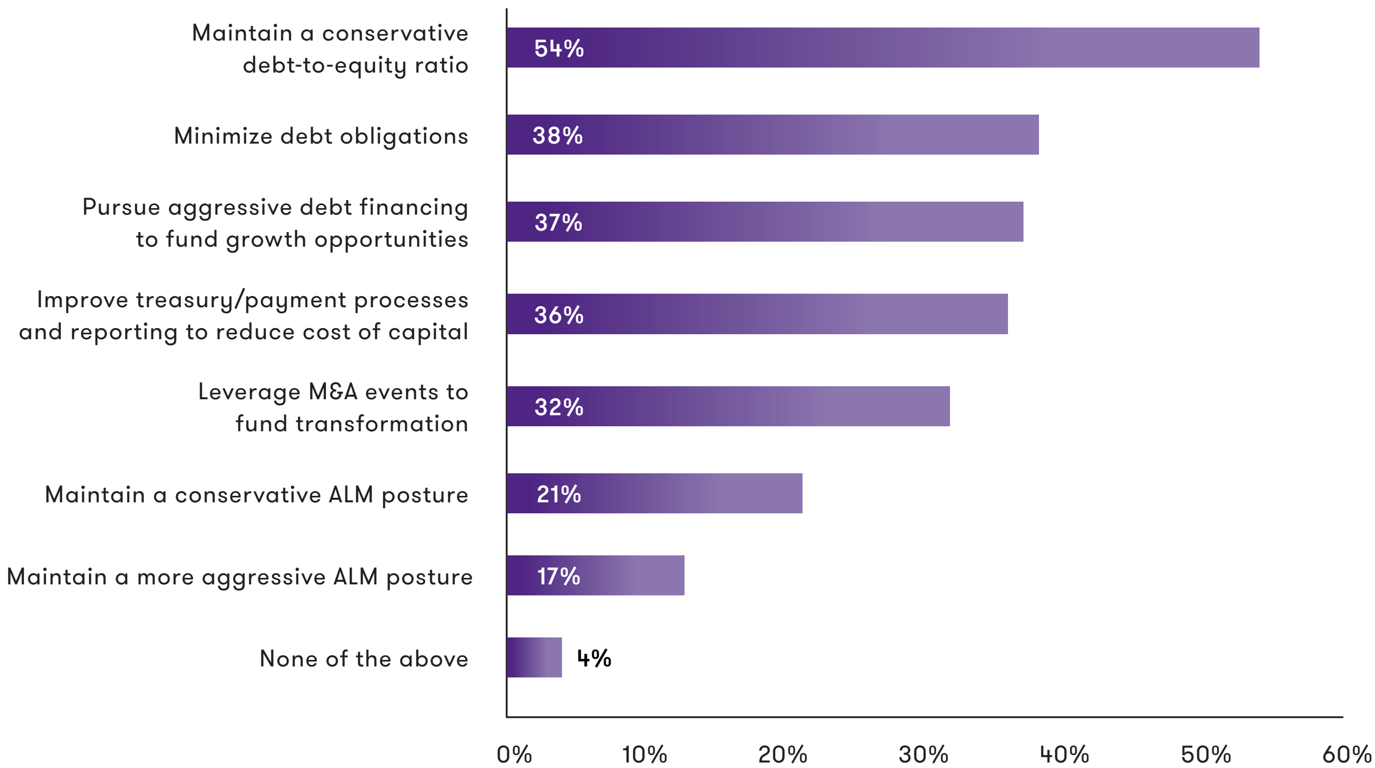


Chart 19: Spending big on technology - Automation tops CFO wish list
Q: How do you expect the following expenses to change over the next 12 months, if at all?

