

December 2020

Growth Readiness Study

Fourth Edition



STATE STREET®

Growth Readiness Study / Background

Charting the transformation of our industry

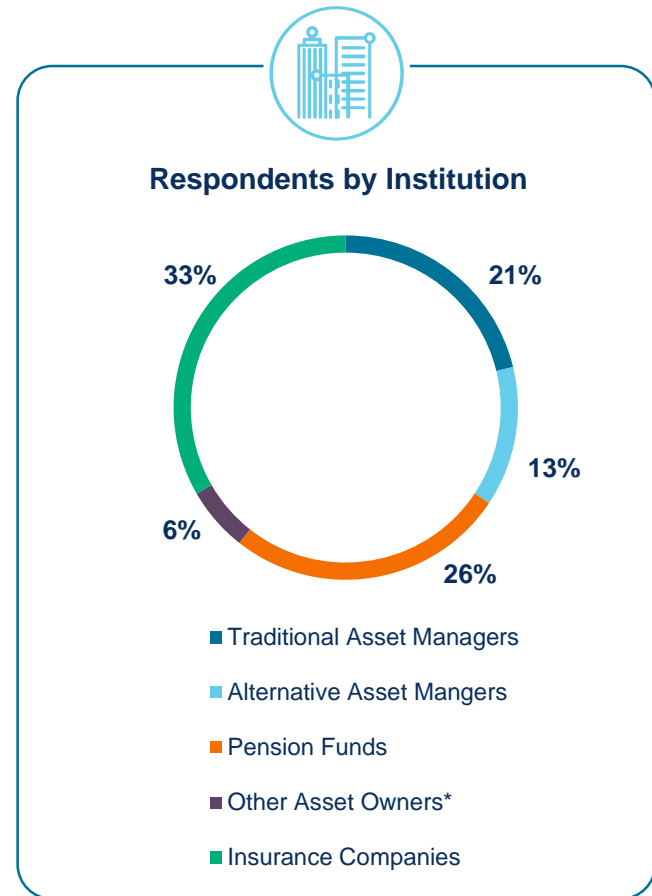
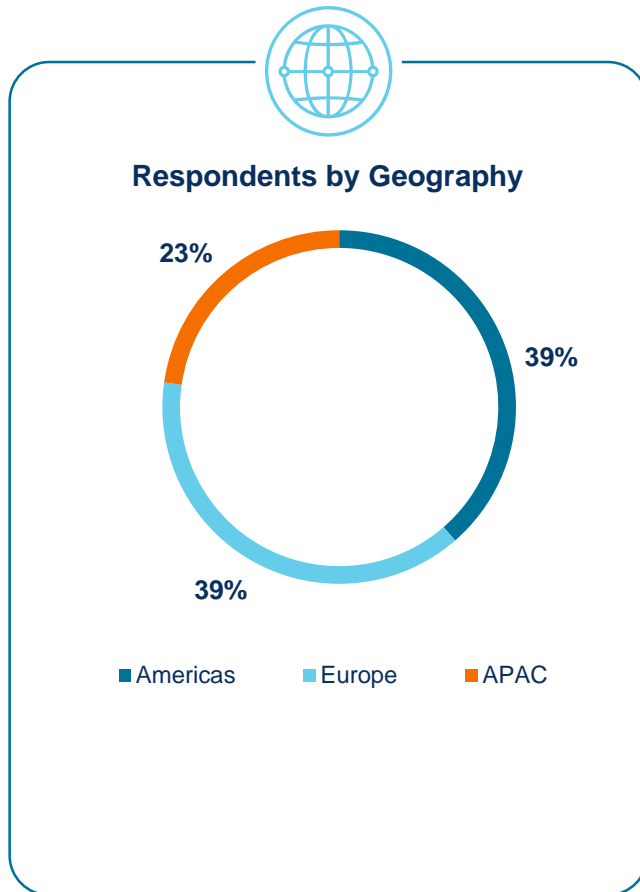
Now in its fourth year, this proprietary State Street research study explores opportunities and challenges for growth in the investment industry, capturing responses from 618 senior executives globally.

2020 Respondent Sample



Respondent Demographics

- State Street engaged Longitude Research to field this global survey during September and October 2020
- Respondents span various geographic locations, representing institutional asset owners, asset managers and insurance companies



*Endowments, Foundations, Charities & Official Institutions

Headline Findings



Growth challenges just got bigger

Confidence in meeting growth targets over the next year is at its lowest since the study began (49 percent), but there is widespread optimism about rebuilding stronger for the long term. Asset managers and insurers are having to look closer to home for growth opportunities for now.



Resilient partners are in demand

The largest asset owners and asset managers are planning to move towards fewer, more strategic partnerships — and they value size and resilience.



Modernization paid off and becomes more urgent

Firms with mature cloud and digital strategies coped better with the operational demands of the crisis. Further, this modernization will only grow more urgent in a 'second-wave scenario', while hiring and overseas expansion will be put on hold.



Remote working becomes a long-term strategy

Remote working has moved from necessity to strategic plan: seven in 10 firms will allow it to continue long term, and enhancing remote working and culture has rocketed up the priority list.



