

A woman with her hair tied back, wearing a red knit sweater, is looking through black binoculars. She is positioned in front of a rustic wooden fence or railing. The background is a blurred natural setting with green foliage. A yellow text box is overlaid on the left side of the image.

Asset management
institutional client onboarding
survey: industry trends and
point of view

February 2024



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Background





Background

Client onboarding is one of the first opportunities for asset managers to demonstrate to prospective institutional clients that they have made the right decision in choosing a firm to manage their investment needs. In fact, it is a critical gateway to establishing a long-term client relationship. But clients often experience significant pain points during the onboarding process, including:

- ▶ Receiving redundant email with multiple requests to provide the same information
- ▶ A lack of visibility about the estimated time to completion and where they are in process
- ▶ Interactions with multiple points of contact
- ▶ Taking a month or more to complete the process

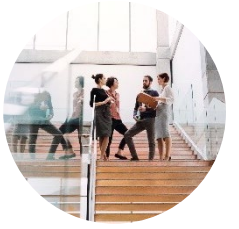
For asset managers, that means investing in and improving the client experience could be the difference between a happy client and a former client.

In June through August 2023, Ernst & Young LLP (EY US) conducted a select asset management institutional client onboarding survey to provide insights into how the industry's client onboarding processes and technology use are evolving. Covering general onboarding, Know your customer (KYC), tax considerations, and investment guidelines and fees, the survey findings reflect responses from more than a dozen global asset management firms.

The following pages summarize EY US insights, including key takeaways, market themes and emerging trends across the onboarding value chain.

Key themes





Key themes

General onboarding

There is an overwhelming need for a holistic solution that addresses the end-to-end onboarding process and considers automation and connectivity across multiple teams, with a clear enterprise-wide owner.

KYC

Respondents report using cumbersome KYC processes that are often manual with little digitalization. This can entail periodic refreshes on their entire client base, including low-risk clients, and often involves laborious data collection, which does not necessarily mitigate risk.

