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Stefan Willebrand



Foreword

Digital transformation has become a buzzword in recent years but it's a process that's been going on for decades and will likely continue affecting businesses for decades to come. It refers to the process of implementing digital technologies to improve efficiency, value and innovation to meet changing business and market requirements.

While many businesses rushed to adopt cloud software for things like video collaboration as a result of the Covid-19 pandemic, such implementations don't facilitate transformation. Rather, the way cloud and SaaS (Software-as-a-Service) solutions are woven throughout a business gives a better indication of a company's progress.

Investment managers are turning to these technologies to meet various objectives including:

- Automating routine processes and administration
- Rolling out new investment offerings and products
- Managing regulatory requirements
- Implementing digital customer journeys and collaboration

For many, digital transformation probably brings to mind drawn-out IT processes, costly consultations and difficult implementations. Smaller businesses may even feel like it's unachievable.

The good news is, it isn't. Cloud and SaaS solutions today can be bought off the shelf and are helping investment firms of all sizes reach their objectives in a matter of weeks.

In this report, we explore the technology challenges facing investment management firms and how cloud and SaaS services are giving them a competitive edge.

I strongly believe that all financial services will eventually be running on the cloud and that this strategy will help investment firms future-proof their businesses.

I hope you find the report useful and I welcome any thoughts you may have.

Stefan Willebrand
Chief Technology Officer, Huddlestock

Executive summary

The financial services industry is being rapidly transformed by a digitalisation process that started some years ago and has many more years left to run. Investment managers agree that digital transformation is a strategic priority.

- Investment managers are increasingly sourcing their technology from cloud service providers (CSPs) for many of their requirements, instead of from on-premises infrastructure. It requires little capital investment; is constantly available; applications are always up to date; it is easy to rapidly increase or reduce usage; you only pay for what you use; and as it is an operational not a capital expense it is usually more tax efficient.
- There are several questions to consider when adopting cloud services. Which IT services should be on-premises and which should be in the cloud? What deployment model should be used: private cloud, public cloud or hybrid cloud? Which service model should be used: Infrastructure-as-a-Service (IaaS), Platform-as-a-Service (PaaS) or Software-as-a-Service (SaaS)? How do you select the right cloud service provider (CSP); and should you opt for a multi-cloud approach and select two CSPs or more? Finally, what are the risks of operating in the cloud, such as cyber breaches and data loss, and how are they best managed?
- SaaS tends to be the most popular form of cloud service in the investment management industry. It appeals to all types of firms, from the smallest to the largest.
- With SaaS, users only have to run the software. They do not concern themselves with building or maintaining software, platforms or infrastructure. Users can access applications from any device – desktop, laptop, tablet or smartphone – wherever there is a connection to the public internet or private network. Specific benefits include cost, software reliability, cyber security and scalability.
- SaaS can have some minor downsides – such as standardised software updates and vendor lock-ins – but the overall cost-benefit analysis is generally highly favourable.
- SaaS applications are available for investment managers to manage specific mutual and other types of funds, trading, brokerage, savings accounts and loan accounts, as well as entire portfolios and customer relationships. SaaS is also used for back office operations such as customer onboarding, legal and compliance, risk management and human resources.
- SaaS has an important role to play in sustainable investing. Investment managers are turning to cloud-based software for quantitative data tools to analyse the sustainability performance of company shares, government bonds and other assets, and to detect “greenwashing”.
- Interviewed for this report, senior executives from SaaS provider Huddlestock, wealth management firm Quilter, and the UK’s Investment Management Association, talk about the growing adoption of cloud services and SaaS by the industry.
- “Cloud-first” has become the dominant IT strategy for investment management companies. Most industry observers believe that cloud is the future for the industry, and for the economy and society as a whole.



INTRODUCTION

The technology challenges facing investment management firms

The financial services industry is being rapidly transformed by a digitalisation process that started some years ago and has many more years left to run. There are no signs that it will ever stop. History tells us that technological innovation in all areas of human activity – not just the financial sector – is constant and relentless, and while the pace of development slows from time to time, it hardly ever ceases or goes into reverse.