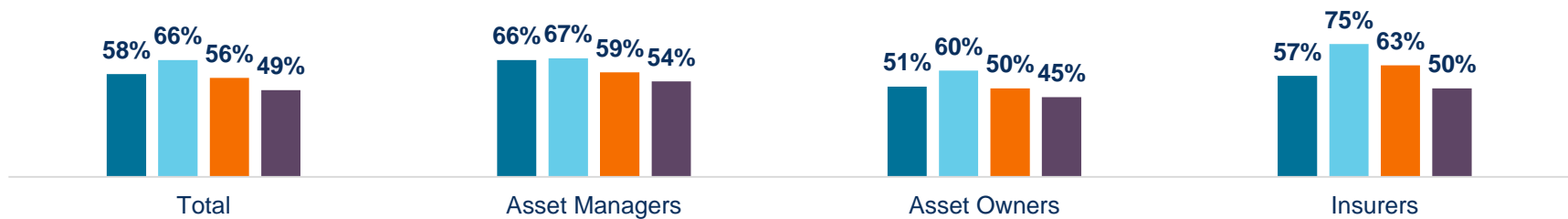
Alternative data is in demand

There's increased appetite for the use of alternative data to improve investment intelligence, but it still attracts skepticism around its reliability and many firms lack the necessary in-house infrastructure to apply it effectively.

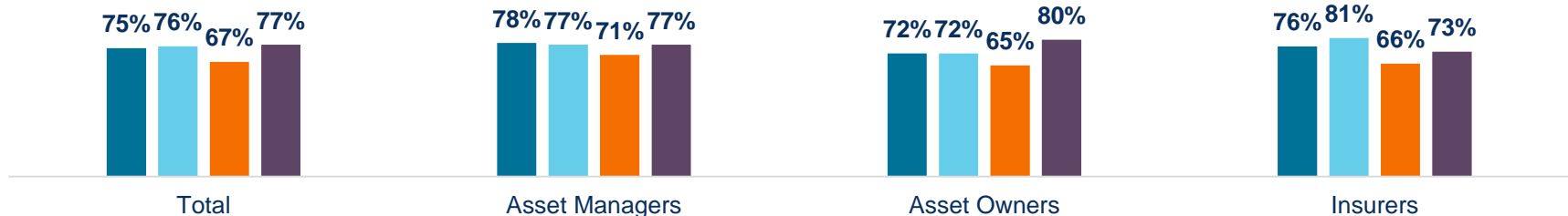
Confidence in the one-year growth outlook has dropped, but the longer-term forecast is bright

The pandemic has shaken the confidence across the board, but the long-term, five-year outlook is as strong as earlier, suggesting most organizations are confident they can rebuild stronger as they emerge from the COVID-19-driven disruption

Proportion optimistic (very/somewhat) about meeting growth targets over the next year



Proportion optimistic (very/somewhat) about meeting growth targets over the next 5 years



■ 2017 ■ 2018 ■ 2019 ■ 2020

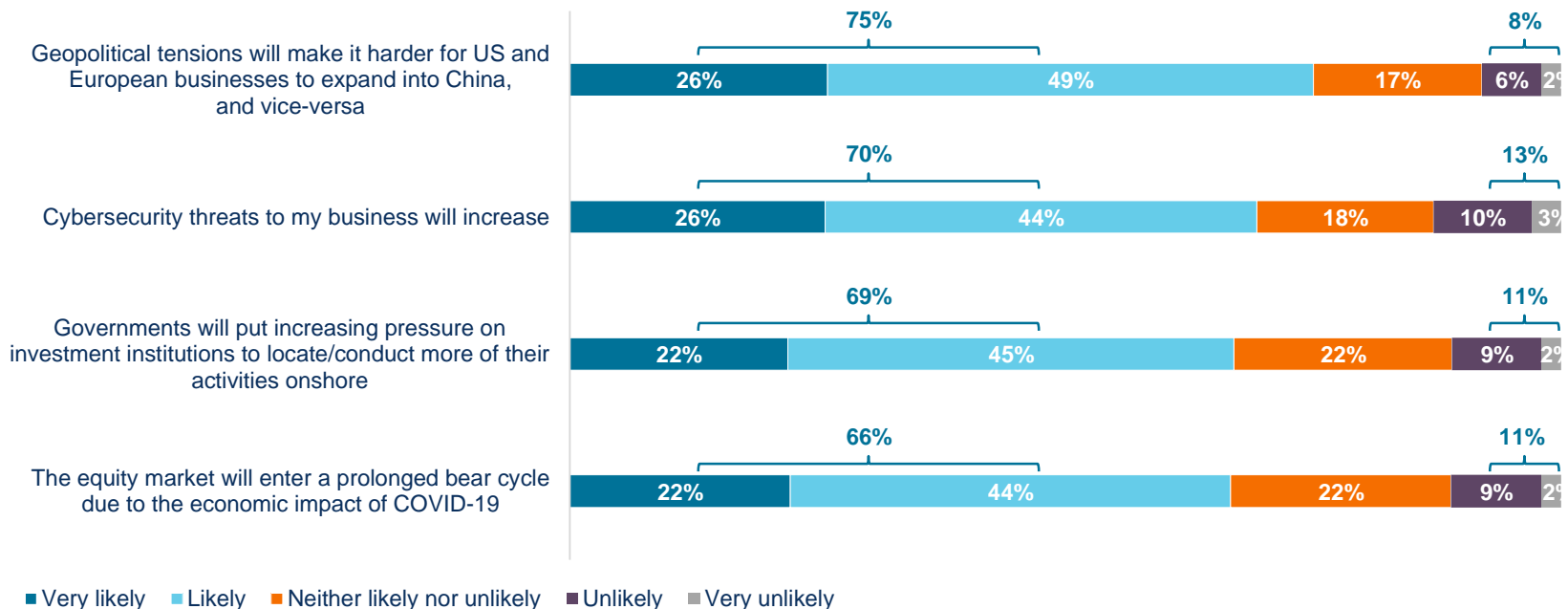
Q2a. What is your outlook for your organization to achieve its top growth objective – as stated in the previous question – over the time periods below?

