



# INNOVATION

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**Generative AI in Asset Management: Revenue and Cost Play**

# Generative AI in Asset Management: A Revenue and Cost Play

We believe the application of Generative AI in the Asset Management industry will yield revenue and cost gains on different components of the 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**.

## Asset Management value chain

	Sales, Marketing and Relationship Management	Investment Management and Dealing	Post-trade Client Services and Support Functions	Transversal ESG
Gen AI / AI Most Promising Use Cases	> Identify and segment investors and generate personalized outreach communications (e.g. customized prospecting)	> Create tailor-made and compliant portfolio recommendations (cf. Alpima)	> Automate reconciliations (FO / MO / BO) (cf. Clearwater GPT)	> Analysis of large datasets to identify ESG trends and performance evaluation (cf. Ethics & Boards)
Impact	> Revenue: 10-15% > Cost: 15-20%	> Revenue: 5-10% > Cost: 5-10%	> Revenue: N/A > Cost: 20-30%	
Selected AI Providers - Illustrative	AlphaSense, FUNDVELOCITY, KURTOSYS, MODULAR FINANCE	avout, DARKTRACE, KENSHO, ALPIMA	UjPath, zapier, FundShor, ZEITGOLD, hyperlex	Datamaran®, SUSTAINALYTICS, TRUVALUE LABS

Note: Applicable for Institutional Asset Management only

## Could Responsible Governance Be An Untapped Value Well?

We have identified 5 reasons for adopting sustainable governance practices, that are both defensive and offensive in nature:

**DEFENSIVE:** a) Shaping the market and consequently reducing implementation costs, b) Mitigating the risks of reputational damage, and c) Reducing shareholder value destruction.

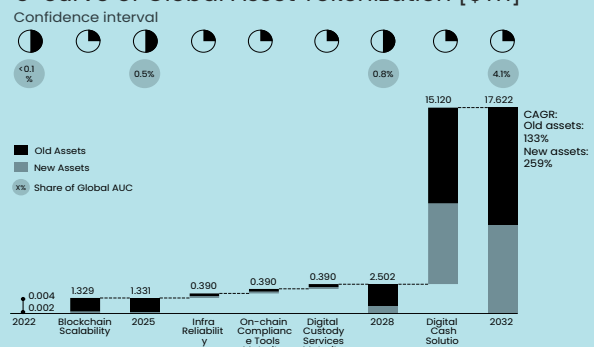
**OFFENSIVE:** a) Research suggests responsible governance is value creating and b) Responsible governance also creates value in the form of talent attraction and retention.

Player type	Players	Products and services
FINTECHS / ESG SERVICE PROVIDERS	Ethics & Boards Make informed decisions	> Collection and analysis of governance data (i.e. 250 data points per company), creation of a governance score for each analyzed company, internal governance assessment for companies
	MORROW SODALI	> Proxy voting advisory (e.g. shareholder and voting intention profiling), governance advisory (e.g. internal assessments), ESG advisory (e.g. executive committee training)
	SUSTAINALYTICS	> ESG risk scoring, ESG company training, production of sustainable investing reports
	ISS	> Governance research and advisory, proxy voting services, ESG scoring
	RepRisk	> ESG data providing, ESG risk mitigation platform
MARKET INFRA-STRUCTURE	VALUECO	> Measuring of the spread and risk factor between the scoring of asset managers' portfolio companies' ESG rating consensus. Valuecometrics measures the score dispersion both statically and dynamically through time to evaluate the market benchmark
	EURONEXT	> Listing and trading services, ESG index creation, corporate governance services (e.g. anonymous whistleblower software for corporates)

## How to make sense and position on the emerging debt tokenization market?

We believe that several influencing factors remain to be looked at to identify a predictable future for this market: a) The willingness of stakeholders to settle in digital currencies (e.g. stable coins and deposit tokens vs. CDBC), b) The potential conflict of interest / threat to TradFi players (cf. disappearance of CCPs and other revenues@risk), c) The regulatory level playing field across regions and restrictions on token volumes might be restrained (e.g. quota by issuer), and d) The technological choices such as the mix between Public and Private infrastructure (e.g. permissioned services on top of public infrastructure emergence).