The digital revolution taking place in investment management, banking, insurance and other areas of finance is deep and broad. Financial technology, FinTech, encompasses cloud computing, artificial intelligence, machine learning, robotics, distributed ledger technology, cryptoassets, big data and more. Many specialised sub-sectors of FinTech have developed and been given their own names, like WealthTech, InsurTech and RegTech.

As with any kind of progress, there are leaders, followers and laggards and this applies as much to the financial sector as to any other industry. Banks have tended to grasp the opportunities presented by new technology more readily than other financial institutions, as evidenced by the rapid and now well-established deployment of mobile banking, instant payments, biometric identification techniques,

advanced self-service capabilities, data analytics and other innovative services and processes. Yet some banks are more advanced than others, and if the slower ones do not raise their game they may never catch up, lose market share and ultimately fail.

Insurance companies are not far behind banks in the technology race. Customer interactions are increasingly conducted online by computer or mobile device, with verbal communication often not necessary. How many customers now pick up the phone to speak to an insurer or broker for a quote? Or dial a call centre to make a claim for a car accident or lost suitcase? Again, a few insurers lead the way while the rest try hard (or not so hard) to catch up.

Investment managers – both for corporate and institutional clients, and for high net-worth individuals (HNWIs) in the wealth management market – tend to be further behind on the digital transformation journey than bankers and insurers. This is a generalisation of course, but it is clear that the investment management sector has been relatively slow to adopt digital capabilities. There is still too much reliance on legacy systems and processes, which are less efficient and scalable.

External pressures, some of which are driven by technological advances in the wider economy, are compounding the problem. Customer behaviour is changing rapidly, especially in the wealth management sector where tech-savvy younger age groups want to engage digitally with their financial advisers and money managers. There is fierce competition from discount brokers, who are mainly online-only. Meanwhile, the burden of regulation is becoming harder to handle for firms that have not adopted RegTech solutions for compliance monitoring and reporting.

The Investment Association (IA), the UK trade association for investment and wealth managers, has embarked on several initiatives to help members embrace new technology. Gillian Painter, Head of Engine, the IA's FinTech accelerator, and also Head of Membership, agrees that the UK investment management industry lags far behind the banking sector. "There are some reports which suggest that banks are 5-10 years ahead in the implementation journey," she says. "But investment management firms are accelerating and will catch up in the years to come."

The Covid-19 pandemic has accelerated firms' digital strategies. However, obstacles remain, including restrictions on budgets, the implications associated with legacy infrastructure, too much siloed data, a lack of connectivity and cultural inhibitions. "We are getting there, but perhaps slower than we had hoped," says Painter. "If we really want to develop and compete we need a technology leadership that ensures innovation is ingrained in the culture."

Digital transformation – cloud leads the way

Investment managers agree that digital transformation is a strategic priority. Key benefits include cost reduction, differentiation and additional revenues, according to a PwC survey on how FinTech is shaping asset and wealth management.¹ So why has the industry been slow to change?

It is because *building* one's own replacement financial infrastructure, platforms and software, and then configuring and implementing them on-premises, is complicated. It takes time, typically involves long consultancy projects and is expensive. *Buying* the latest off-the-shelf or customised infrastructure and software from technology vendors to install on-premises has similar drawbacks.

However, there is a third option – *cloud computing*. Investment managers and other financial firms are increasingly sourcing their technology from cloud service providers (CSPs) for many of their

requirements, instead of from on-premises infrastructure. Granted, a firm may want to serve core workloads from its own data centre, because in some respects it may be cheaper over the long term, or because the firm wants to keep full control, but cloud is becoming the main choice for many other tasks. Cloud has been an option for financial firms for the past 10-15 years or so, but only in recent years has it really taken off.

What is cloud computing? Microsoft Azure, one of the big three CSPs, describes it like this: "Simply put, cloud computing is the delivery of computing services – servers, storage, databases, networking, software, analytics and more – over the Internet ("the cloud"). Companies offering these computing services are called cloud providers and typically charge for cloud computing services based on usage, similar to how you're billed for gas or electricity at home." (Source: *What is Cloud Computing: A Beginner's Guide*, Microsoft Azure).