Base: Total 2018 n=516, Total 2019 n=523; Total 2020 n=618; Asset Managers n=210/200/213, Asset Owners n=201/223/200, Insurers n=105/100/205

The majority think geopolitical tensions will impact expansion plans and that cyber threats are rising

- Three-quarters are concerned about damage to growth prospects in China, a key strategic market for many western asset managers
- Fears of a prolonged bear market have increased from 2019 (53 percent) as a result of COVID-19
- 70 percent of organisations expect to face increased cybersecurity threats in 2021

Likelihood of scenario occurring in 2021



Q2b. How likely do you think the following things are to happen in 2021?

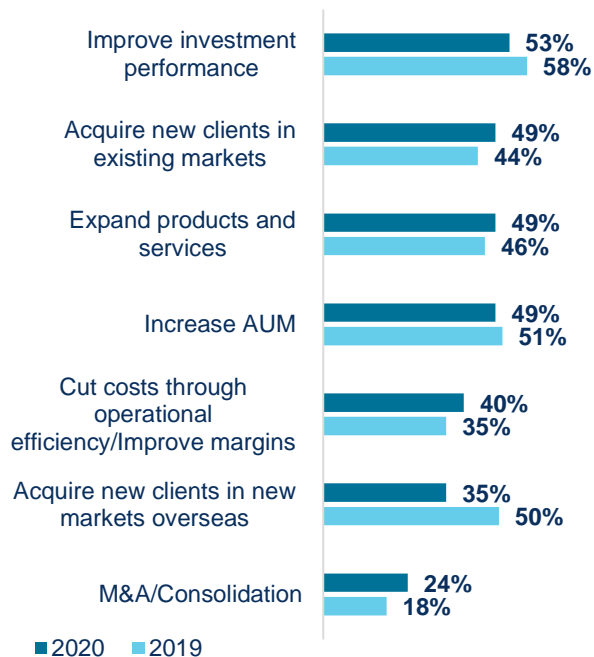
Base: Total n=618

Expansion into new geographies has been deprioritized, while pressures to consolidate have intensified

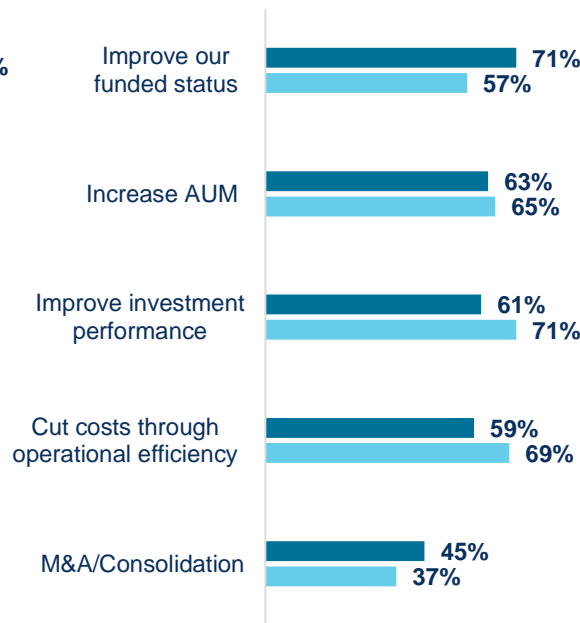
- Asset managers are focusing more on growth in existing markets compared to 2019
- Pressure to consolidate has risen across the board, while funding deficits are intensified
- Product and service innovation has risen to the top of the growth agenda for insurers

Top three growth objectives over next 12 months (Top three rank)