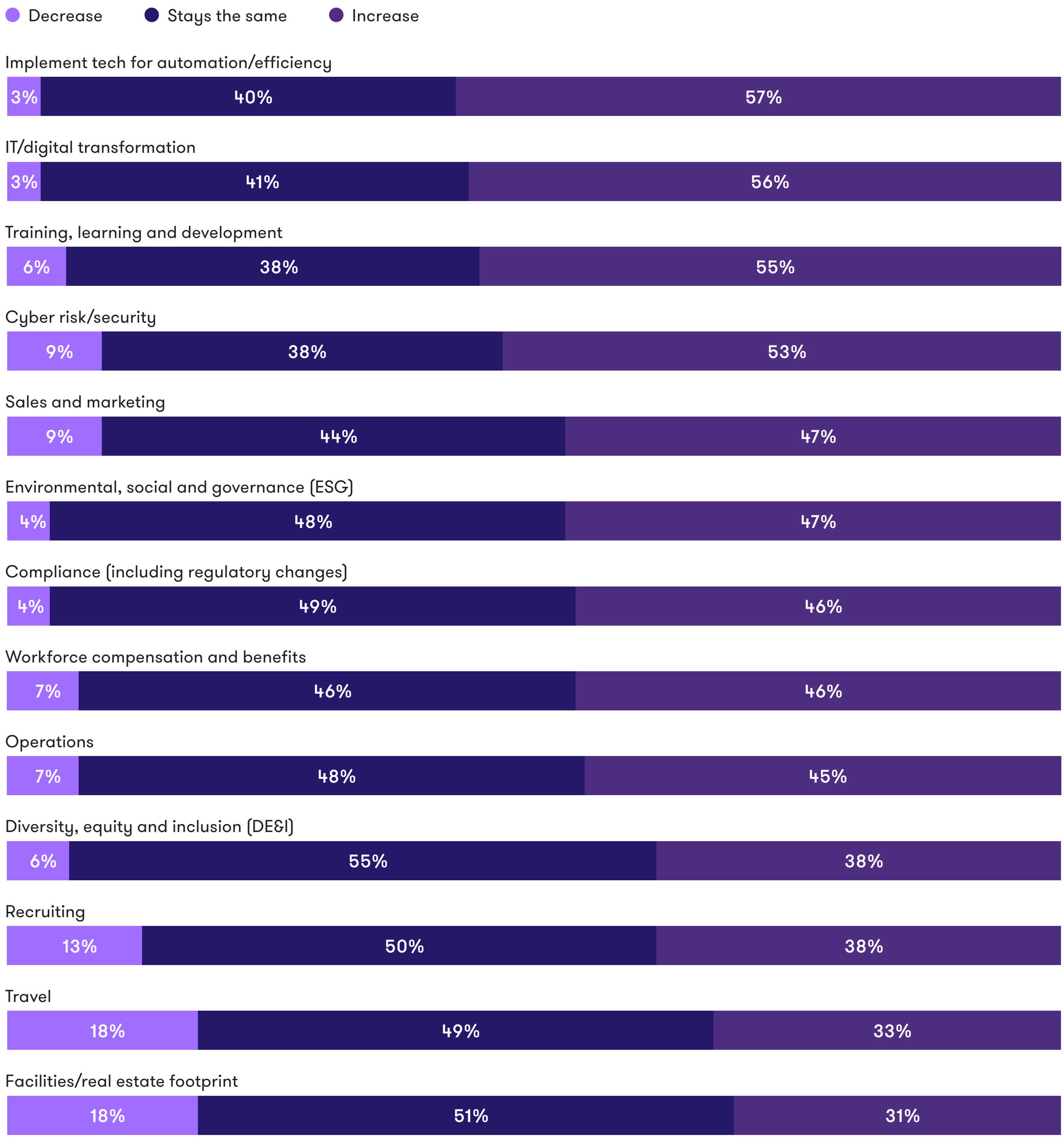


Chart 20: Acting on ESG initiatives

Q: How has your organization incorporated ESG?