Amazon Web Services (AWS), another of the big three CSPs, describes it as "the on-demand delivery of computing power, database storage, applications, and other IT resources through a cloud services platform via the internet with pay-as-you-go pricing." (Source: *AWS and Cloud Computing*, Amazon Web Services).

The key benefits of cloud are clear. It requires little capital investment. It is constantly available. Its applications are always up to date. It is "elastic", meaning you can rapidly increase or reduce usage without having to worry about re-deploying your own IT or staff. You only pay for what you use, or the period you use it. And, as it is an operational not a capital expense, it is usually more tax efficient.

Of all the technological changes currently taking place in the financial services industry, cloud computing is the most significant. It fundamentally changes an organisation's technology stance, it is broad in scope, and it is in the "here and now." Yes, there are other important technology trends. For example, big data analytics – collecting and analysing huge volumes of data – is an important development, but many firms actually collect, manage and analyse their data in the cloud rather than in their own data centres. Most other digital advances are just tinkering at the edges. For all the promise that artificial intelligence, machine learning, distributed ledger technology (DLT) and other exciting technologies offer, they are still largely in their infancy and have not proved their commercial worth in any major way. Besides, these new technologies can be delivered via the cloud, and may in fact be more effective as a cloud service than if they are hosted on-premises.

¹ Beyond automated advice: How FinTech is shaping asset & wealth management, PwC.

Key steps to adoption

There are several key questions investment managers need to ask when adopting cloud services as an alternative to buying or building on-premises IT infrastructure and software. Exactly which IT services should be on-premises and which should be in the cloud? What deployment model should be used: private cloud, public cloud or hybrid cloud? Which service model should be used: Infrastructure-as-a-Service (IaaS), Platform-as-a-Service (PaaS) or Software-as-a-Service (SaaS)? How do you select the right cloud service provider (CSP); and should you opt for a multi-cloud approach and select two CSPs or more? Finally, what are the risks of operating in the cloud, such as cyber breaches and data loss, and how are they best managed?

On-premises or cloud?

Deciding what to have on-premises and what to have in the cloud may require careful consideration. Large, long-established firms may prefer to keep their core IT and general purpose workloads in their own data centres because they believe it is cheaper in the long term and, perhaps safer. However, an increasing number of larger firms, and all start-ups, have a “cloud-first” strategy, meaning their default position is to choose the cloud.

“The migration from on-premises IT solutions to cloud is a conscious and careful journey for banks,” says the European Banking Federation (EBF) in *The use of cloud computing by financial institutions*, a technical paper published in 2020. It notes that banks, including their private banking and wealth management arms, have been slower in their uptake of cloud services when compared to non-financial services industries due to the stricter regulatory environment.

Regulators used to be wary of cloud technology. In the past few years, however, their objections have receded, as long as guidelines are followed. The European Securities and Markets Authority (ESMA), for example, makes this clear in its *Guidelines to outsourcing to cloud service providers*, published in December 2020. The publication is aligned to similar advice published earlier by the European Banking Authority (EBA) and the European Insurance and Occupational Pensions Authority (EIOPA). “The guidelines are intended to help firms identify, address and monitor the risks arising from cloud outsourcing arrangements,” says ESMA.

What deployment models and service models exist?

There are three main deployment models: public, private and hybrid. Public cloud is delivered over the public internet, is flexible and cheap, but may make users feel that they don’t have enough control over the service or potential security vulnerabilities. Private cloud addresses those drawbacks. It can be owned and run internally by the firm, or owned and run externally by a CSP. In both cases, the firm has more control over service levels and security because it mainly uses private networks.

In the early years of cloud computing, the over-riding focus was on public cloud services. Now, private cloud has increased in popularity, and many organisations use a combination of both – hybrid cloud.

There are three choices of service model. The first and simplest option is Infrastructure-as-a-Service (IaaS), whereby the CSP provides the infrastructure to the user over the internet for a subscription fee. The user then runs its own platform on the infrastructure, and uses its platform to develop and run its own software.