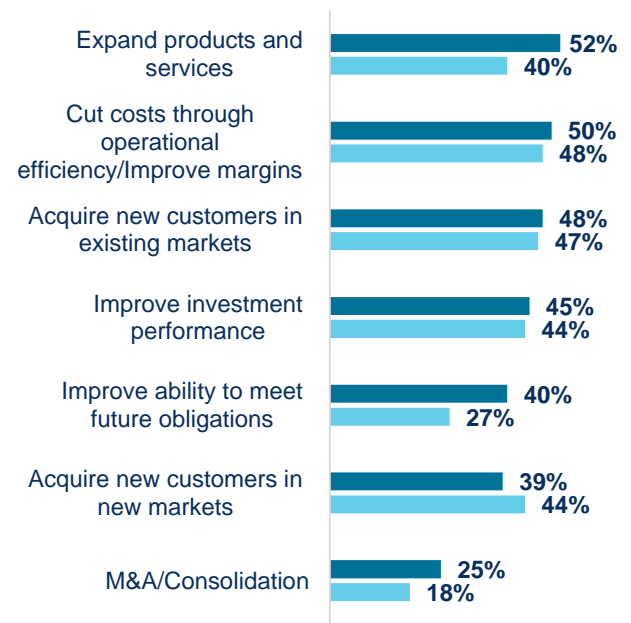
Asset Managers



Asset Owners



Inurers

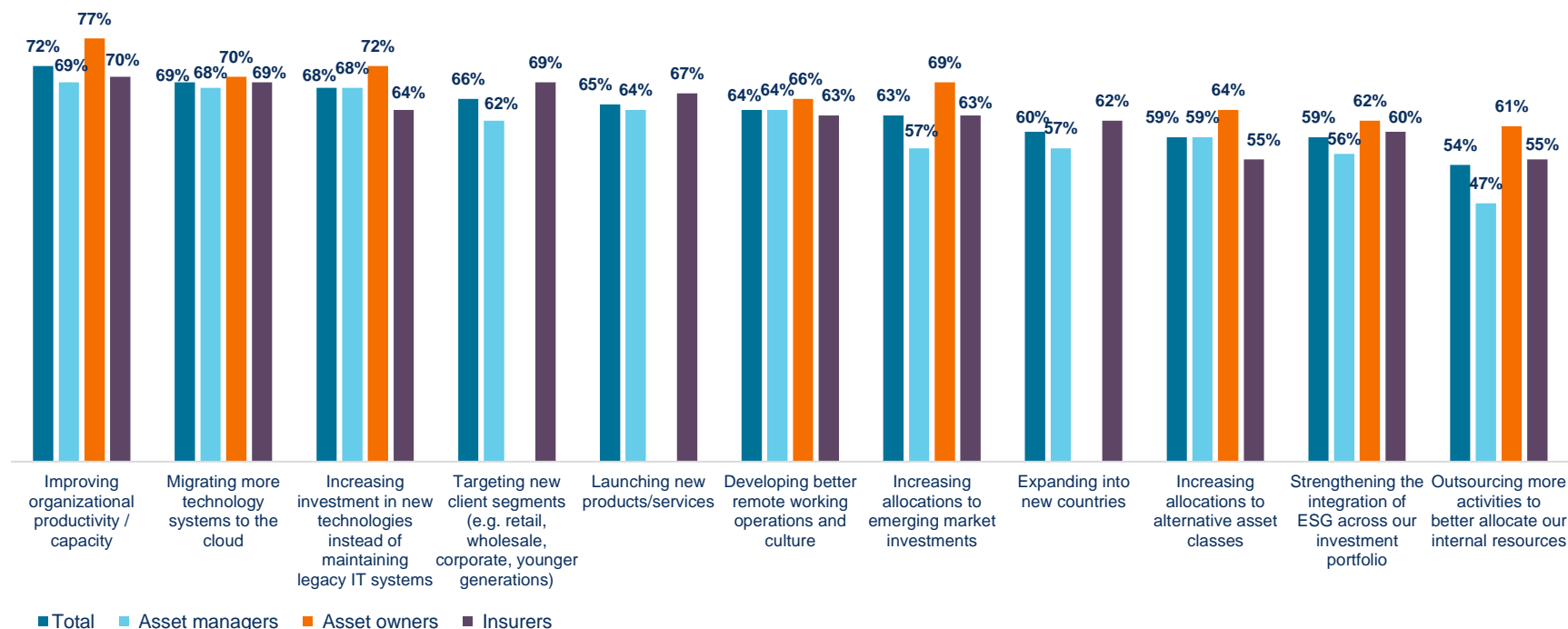


Q1. What are your institution's top three growth objectives over the next 12 months? Base: Asset Managers n=200/213, Asset Owners n=223/200, Insurers n=100/205

Elevating productivity, migrating to cloud and moving away from legacy IT are critical to growth in 2021

- Asset owners and asset managers are attaching greater importance to increased operational resilience than to other strategic actions, as they embed a platform for growth over the next 12 months
- Investing in new technologies instead of maintaining legacy systems rose sharply in importance as a result of the pandemic
- Insurers are focused on resilience too, but new client segments and product innovation are also critical

Importance of actions to growth strategy over the next 12 months (% 8-10 on 0-10 scale)