### S-curve of Global Asset Tokenization [\$Tn]



Sources: Reboul&Co. and KPMG research and analysis, Statista, BCG - The Tide Has Turned (2023), State Street - 2023 Outlook for ETFs, Citi - Money, Tokens, and Games (2023), Federal Reserve Board - Tokenization: Overview and Financial Stability Implications (2023)

# #01

## How to make sense and position on the emerging Debt Tokenization Market?



RESEARCH ABSTRACT

Crypto-assets have been heavily criticized in the past few years following the “crypto-debacle” that started with the demise of crypto-exchange FTX. But to say the least, the crypto-currency and digital assets landscape is fuzzy and super-fragmented across players and along the Wholesale Banking value chain, with different forms of **“new cash” aka. digital currencies** (e.g. Central Bank Digital Currencies, stable coins, deposit tokens) and **“new securities” aka. investment tokens**.

The main advantages of blockchain-based tokenization rely on a) **fractionalization** giving room to democratization, b) **blockchain based features including smart contracts** that beyond giving

transparency, reduce the cost to serve (e.g. no “reconciliations” across players, lower posted collateral) and increase responsiveness (e.g. instant immutable replications).

As any security, a digital security exists across assets classes (e.g. Equities, Debt / Fixed Income, Real Assets and others) and is supposed to grow in triple digits over the 5 forthcoming years (e.g. illiquid assets from USD 0.3T to USD 10.2T).

One can observe in fact two kinds of digital security markets: a) the **“legacy players digital market”** that gathers traditional finance (TradFi) players of wholesale banking (e.g. investors and issuers, market infrastructures, CIB / Securities Servicers) on often “classic asset classes (cf. “digital bonds” growing from USD 0.5B to USD115B) and b) the **“digital native token players”** including some centralized (CeFi) or decentralized finance (DeFi) players



(e.g. equity trading exchanges). These two worlds meet across the Wholesale value chain with different “use cases” and experiments:

**Pre-trading / Primary markets** (e.g. Simplified onboarding of asset holders and traceability, Securities and Real Assets Token issuance, Fractionalization democratization offerings, NFT issuance).

**Trading / Secondary markets** (e.g. Traditional asset type driven platforms across assets, New digital asset types trading, Funding / Liquidity arbitrage across DeFi, Automated Market Making, Trade matching work process optimization).

**Post-Trading** (e.g. Elimination of the central counterparty clearing house (CCP), Significant reduction of settlement times and posted collateral).

Regarding the primary market, many experiments have been run by TradFi players regarding debt issuance, yet with limited size, with 2 different models:

**1.** Bond is tokenized but listing and bond storage on **TradFi infrastructure** (i.e. GS DAP, HSBC Orion). Example: EIB used HSBC Orion in January 2023 for USD60 m, Duration 3 years

**2.** Bond is listed and stored on the digital exchange (i.e. SDX, D7). Example: City of Lugano used Six **Digital Exchange** in January 2023 for USD106 m, Duration 6 years

We believe that several influencing factors remain to be looked at to identify a predictable future for this market:

**The willingness of stakeholders to settle in digital currencies** (e.g. stable coins and deposit tokens vs. CDBC's).

The potential **conflict of interest / threat to TradFi players** (cf. disappearance of CCPs and other revenues@risk).

The **regulatory level playing field across regions** and restrictions on **token volumes might be restrained** (e.g. quota by issuer).

The **technological choices such as the mix between Public and Private infrastructure** (e.g. permissioned services on top of public infrastructure emergence).

In this framework we still recommend building a two-legged strategy based on:

**“No regret” moves** (e.g. de-risk dependance on digital currency “conundrum” with for intra-group initiatives for In-House coins, capitalize on digital asset custody experimentation as securities tokens (and there)).

**Tactical moves** (onboarding current exploratory initiatives and scouting active FinTechs, Create / Onboard venture fund).



# #02

## Could Responsible Governance be an untapped value well?

### RESEARCH ABSTRACT

Banks have started to adopt “ESG” initiatives by trying to adhere to the regulation (e.g. SFDR in Europe) and focusing on the environmental and social aspects, whilst snubbing or prioritizing governance. But in the light of recent scandals (e.g. Renault-Nissan, Orpéa, Wirecard, Credit Suisse) it is becoming commonly admitted that **governance is correlated with value creation and that best practices of governance are a prerequisite for sustainable value creation**, both directly (i.e. preventing value destruction) and indirectly (i.e. attracting and retaining talent). Thus, the concept of Responsible Governance emerges, that is deploying initiatives beyond what is imposed by the regulation and not simply adhering to SFDR’s vaguely defined “good governance” principles and addressing the “non-financials”.