The second option is Platform-as-a-Service (PaaS), whereby the CSP provides the infrastructure and the platform to the user over the internet for a subscription fee. The user then uses the platform to develop and run its own software.

The third and most comprehensive option is Software-as-a-Service (SaaS), whereby the CSP provides the infrastructure, platform and software over the internet for a subscription fee. The user then just runs the software. It does not have to build or maintain any of the infrastructure, platform or software. SaaS is the service model most likely to be chosen by small and medium-sized investment managers, as they do not want to get involved in building and operating their own platforms or infrastructure, but larger managers are converts to SaaS too.



SOFTWARE-AS-A-SERVICE (SAAS)

What exactly is it?

Software-as-a-Service (SaaS) is the distribution by a large cloud service provider (CSP) or a smaller independent software vendor (ISV) of an application over the internet to a user for a fee. Most ISVs contract a larger CSP to host their applications, but an ISV can if it wishes host its applications on its own IT platforms and infrastructure.

SaaS tends to be the most popular form of cloud service in the investment management industry, and it appeals to all types of firms, from the smallest to the largest. IaaS and PaaS customers tend to be the larger firms.

With SaaS, users only have to run the software. They do not concern themselves with building or maintaining software, platforms or infrastructure. Users can access applications from any device – desktop, laptop, tablet or smartphone – wherever there is a connection to the public internet or private network.

SaaS applications are available for investment managers to manage specific mutual and other types of funds, trading, brokerage, savings accounts and loan accounts, as well as entire portfolios and customer

relationships. SaaS is also used for back office operations such as customer onboarding, legal and compliance, risk management and human resources.

The benefits of SaaS are many:

- **Cost.** There are no set-up and maintenance costs for the applications, platform or infrastructure. The applications have already been created by the software vendor and are run on the vendor's platform and infrastructure, so the user just pays a fee based on usage or time period (usually monthly or annually).
- **Software integrity, reliability and security.** The software provider creates one version of the application to provide to multiple users in what is known as a multi-user, multi-customer or multi-tenancy arrangement. The provider runs the application on the same platform and infrastructure, but each user's data is kept separate. It is easier to keep a single version of an application up to date with new features and patches, and this leads to greater integrity, reliability and security.

- Scalability. Usage – number of features, number of services and bandwidth – can be scaled up and down at short notice.
- Flexible working. As long as the user has an internet-connected device, applications can be accessed at any time from anywhere.
- Choice of where data is stored. The user can store data on its own system, in the cloud with the software provider, or a combination of both.
- Easy to integrate. Application programming interfaces (APIs) allow the applications to be easily integrated with the user's other applications.

It is because these benefits are so widely recognised that SaaS is growing so rapidly. A recent article by McKinsey said industry analysts were predicting the SaaS market across all industries to grow by more than 20% annually, to reach nearly \$200bn by 2024.²

However, there can be downsides and risks associated with SaaS which need to be considered.

- Too standardised. As applications are created by software vendors for use by many different users, they may not be as closely tailored to an individual user's precise needs. It is important to consider the configurability of SaaS solutions and availability of add-ons.
- Regulatory compliance and accountability. Financial regulators have made it clear that ultimate responsibility for any security breaches, bugs, compliance errors or other operational risks relating to the outsourcing of information technology rests with the regulated entity not with software vendors or other outsourced service providers.
- Vendor lock-in. If a vendor's software or service levels prove sub-optimal, it can be difficult to switch to another vendor because of differences in their technologies and the large volumes of data that need to be moved.



² Securing software as a service, McKinsey & Company, September 2019.

How SaaS is being used in investment management

Software-as-a-Service has its uses across all areas of investment management. Portfolio managers find that the computing power, scalability and agility of cloud services makes it easier and faster for them to analyse the pros and cons of specific assets, thereby giving them greater confidence in their investment decision-making. Risk managers use innovative cloud-based tools to assess the credit, market and operational risks their business is exposed to. Compliance managers have a wide range of RegTech solutions to choose from, to ensure the firm complies with all applicable laws, regulations, industry standards and internal rules.