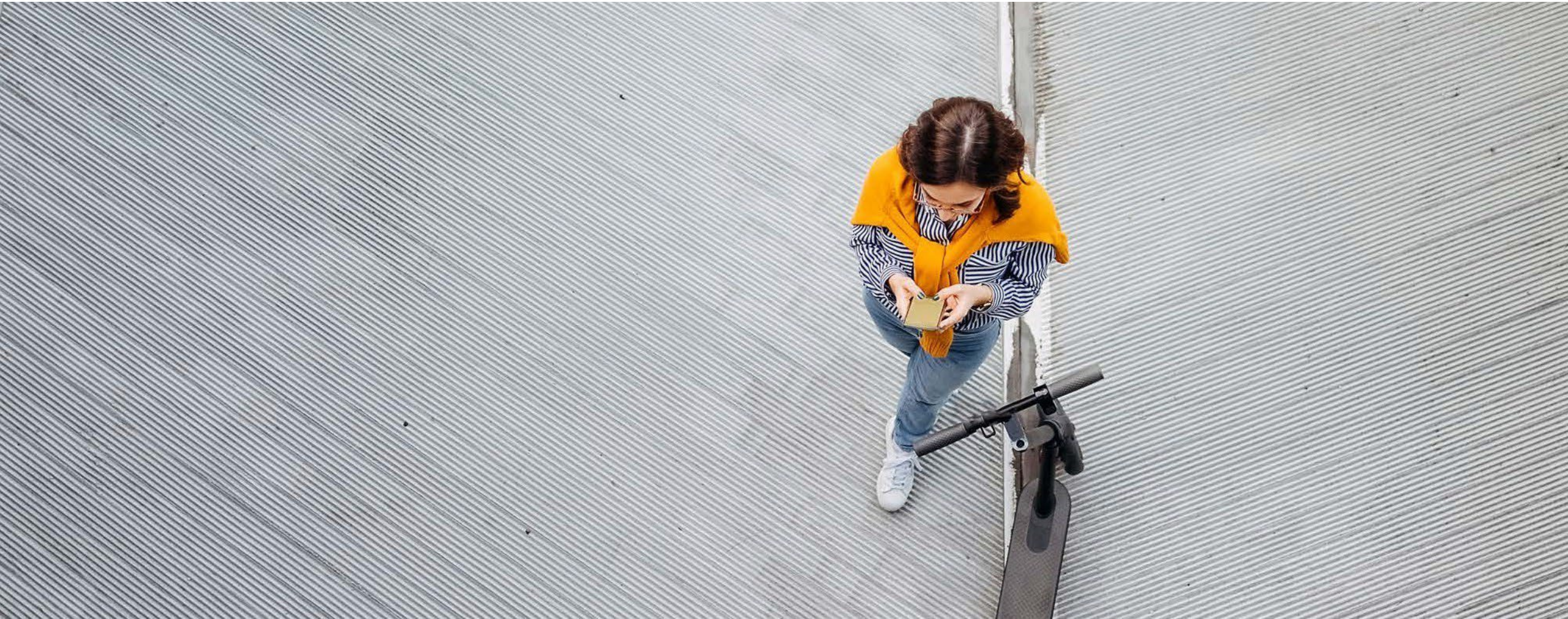
Tax considerations

Collecting tax requirements is critical to the account onboarding process. Yet few firms have set up electronic processes to collect and store data.

Investment guidelines and fees

Investment guideline setup continues to largely be a manual process coordinating across many stakeholder groups as part of the onboarding process. However, **25%** of respondents indicated they have implemented, or are in the process of implementing, artificial intelligence (AI) to streamline the investment guideline set-up process, and another **25%** plan to implement AI.

General onboarding



General onboarding



A systemic lack of automation and technology innovation is a primary industry concern. Greater efficiency and connectivity are needed within the asset manager's onboarding process. For more than half of the respondents, **at least 10 teams are involved** in the process, contributing to the lengthy total onboarding time.

More than 50%
of respondents identified increased efficiency through technology as their top priority.

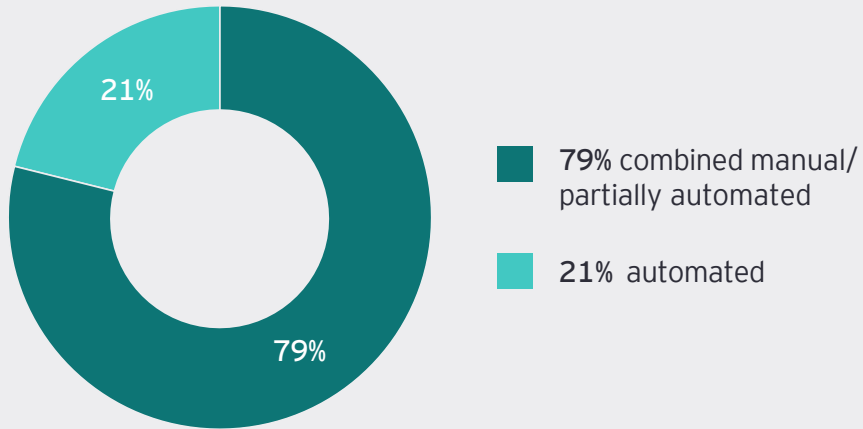


Automation

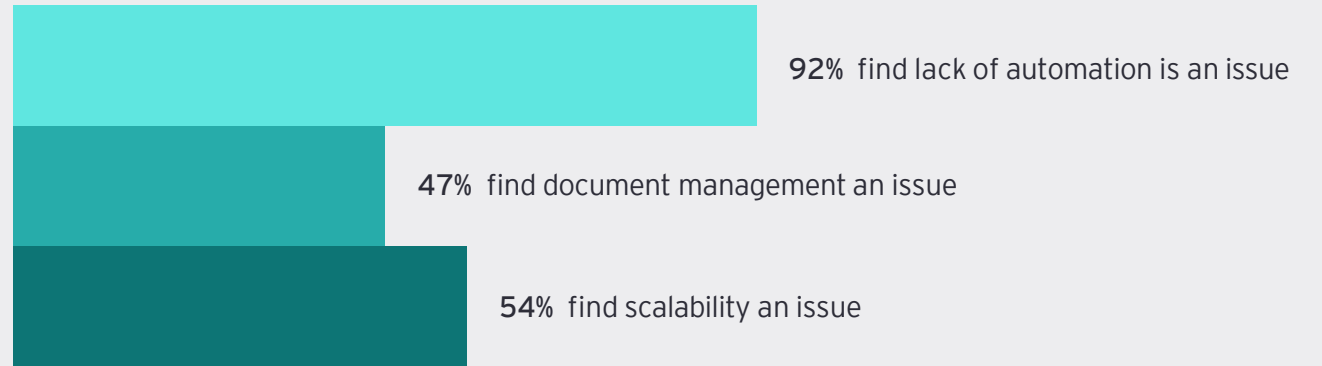
The lack of automation is a significant challenge. Only 21% of firms lead the industry in automated onboarding processes. The remaining 79% of respondents acknowledge the need to adopt an industry-leading practice and for automated workflow tools to increase efficiency.