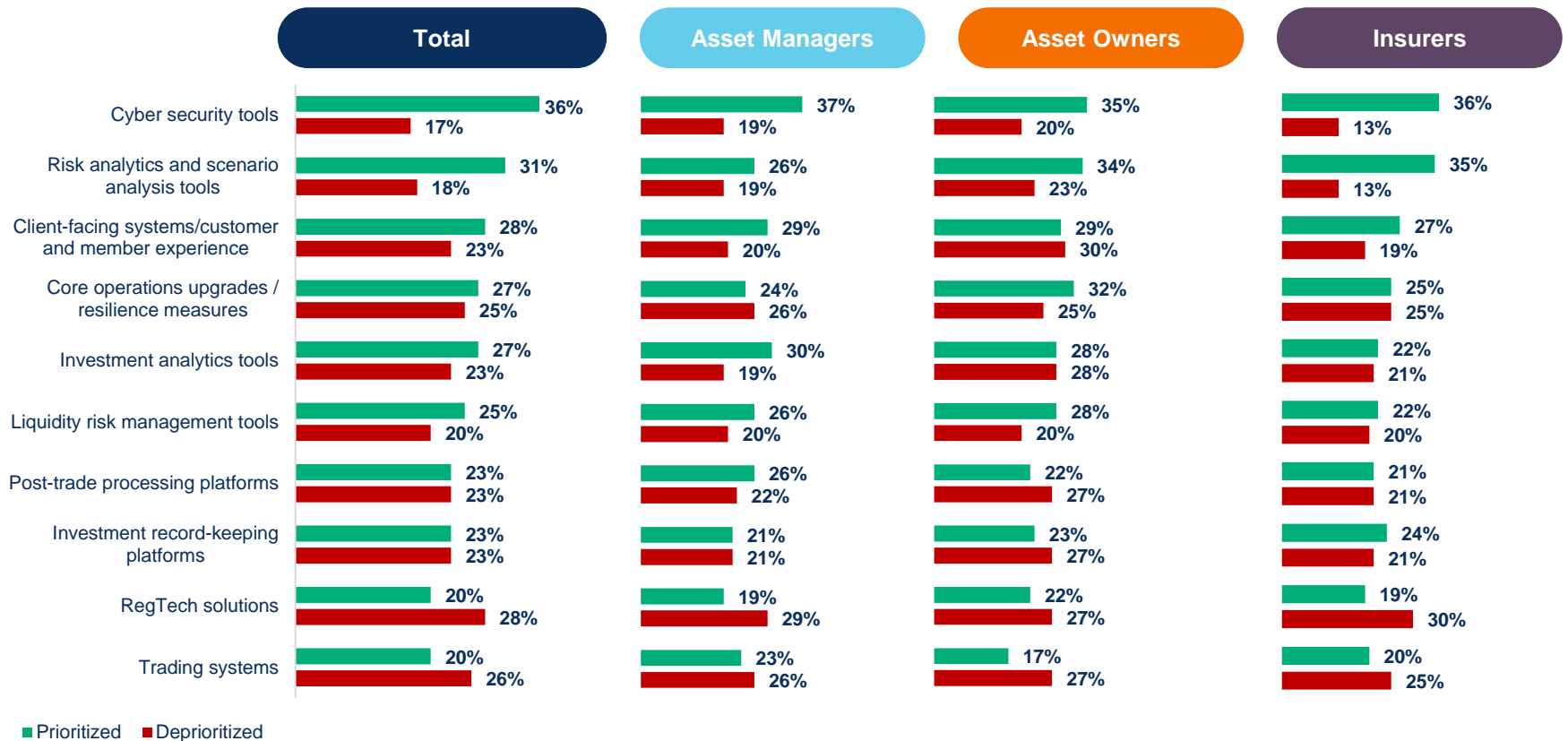


Q4. How important are the following actions for your organization's growth strategy over the next 12 months?

Base: Total n=618; Asset Managers n=213, Asset Owners n=200, Insurers n=205

Cyber security, risk analytics and client-facing systems will be prioritized in the short term

RegTech and trading systems are the most likely to be deprioritized as budget and resource pressures hit in the wake of COVID-19. For RegTech, there may be a couple of explanations: respondents coped well here amid the disruption caused by the pandemic; and those deprioritizing spending are turning to outsourcing.



Q17. Which areas will your organization prioritize for its technology spending and upgrades over the next 12 months? And which areas may become deprioritized as a result of COVID-19?

Base: Total n=618; Asset Managers n=213, Asset Owners n=200, Insurers n=205

Improving investment analytics and harnessing alternative data have become more important tech outcomes since 2019

Improving investment analytics (40 percent) has risen in importance since 2019 (29 percent), as has the use of alternative data (33 percent vs 28 percent) and the client experience (33 percent vs 20 percent).



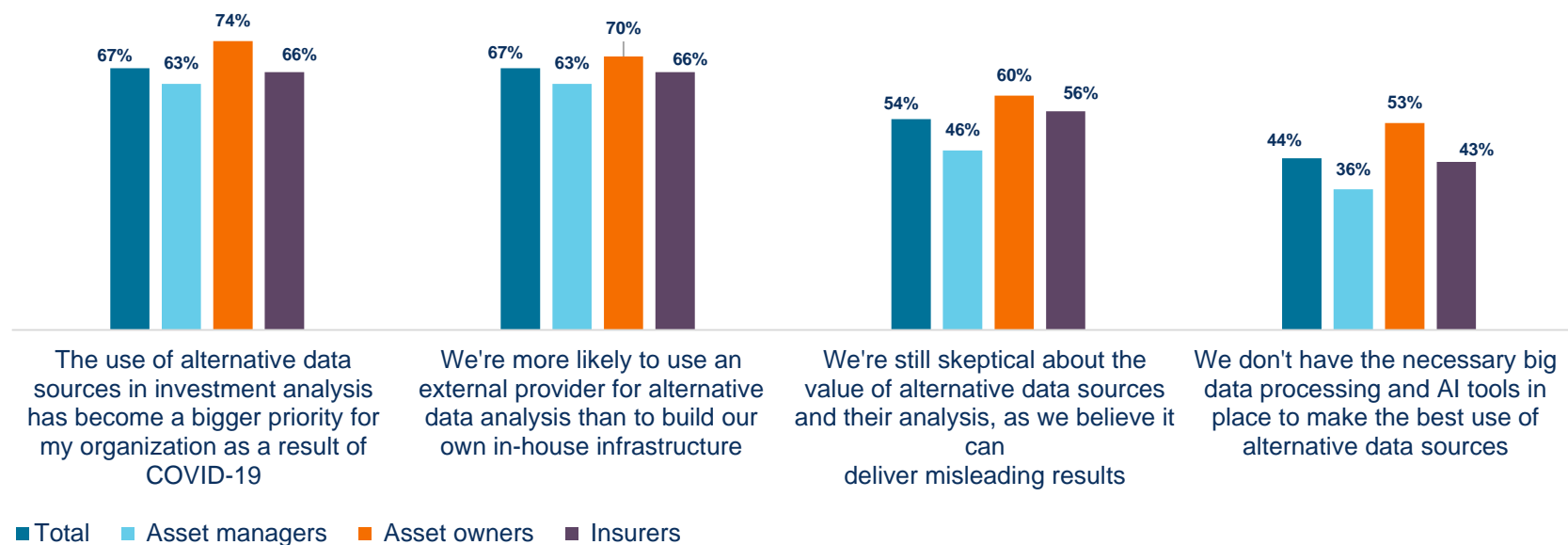
Q16. What are the most important outcomes your technology investment must deliver over the next 12 months, to help realize your institution's growth ambitions? (T3B)

Base: Total n=618; Asset Managers n=213, Asset Owners n=200, Insurers n=205

There is increased appetite for the use of alternative data to improve investment intelligence – but a long way to go