IT managers do not need to worry about what hardware and software to buy and install, or the capital and running costs, because there is none to buy – it all belongs to the cloud service provider. The firm simply subscribes to the SaaS modules on a pay-as-you-go basis, making costs more predictable and often lower than if the hardware and software were owned. Chief executives are attracted to all of the above, but mostly to the potentially lower costs and greater efficiencies that SaaS offers.

SaaS has become the most popular, productive and cost-effective way for investment managers to replace their legacy systems. It allows them to focus on their core business – investing clients' money – instead of being side-tracked by having to set up and run their own infrastructure, platforms and software on-premises. It is convenient, simple and fast.

SaaS's role in sustainable investing

More investors are putting their money into sectors of the economy that make a positive contribution to the environment or to society, such as renewable energy or medical research. They are avoiding investments in industries they believe have a detrimental impact on the planet and its people, such as hydrocarbon production. These trends were dramatically confirmed by the success of the European Commission's first green bond in October 2021, which raised €12bn following similar successful issuances by the UK, Germany, France, Spain, Italy and Poland. The Commission plans to issue €250bn of green bonds in the next five years.

Responsible investing requires robust due diligence checks, and to do this investment managers are turning to cloud-based platforms and SaaS for quantitative data tools to analyse the sustainability performance of company shares, government bonds and other assets, and to detect "greenwashing" – when issuers exaggerate or fabricate their green credentials. Salesforce, the world's biggest customer relationship management (CRM) solutions provider, and VASS, a Spanish CRM provider, have formed a partnership to offer cloud-based tools to investment managers to help them assess the ESG (environmental, social and governance) credentials of the assets they invest in.³

³ Embedding ESG criteria into investment decisions: How investment managers are using cloud-based platforms to meet sustainability goals", Webinar, Financial Times Live, November 2021.

A SaaS vendor's perspective

Huddlestock has developed a scalable, fully cloud-based investment operations platform that firms can use to manage their entire wealth offering. Stefan Willebrand, Huddlestock's CTO, says investment managers have become increasingly aware of the benefits of sourcing software "as-a-service" from cloud-based software vendors as opposed to writing it themselves, or buying it from a traditional provider, and installing it on their own infrastructure. "These services can be deployed in a matter of weeks, with investment managers simply choosing and configuring functionality they need for their operation," he says.



“ Introducing cloud services has become incredibly straightforward with the advent of off-the-shelf SaaS solutions that can be easily integrated. ”

– Stefan Willebrand
Chief Technology Officer, Huddlestock

“Investment managers may have further to go when it comes to digital transformation, but they are very focused on finding ways to differentiate their offering, reduce costs, increase security and simplify compliance. Introducing cloud services has become incredibly straightforward with the advent of off-the-shelf SaaS solutions that can be easily integrated. And the benefits are being felt by small and medium-size firms as much as the big players, thanks to the scalable nature and pricing of SaaS solutions.”

Software vendors' platforms are usually hosted on one of the big cloud service providers, to give them the scale, reliability and security that financial institutions need. Huddlestock's technology, for example is hosted

by two of the world's biggest, Microsoft Azure, and Amazon Web Services (AWS).

Its investment operations platform enables firms to deploy and administer digital investment, trading and wealth management capabilities. The platform connects investment managers to global markets, an automated back-office system and branded user interfaces. TBC Capital, the investment arm of Georgia's largest bank, recently signed up to this package. The software is "composable", meaning that investment managers can select specific functionality and integrations they need such as direct agreements with individual mutual funds, or they can invest via fund networks, like Europe's Allfunds and MFEX Mutual Funds Exchange.

A wealth manager's experience

Quilter, the British multinational wealth management company formerly known as Old Mutual Wealth Management, has migrated significantly to the cloud since it was divested by Old Mutual in 2018. Listed on the London Stock Exchange and a constituent of the FTSE 250 Index, Quilter manages around £100bn of investments for more than 900,000 people.

Since adopting its new identity and strategy it has disposed of its two life insurance-based investment businesses and outsourced its investment wealth platform within the Quilter Investment Platform business. There have been other infrastructure and system changes, but the platform outsource is the most significant.