We believe that the Responsible [or ‘Sustainable’] Governance concept **is an opportunity for banks to protect and differentiate themselves** (i.e. financing and investing in companies with responsible governance).

We have identified 5 reasons for adopting sustainable governance practices, that are both defensive and offensive in nature:

#### DEFENSIVE

**a) Avoiding or Reducing shareholder value destruction** caused by a resurgence in governance scandals (discrete but potentially catastrophic in nature).

**b) Mitigating the risks of reputational damage** that are amplified by the rapid distribution of information through internet and which are especially relevant for public and semi-public actors’ “role model” status.

c) **Contributing to shape the governance related regulations** and consequently **reducing implementation costs**. Corporations are already **adapting to their stakeholders' expectations** by deploying initiatives that are not required by the regulation. On the other hand, certain market players do highlight that governance is already largely covered by the banking regulation.

## OFFENSIVE

a) Research suggests **responsible governance is value creating**. In fact, companies that have responsible governance practices tend to have a higher marginal value of their excess cash and the opposite is true for companies with poor governance practices. This is, for instance, reflected in the strong stock performance of family business and low carbon ETFs which happen to be characterized by high governance scores. Consequently, this leads to **companies with responsible governance practices attracting more capital**.

b) Responsible governance also creates value in the form of talent attraction and retention. Research suggests that **companies characterized by responsible governance have higher employee satisfaction** levels and in turn, companies with high employee satisfaction have **higher levels of innovation, are more profitable and have higher client satisfaction**.

A few banking players, supported by FinTechs and Expert firms have started to **design products and services related to responsible governance** such as:

**Governance scoring** (central enabler) based on public and private data [fragmented] sources (cf. Ethics&Boards, ISS, RepRisk).

**Governance advisory** (secondary enabler).

"G" ETFs (cf. Euronext).

**Governance maturity assessment services** (cf. Ethics&Boards).

Use of proxy voting to influence the governance practices of portfolio companies (cf. Morrow Sodali).

Application of an internal proprietary governance scoring system to select investments in portfolios (cf. Robeco)

Tax optimization advisory services (cf. Société Générale).

We believe, that as the regulatory agenda on "ESG" is currently very much geared towards environmental issues, there is value for the Financial Services players in **anticipating the responsible governance agenda by:**

Defining a bespoke offensive and / or defensive stance for the firm raising awareness at Board Level. That is, for instance, costing reputational damage and time to good reputation recovery.

Deriving a portfolio of value creating initiatives .

Scouting the Responsible Governance enabling ecosystems (e.g. FinTechs) to accelerate adoption and secure implementation.

# #03

## Generative AI in Asset Management: Revenue and Cost Play



Hello!  
How can I assist you today?

RESEARCH ABSTRACT

# 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<sup>(1)</sup>.

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.

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



## About Reboul&Co.

Reboul&Co. is an “**open strategy**” to **value extraction consulting firm** of new kind. We provide forward looking vision and contribute to tailor tomorrow’s world. We are committed to make transformation happen and yield positive impact for all stakeholders.

We focus our shop on **two meta-industries** which correspond to key economical stakes of our territories: **Finance** including Sustainable Finance of Tomorrow and **Midcaps**.

We tackle **growth strategies, cost and expense optimization, scarce resource management** while innovating continuously by crossbreeding and cross-fertilizing our Research and Experimentations across sectors.

Our industrial model is built around a **true independent name Partnership** backed by scalable partnering companies of reference. Since we are not omniscient, we work in an **open architecture mode with partnering ecosystems** (e.g. scientific, technological, environmental) on a finite number of well-chosen differentiating topics.

We are a House of Consulting Taylors. Our brand is a wink at the eponymous French luxury suit company.

## About our ecosystems

**AIQ, Artificial Intelligence Quartermaster**, is an AI Investment House. AIQ invests in deep-tech AI companies throughout their lifecycle, innovates by incubating novel AI-first businesses, and infuses corporates with AI technology, insights and expertise.

**La Javaness is an Artificial Intelligence factory**. La Javaness helps large organizations to succeed by using machine intelligence responsibly and efficiently. Make AI at Scale

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