- Asset owners show strongest increase in appetite for the use of alternative data sources, but they are also most skeptical about its reliability and many lack the infrastructure to apply it
- Reliance on external analytics specialists will be the preferred route for most, as they look to supplement their investment analytics with alternative data

Agreement with statements about the use of alternative data sources (% agree/strongly agree)



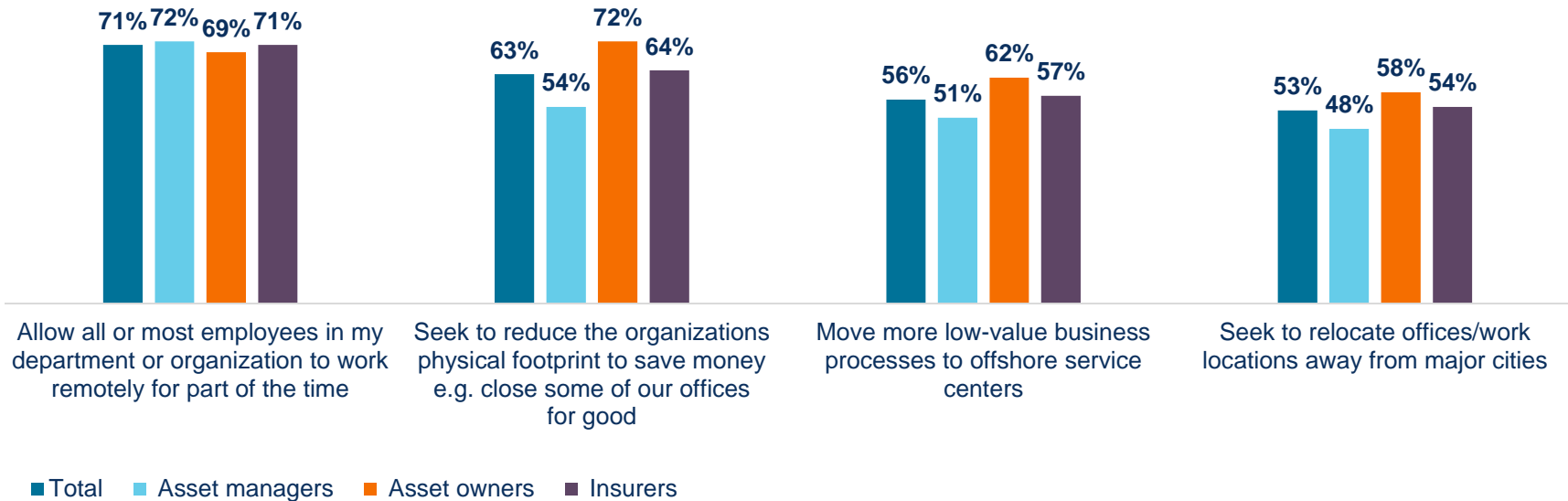
Q18. To what extent do you agree or disagree with the following statements about the use of alternative data sources (e.g. satellite images, social media posts, foot traffic and transaction data) in the investment industry over the next 12 months?

Base: Total n=618; Asset Managers n=213, Asset Owners n=200, Insurers n=205

Remote working has gained acceptance as a long-term strategy

- Seven in 10 organizations expect to allow part-time remote working to continue in the future, bringing new demands for workplace technology and information sharing
- Six in 10 organizations will use the shift to remote working as an opportunity to reduce their physical footprint

Likelihood organization will take the following actions in the future (% likely/very likely)