Leon Deist, its Chief Information Officer, explains that the two insurance businesses and the legacy investment platform were mainly on-premises hosted applications of quite long-standing. Once these are migrated, Quilter's IT systems will predominantly be in the cloud, with a big reliance on SaaS.

“Our advice products are SaaS implementations, as is the software for our central functions, such as HR, finance, procurement, and email,” he says. “Our data platform is in the cloud, using Microsoft Azure's Platform-as-a-Service model. Some of our core infrastructure is still on-premises, but our on-prem footprint is shrinking.” That footprint will shrink further, as we migrate more legacy applications to cloud-based alternatives.

As for the deployment model – public or private cloud – Quilter takes a hybrid approach, where it will not have one model or the other, but it will be predominantly cloud-based. Despite the well-publicised benefits of cloud, Deist says “it is not always easier or better than on-prem, but it is

different and it is the direction of travel for the wealth management industry.”

Nor is cloud necessarily cheaper. “Cloud comes unitised. You have a lever to pull so you can use as little or as much as you need. The problem is, because it is so easy to switch on, if you don’t control how much is being used the costs can run away from you before you know it.”

Cyber security is important. “We spend much of our time making sure the cloud-based solutions are secure,” says Deist. “It is a lot of work, often more than you’d imagine. Security is not necessarily better or worse, it’s just different. You need to think about it differently and use different tools. Security is a massive issue. It’s the first, second and third priority before we get to costs and other priorities.”

Cloud providers must have robust security – often as good as, or better than, the user’s – but ultimately the responsibility for it rests with the user not the provider, a point stressed by financial regulators. The European Securities and Markets Authority (ESMA), for instance, in its final report on *Guidelines on outsourcing to cloud service providers*, says investment firms “remain fully responsible for their outsourced functions,” and that includes security.

“The regulators take a close interest,” says Deist. “They want firms to be clear about the contractual controls, due diligence and the operational resilience of cloud providers.”

Deist has another cautionary comment to make, specifically about SaaS and software upgrades. “When you host software on your own data centre, and it has to be upgraded, you can decide how it will be changed,

when you want to do it, and plan around your calendar of important events to minimise disruption. But with cloud-based software the update is the same for everyone, is compulsory and will happen on a certain date whether you like it or not. So it requires a different way of thinking about the changes to be made, your maintenance calendar and your testing, to make sure you’re ready. Sometimes the updates created unintended consequences.

“It therefore requires a different mind-set because you don’t have the discretion to do it the way you want to, because it’s not your software. This is not right or wrong, better or worse, it’s just a different way of thinking and working around it.”

Based on his experience and his wider observations about digital trends in the wealth management sector, he believes every firm will soon have a significant cloud presence, partly because of demand (because that is what firms want) and partly because of supply (because the alternatives to cloud are diminishing). “It’s just a question of time, as firms focus on their digital transformation and flush out their legacy systems. I cannot think of many mainstream solutions that give you the option to have them traditionally hosted in a data centre instead of in the cloud.

“Wealth managers have asset scale, but typically they are not large businesses with massive IT budgets. To find cost-competitive solutions, exploring cloud-based solutions is one of the options at hand.”

“ Our advice products are SaaS implementations, as is the software for our central functions, such as HR, finance, procurement, and email. ”

– Leon Deist
Chief Information Officer, Quilter

The Investment Association's approach to cloud

The UK Investment Association's FinTech accelerator, Engine, connects innovative technology vendors with investment managers looking to transform the investment process, overcome operational challenges, create efficiencies and increase competitiveness. All of the firms in Engine can provide their software solutions via the cloud, and they incorporate evolving technologies such as AI, data analytics and biometric security.

Gillian Painter, Head of Engine, says that until recently investment managers had, by and large, been happy to develop their technology at a leisurely pace. "The attitude was, If it ain't broke don't fix it," she says.

"But with MiFID II (Markets in Financial Instruments Directive II) which came into force in 2018, it became clear the industry needed to be better at innovation, to help make firms more efficient and improve services to customers."