What percentage of your onboarding process is automated vs. manual vs. partially automated?



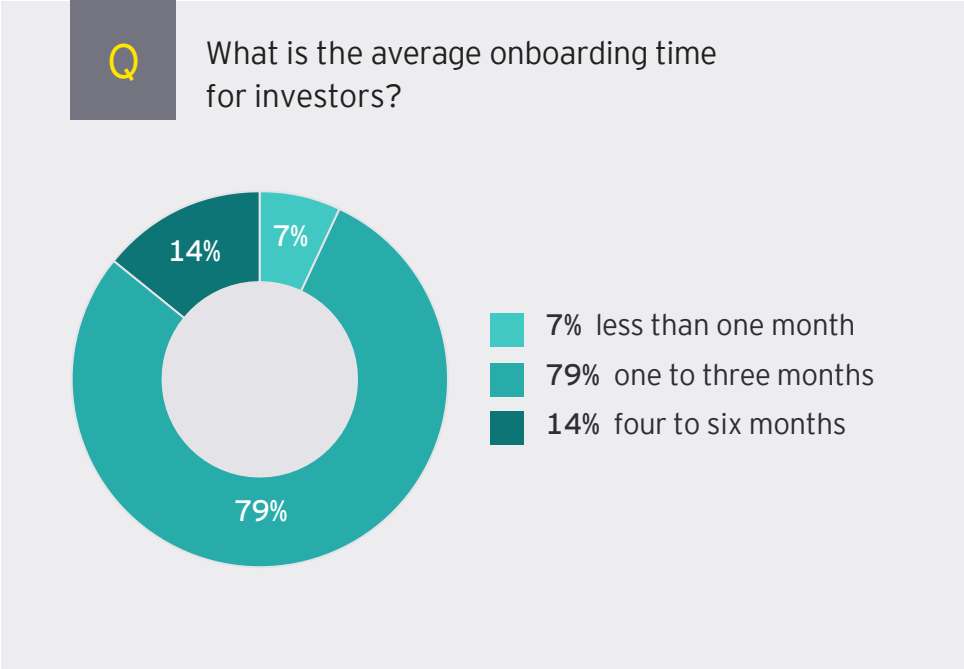
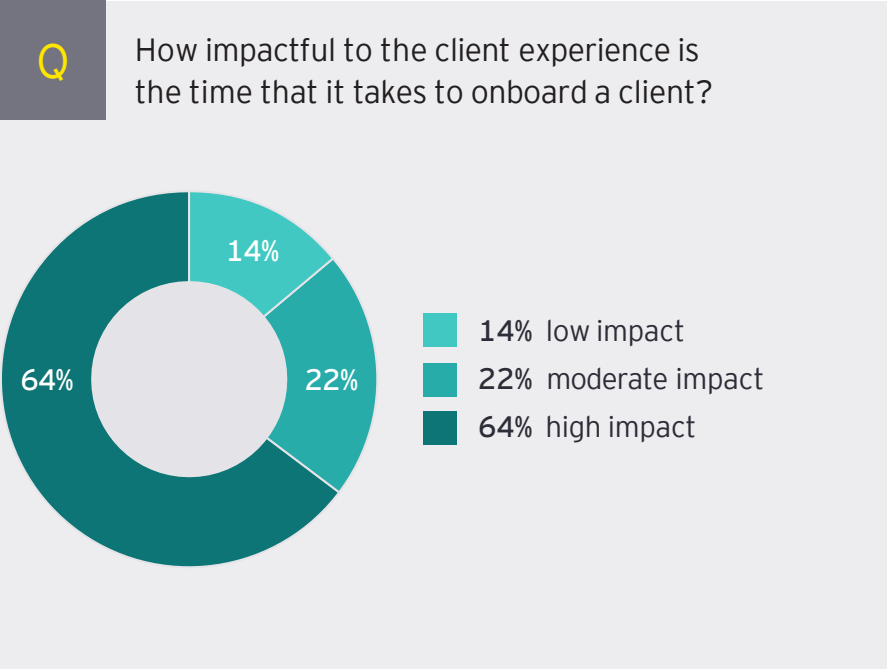
Do you see any of the following challenges with your investor onboarding process?