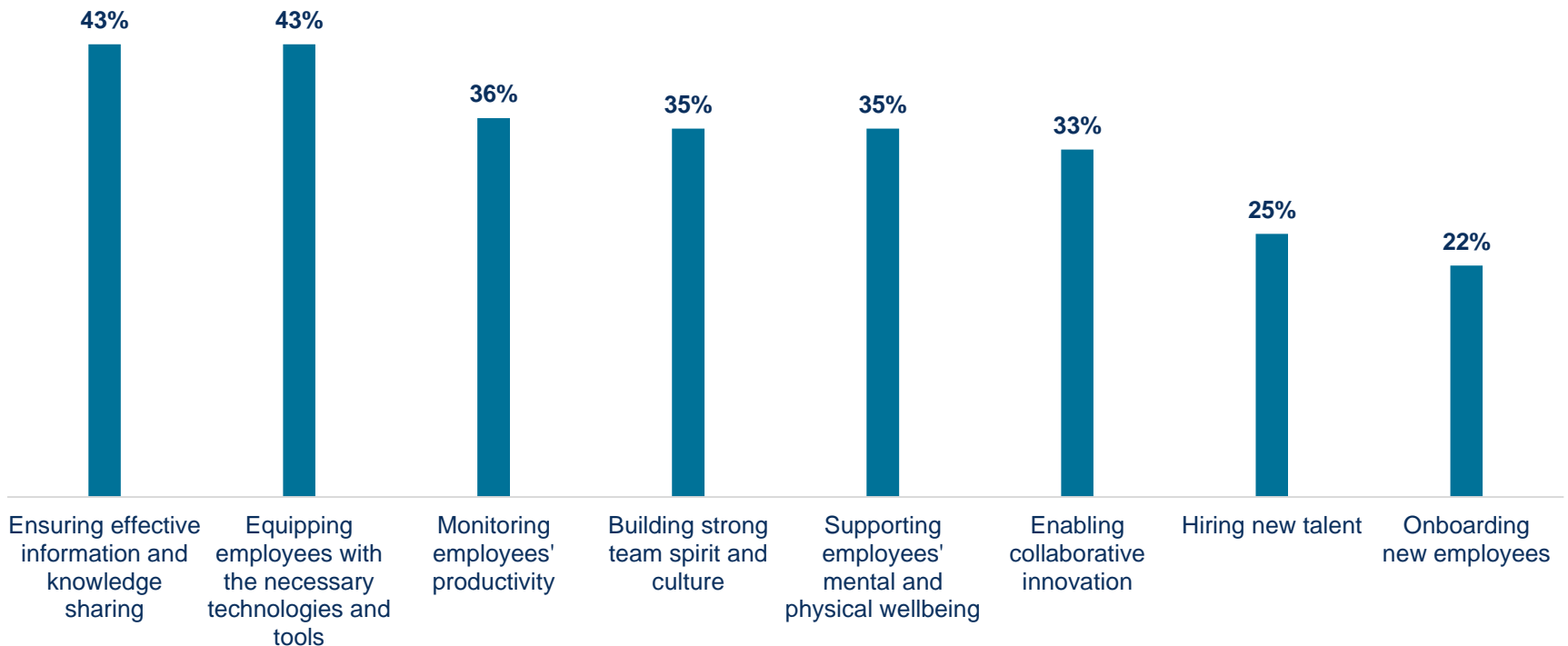


Q19. What is the likelihood that your organization will take the following actions with respect to its workforce structure and practices in the future?

Base: Total n=618; Asset Managers n=213, Asset Owners n=200, Insurers n=205

Maintaining effective knowledge sharing has been the greatest challenge in moving to remote working models

Biggest challenges adapting to post-COVID-19 workforce structures and practices

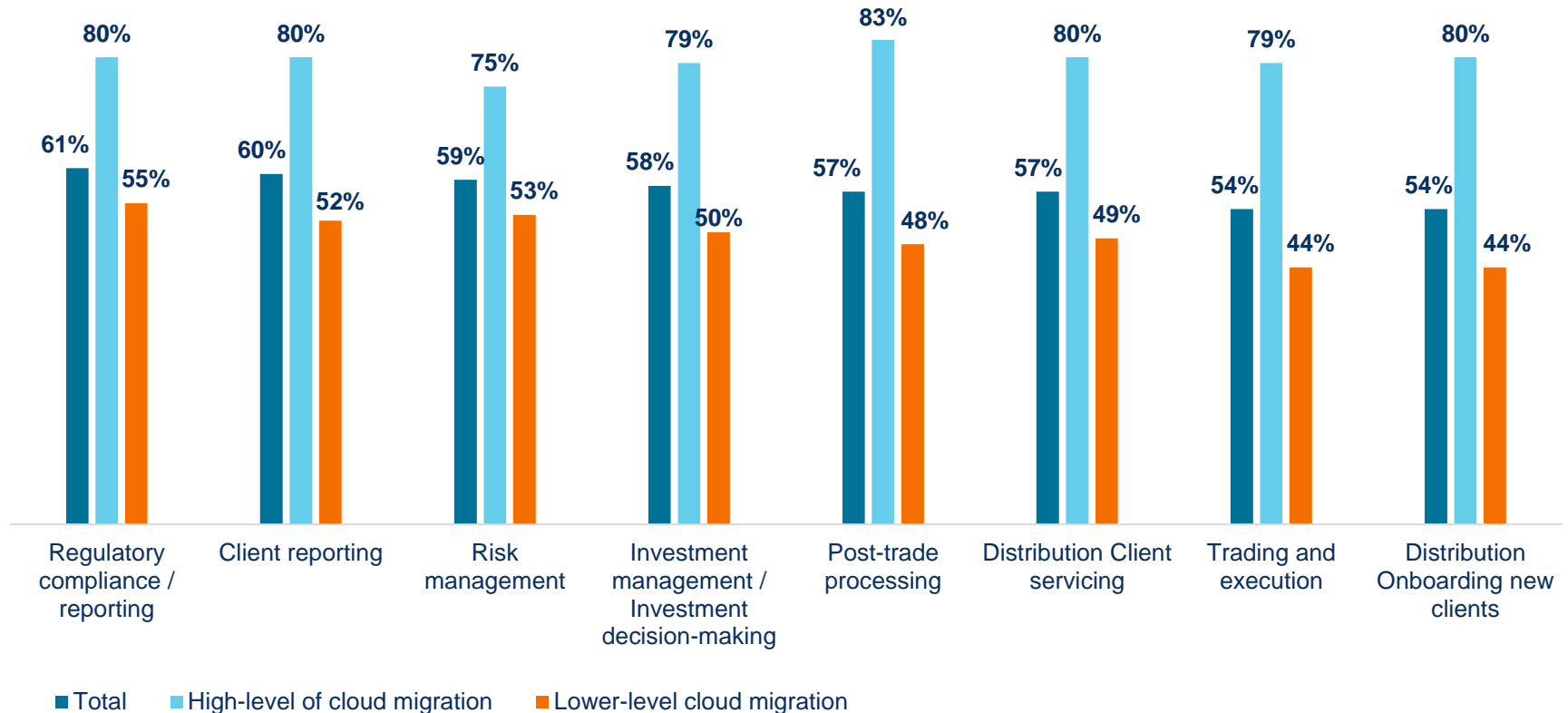


Q20. What are the biggest challenges for your organization in adapting to new workforce structures and practices in a post-COVID-19 environment?