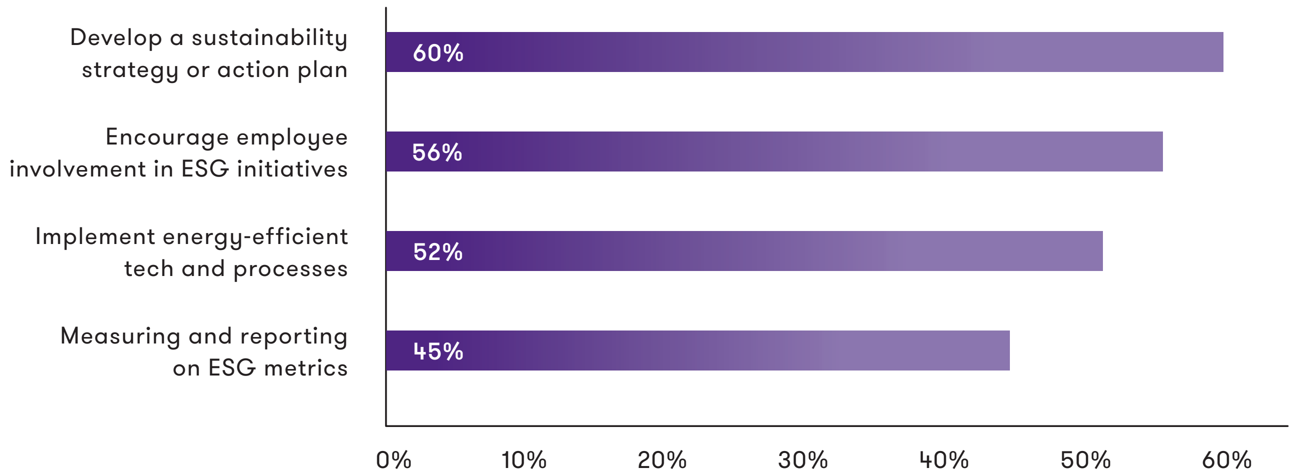


Chart 21: Workforce: Prioritizing pay, development - CFOs work to attract and retain talent

Q: Of the following, how does your organization attract and retain talent?

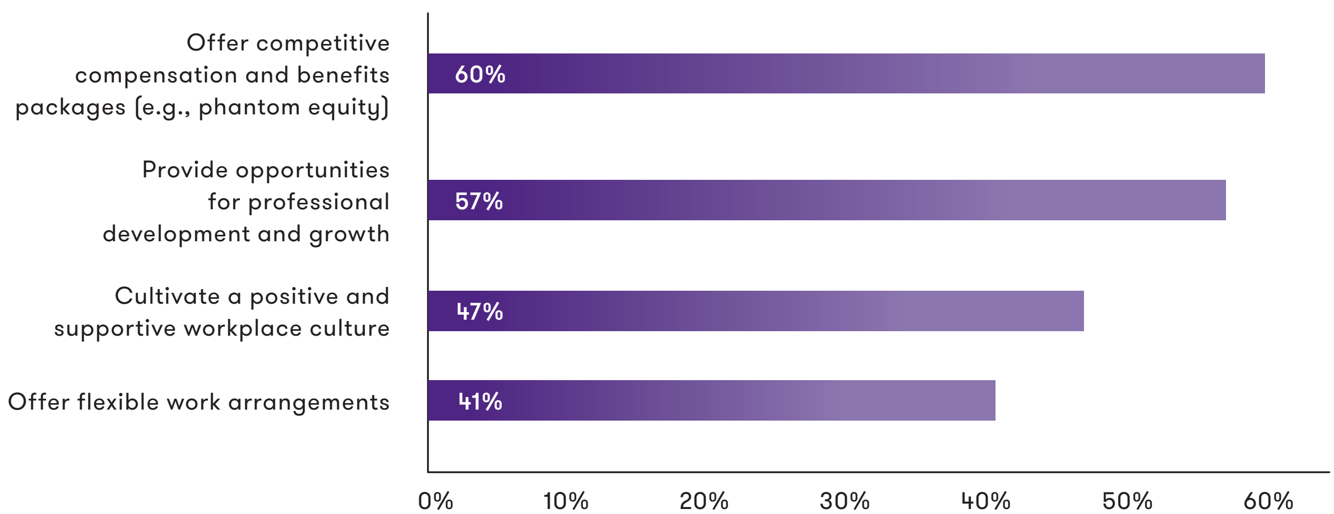


Chart 22: A keen focus on retention - Workforce challenges continue

Q: How do you expect economic conditions to affect your human capital plans over the next six months? Please select all that apply.