Streamlining onboarding workflow

As part of any initiative to streamline or enhance the onboarding process, the end client experience should be a significant factor considered in the design of the solution. Understanding client requirements is key to the workflow steps. Defining user personas by client type will help customize the processes needed during onboarding and is a driver in defining the level of service that will be provided to the client. Streamlining the workflow could positively influence resource capacity planning across the onboarding process.



Despite the majority of respondents indicating that the length of the onboarding process is highly impactful on the client experience, only 7% of respondents onboard a new client in less than one month, which emphasizes the need to identify opportunities for streamlining and automating the onboarding process and reducing the onboarding time.

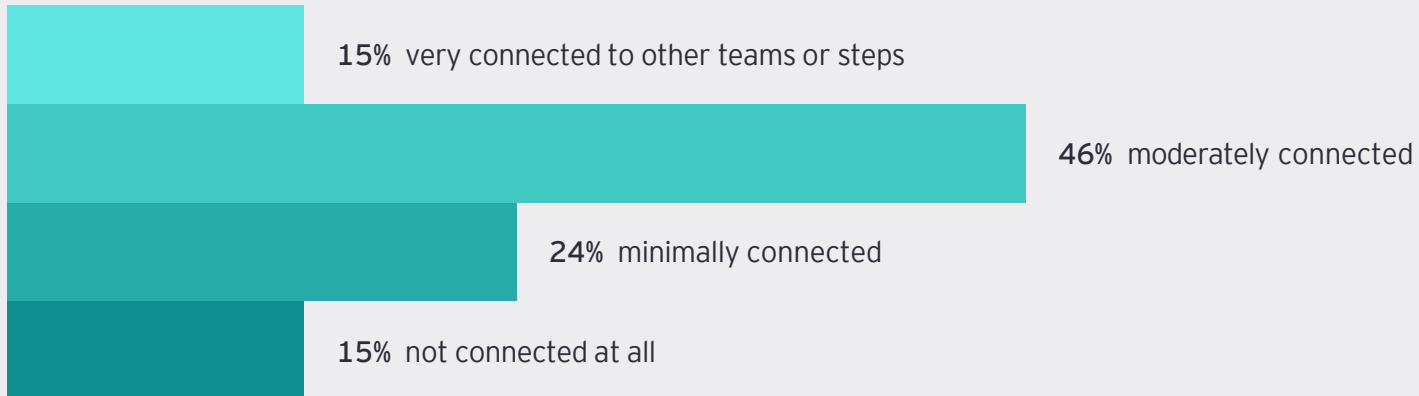


Disconnected experience

While many asset managers are using new tools in their onboarding process, they report a siloed experience due to the lack of a holistic solution across teams.

- ▶ About **20%** of survey participants say that they do not have a single account master for each client.
- ▶ More than **80%** of respondents report that their customer relationship management (CRM) platforms have opportunity areas to add connectivity and integrate with the teams, systems and data across all stages of the onboarding process.

Q How are your CRM platforms connected to other teams or steps involved in the onboarding process?



Only 15%

of respondents reported a robust integration of their CRM platforms with other teams/stages during the onboarding process.