Base: Total n=618

Firms with mature cloud strategies were more effective in responding to the pressures triggered by COVID-19

Effectiveness of organization in responding to new pressures from COVID-19 on each function (8-10 on 0-10 scale)



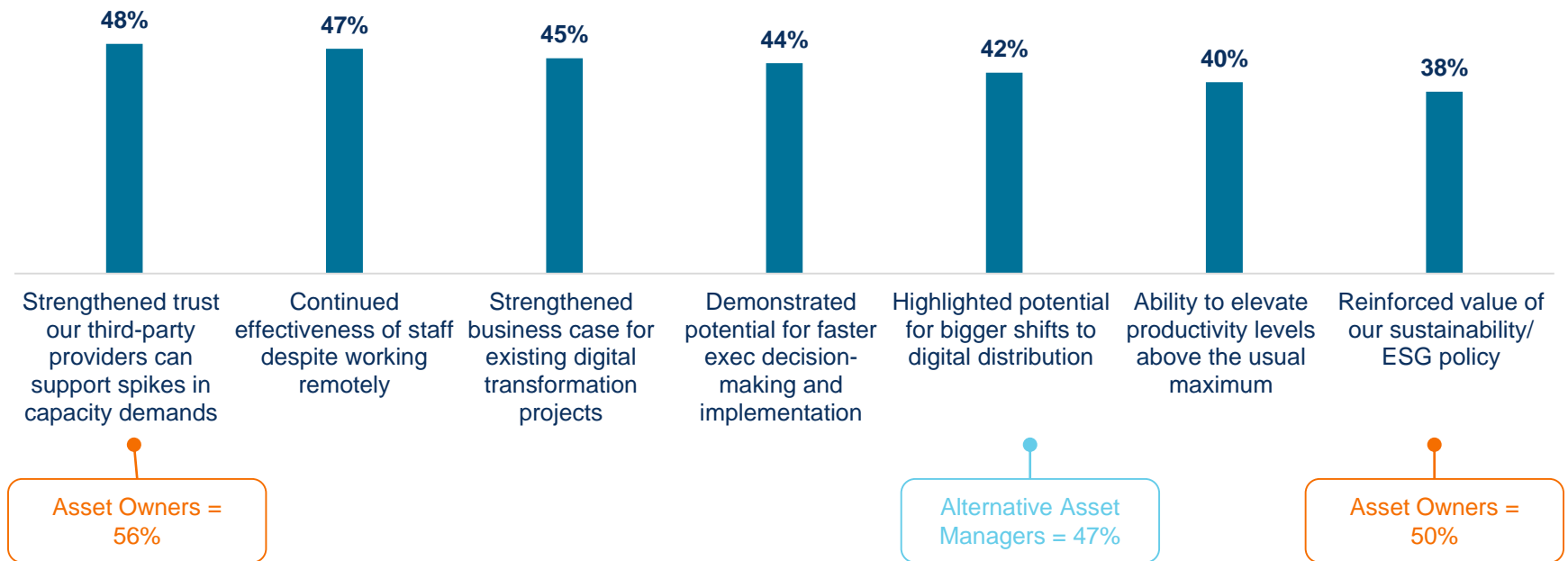
Q11. How would you rate the effectiveness of your organization's performance in responding to new pressures placed on the following functions as a result COVID-19?

Base: Total n=618; High-level of Cloud migration (9-10 on 0-10 scale) n=169; Lower-level cloud migration n = 449

Relationships with outsourcing partners have strengthened as they shouldered increased operational burdens

Despite being cited as a key challenge to adapt to, the success of remote working has been one of the most positive lessons to emerge from the pandemic-driven disruption

Most positive lessons learned about organization when responding to COVID-19 (Top Three rank)



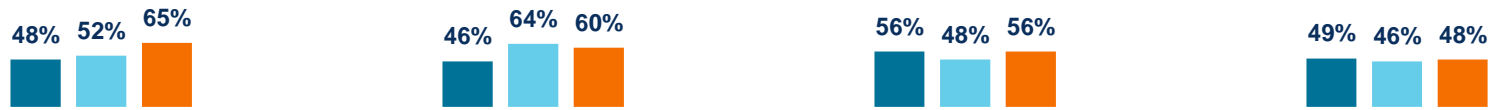
Q12. What were the most positive lessons you learned about your organization, based on its response to the disruption of COVID-19?

Base: Total n=618

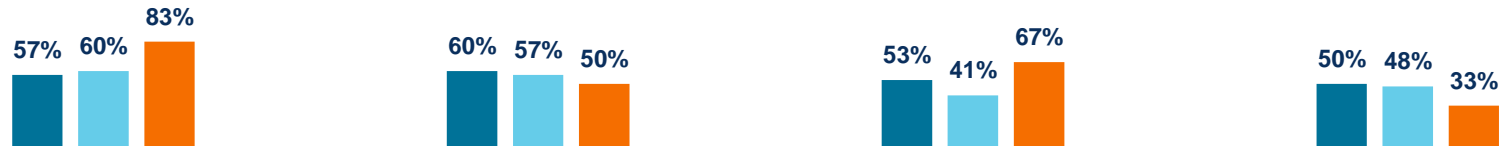
The largest asset managers and asset owners are most likely to be reducing the number of outsourcing partners to focus on more strategic relationships

Actions taken in relation to outsourcing strategy over next 12 months

Asset Managers



Asset Owners



Inurers



Consolidating the number of outsourcing partners we use to focus on more strategic relationships Outsourcing more activities that are not central to our strategic goals Reassessing blend of in-house versus outsourced support Re-examining and updating SLAs

■ AUM \$100bn+ ■ AUM \$10bn-\$100bn ■ AUM <\$10bn

Q13. Which of the following actions, if any, will your organization be taking in relation to its outsourcing strategy over the next 12 months?

Base: Total n=618; Asset Managers n=213, Asset Owners n=200, Insurers n=205

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