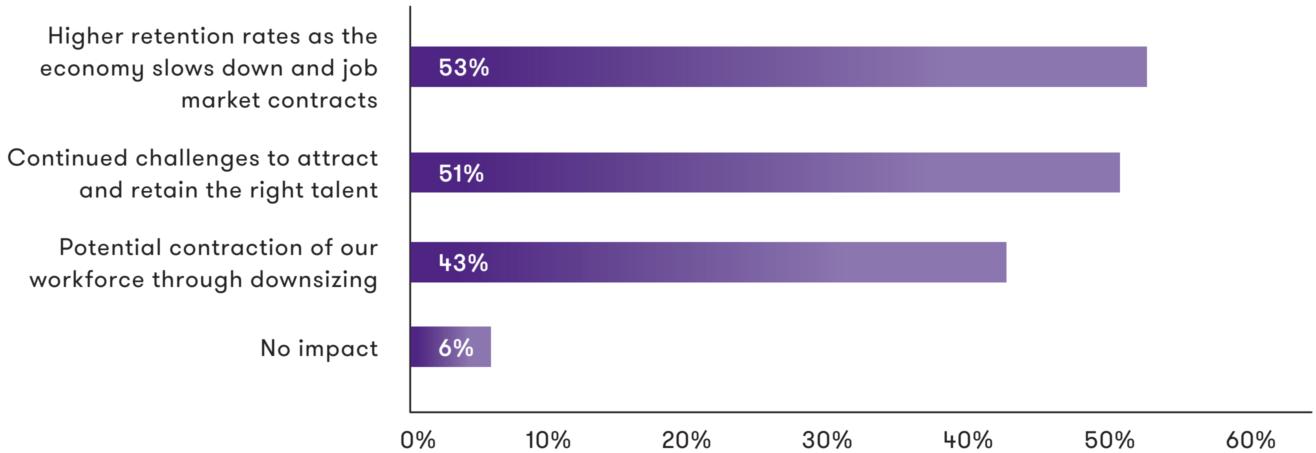


Chart 23: Leaning into culture - Establishing a healthy work environment

Q: Which of the following, if any, are priorities for the next 12 months as it relates to human capital in your organization? Please select all that apply.

Chart 24: Targeting new markets and products - Market share also is a priority

Q: Of the following, what is your organization likely to do over the next 1-3 years to enable growth? Please select all that apply.

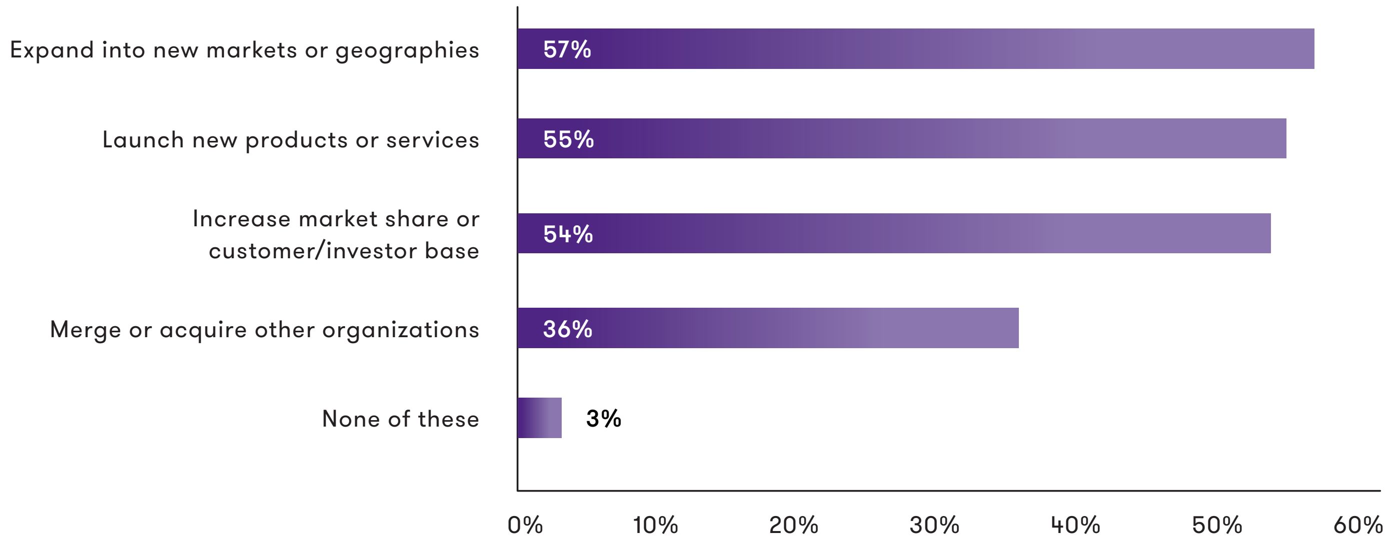


Chart 25: Capital needs are imminent - Fundraising activities expected in 2024

Q: Given the current business and economic climate, when do you expect to need to raise capital in the near future?