That was the spur for the IA to create Engine, which Painter describes as "a journey of discovery in terms of identifying the problems investment firms face and the solutions, in operations, distribution, compliance and more," she says.

Migrating to a cloud infrastructure is a major topic of debate among IA members. Many are reluctant to move because of long-held views that it is less secure than on-premises infrastructure and because they think regulators would object. Painter says those views are evaporating. The big cloud providers are able to show that their security credentials are better than most investment firms', and regulators – like the EU's ESMA, the UK's FCA, and Germany's BaFin – have relaxed their concerns.

"We are seeing an awful lot more solutions that are cloud based, and the next generation of chief technology officers in investment firms will want to use cloud first," says Painter. The focus on responsible investing, based on the ESG (environmental, social and governance) criteria of assets, is giving impetus to the take up of SaaS-based ESG solutions. "The significant drive towards ESG investing requires the use of data gathering and analysis tools, and most of those are based in the cloud," she says.



“

We are seeing an awful lot more solutions that are cloud based, and the next generation of chief technology officers in investment firms will want to use cloud first. ”

– Gillian Painter
Head of Engine, The Investment Association



Looking to the future

It is clear that “cloud-first” has become the dominant IT strategy for investment management companies. Granted, some – especially the large ones with legacy technology embedded throughout the organisation – will keep core IT and critical software on-premises for an indefinite period, but even they are adopting cloud solutions where it makes obvious sense to do so.

Most industry observers feel that cloud is the future for investment management, as it is for other financial sectors and indeed for the economy and society as a whole. That is certainly the view of consultants McKinsey & Company. Its recent report⁴ on the European investment management industry gives a checklist on what firms should be doing to ensure they “embrace technology disruptions.” The list includes an exhortation to “build out cloud capabilities along the entire value chain.”

As for the three cloud service models – IaaS, PaaS and SaaS – it is the latter which is proving the most popular because it requires the least effort on the part of the user. The infrastructure, platform and software are all provided over the internet or private network by the cloud service company for a fee, and the user just runs the software. There is no need for the user to build, maintain, or update any of the technology. It is all taken care of by the provider.

However, as has already been stated, being in the cloud does place some additional responsibilities on investment managers beyond paying the charges and knowing how to use the software effectively. As with any outsourcing arrangement, ultimate accountability for operational failures – IT outages, cyber attacks, data leaks and so on – rests with the investment manager, not the third party vendor. Yes, the user may have some comeback against the vendor, but in the eyes of customers, regulators, lawyers and, should it go that far, prosecutors, the investment manager is the one responsible for the quality and efficacy of its service offering.

Cloud can have some potential drawbacks – such as cost if usage is not controlled, overly standardised software updates and vendor lock-ins, as mentioned earlier – but the overall cost-benefit analysis is generally highly favourable.

When all is said and done, there seems to be little doubt that the direction of travel for investment managers is into the cloud, and especially towards SaaS, the most favoured service model. It is central to digital transformation, helping firms become more innovative, efficient and competitive. In short, it helps future-proof their business.

⁴ European asset management after an unprecedented year, McKinsey & Company, July 2021

About Huddlestock

Huddlestock is a leading provider of investment and wealth management SaaS solutions and services. We provide the technology, expertise and support that financial institutions need to launch or transform an investment offering. Our modular approach to cloud software helps firms around the world – from fintech startups to established banks, neobanks, wealth and asset managers – deploy innovative solutions with flexibility and speed. With a team made up of ex-industry practitioners and wealth technology experts, we also provide professional services and operations outsourcing that drive performance, innovation and growth for our customers. Huddlestock is listed on the Euronext Growth market.

Get in touch

✉ info@huddlestock.com

🏠 huddlestock.com

About the author



Michael Imeson Chartered MCSI is a Senior Content Editor at Financial Times Live, and a Contributing Editor of The Banker magazine which is part of the Financial Times Group.

He is also Chairman of the FinTech Professional Forum at the Chartered Institute for Securities and Investment (CISI), and the Director of Financial & Business Publications, an editorial services agency.

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