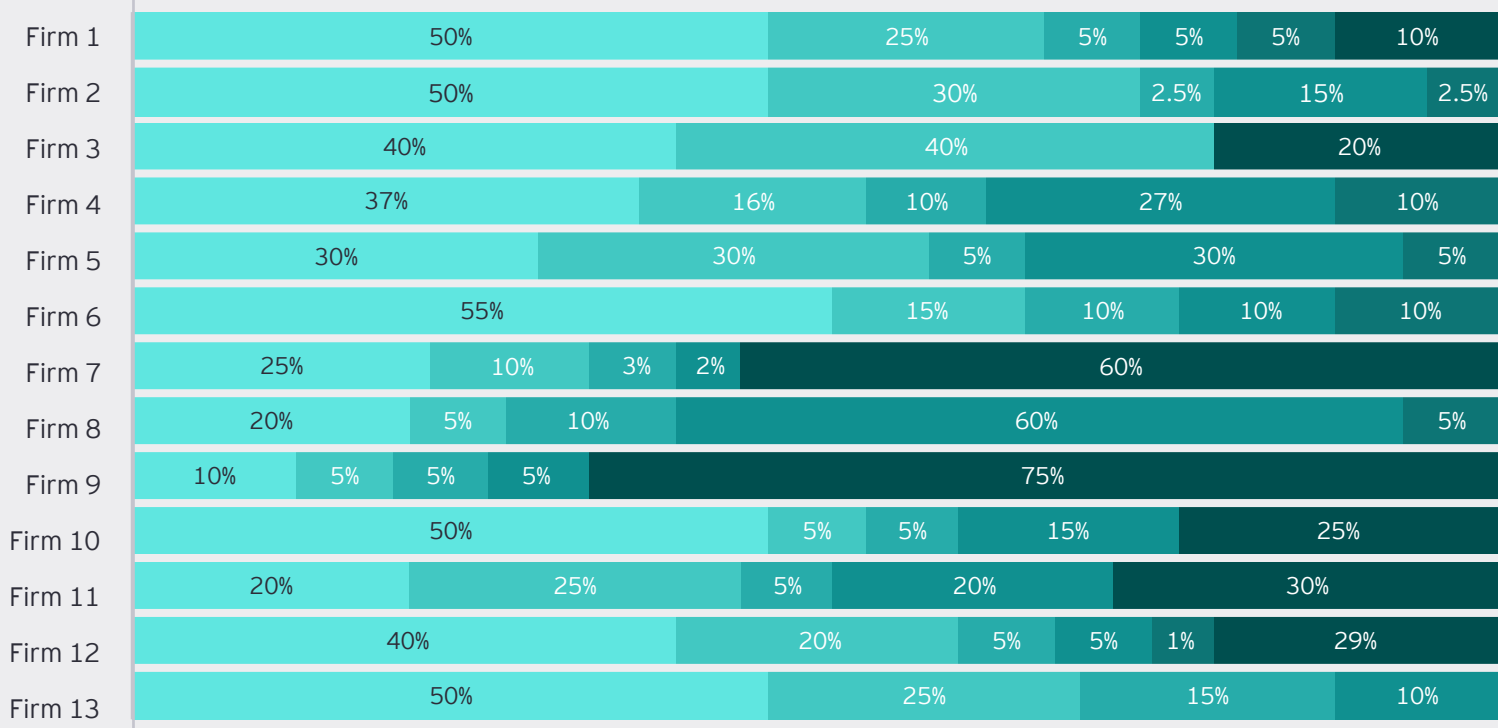


Onboarding process setup

For the majority of respondents, contract negotiations consume **40 to 50%** of the time during client onboarding. On average, **20%** of the time across respondents is spent on operational set-up activities, followed by anti-money laundering (AML) and KYC and investment guidelines, with an average of **18%** and **16%** of the time, respectively.

Q What is your estimated percentage of time spent on various processes?

- Contract negotiations
- Investment guideline setup
- Fees billing setup
- AML and KYC
- Tax
- Other or operational setup