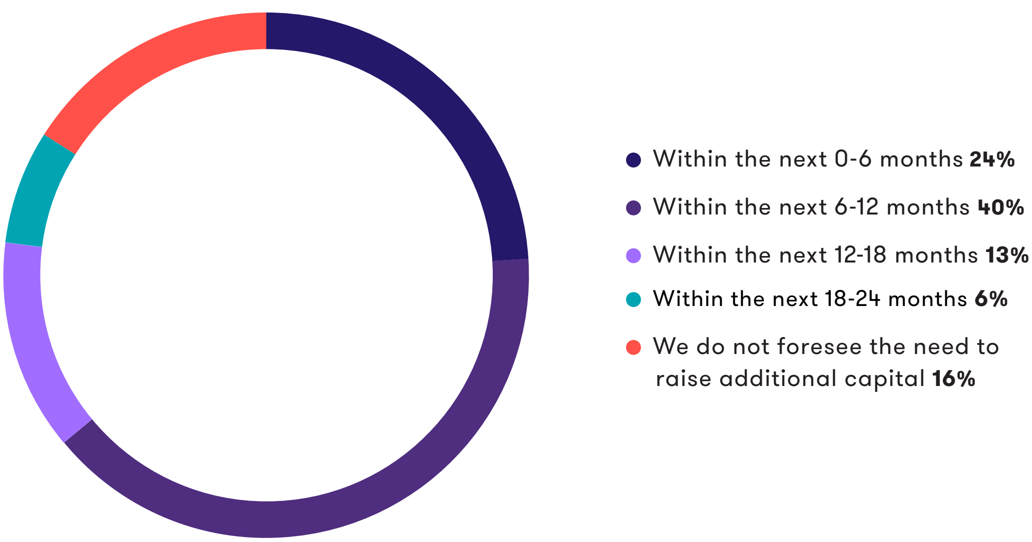
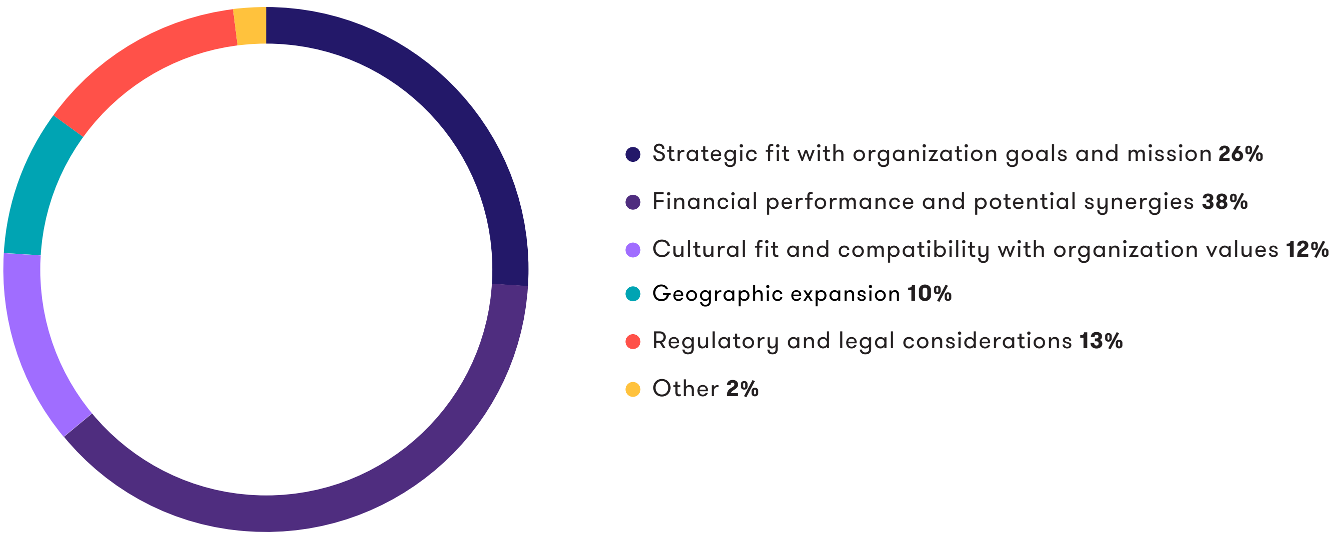


Chart 26: Synergies are top M&A objective - CFOs also prioritize strategic fit
Q: Of the following, what is your top consideration when evaluating potential merger and acquisition opportunities?



Contacts

Michael Patanella
National Managing Partner,
Asset Management
T +1 212 624 5258
E michael.patanella@us.gt.com

Graham Tasman
National Managing Partner,
Banking
T +1 215 376 6080
E graham.tasman@us.gt.com

Did you find this content useful?

Click on an icon to provide your feedback

Grant Thornton

GT.COM