

Generative AI in Asset Management: Revenue and Cost Play

AIQ

On the backdrop of **poor performance in 2022 and the first half of 2023**, the AM industry has significant opportunities to leverage AI, and Generative AI in particular, to increase revenues and decrease costs. In fact, global AUMs have decreased by 12% in 2022, whilst operating profit margins were hurt significantly by rising costs and dropping revenues. On top of that, there has been a **growing decoupling trend between the share of AUMs and the share of revenues** (e.g. Alternatives representing c.20% of AUMs and raking in c.50% of revenues, whilst passives represent the same share of AUMs for only c.6% of revenues). Further, despite a slight rise in European UCITS and AIFs' net assets in H1 2023 (+3.7% compared to Q4 2022), net sales fell from €74bn in Q4 2022 to €8bn in Q2 2023⁽¹⁾.

The sudden and disruptive arrival of AI and Generative AI on the business scene means we are facing **2 Waves**: 1) **discovery and assessment** of LLMs and Chat GPT "like", and 2) **deployment of enterprise Generative AI** through the adoption of a small number of LLMs for general purpose and the deployment of many tailored and specialized models adapted from open source LLMs.

From these 2 waves we see new megatrends emerging in the AM industry:

- a) **hyper-segmentation for retail distributors** for "connected" use cases (e.g. robo-advisors based) and behavioral patterns, *
- b) **"augmented" RM support** (e.g. smart targeting, automated investors' digest, next best action proposal),
- c) **weak signals driven action** (e.g. alerting, automated transactions),
- d) **automated portfolio strategies**, fast portfolio analysis with smart visualization and scenario planning,
- e) **"intelligent operations"** (e.g. smart KYC/onboarding and reconciliations),
- f) **intelligent interactive reporting** (e.g. performance attribution, regulatory compliance), and g) digital assets processing (e.g. primary and secondary tokens, and NFT markets).

In practice, the benefits of Generative AI will be able to yield revenue and cost gains on different components of the AM value chain. We estimate:

- a) 10-15% revenue gains and 15-20% cost gains in **sales, marketing and relationship management**,

- b) 5-10% revenue gains and 5-10% cost gains in **investment management and dealing** and,

- c) 20-30% cost gains in **post-trade client services and support functions**

Unleashing the capabilities of Generative AI in AM demands a **dual strategy** to ensure ongoing delivery of impactful AI use cases at reach. This translates in:

- a) **systematic ideation** (including a global Generative AI technology watch) to identify the most relevant uses cases by attractiveness and accessibility including the assessment of "data feasibility" in parallel,
- b) discipline to **consistently deliver** use cases, and,
- c) **capture of collective knowledge, experience and ideas from individual employees** who are already using Generative AI, to jump-start innovation within your company.

The compounded effect of the myriad of potential use cases supported by Generative AI can add to more structured AI enterprise programs by feeding the ideation engine with relevant use cases based on employees' own perceptions of pain points and opportunities that can be addressed.

¹ Source: BCG Global Asset Management 2021 & 2022 reports, EFAMA Quarterly European Statistics Q2 2023, Reboul & Co. analysis

Let's get in touch to start the adventure