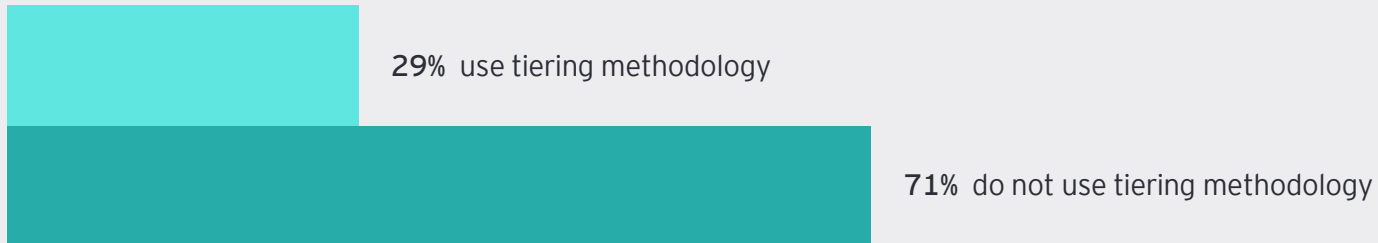


Client tiering

Client tiering is a methodology used to define requirements and complexities across institutional client onboarding workflows, enabling the ability to estimate the onboarding completion time from the beginning of the process. Client tiering can provide economies of scale without decreasing the level of service expected by streamlining business processes leading to greater efficiency. However, a majority of respondents do not leverage this approach in structuring their onboarding process.



Do you use a client tiering methodology (standard vs. high-priority client) that impacts how a client is onboarded?



Around 71%

of survey participants do not use a client tiering methodology.



Client communications

According to the survey results, all respondents use some form of email or manual touch points for client communications. Automating communications and improving efficiency through a central portal are critical steps toward enhancing the client experience and, ultimately, providing a more digital experience to the end investor, as well as a mechanism to collect additional information as investors expand into new products and strategies.

100%
of respondents use some form
of email or manual touch points
for client communications.

Know your customer (KYC)



KYC



KYC activities continue to be a priority for asset managers and the regulatory community. A clear, well documented, and sustainably executed KYC program remains critical to the compliance structure for asset managers. Increasingly, an integrated and technology-enabled KYC workflow could be a differentiator for institutions looking to innovate their compliance operation and its impact on the client experience.

KYC continues to be an area where the shift to automate processes and technology has been gradual. Most respondents have yet to transition to a platform technology to manage the KYC workflow, risk and data.

Opportunities exist to outsource compliance functions like KYC to manage cost, efficiency and scalability.

More than **50%** of respondents perform periodic refreshes and have not transitioned to an event-driven review.

Less than half of respondents have, or plan to have, a process in place to assess environmental and social risks.



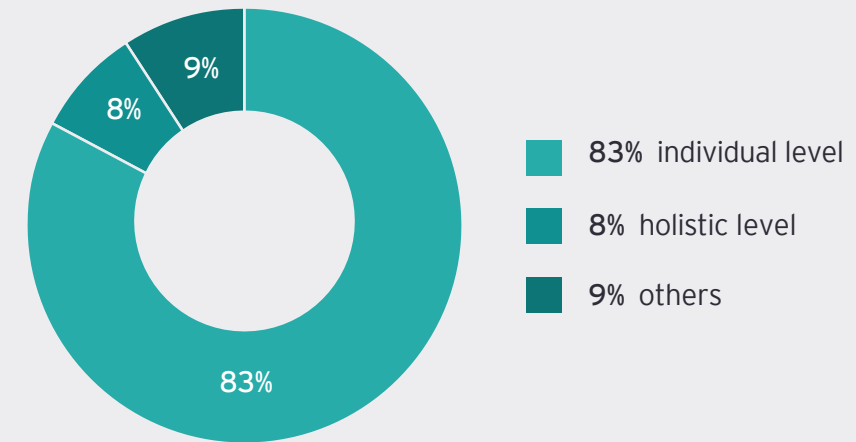
Manual KYC processes and lack of automation

AML and KYC are often cumbersome manual processes requiring lengthy and complex documentation and involving little digitalization. Respondents ranked AML/KYC as a time-consuming onboarding activity taking, on average, almost **20%** of total onboarding time. Document management and KYC are key improvement areas for the respondents. KYC continues to be a key area of opportunity in the broader onboarding process to move away from manual processes in favor of automated KYC solutions.

As the industry looks for ways to reduce costs and capitalize on cross-selling different products, most firms are onboarding investors fund by fund. This siloed approach, along with manual processes, means they are not taking full advantage of streamlining costs and expanding sales opportunities to investors.

This is an area where KYC automation and workflow management tools, coupled with enhanced documentation retention, storage, and reference abilities, could allow asset managers to innovate for their clients and deliver a better client experience, as well as realize the operational efficiencies inherent in these improvements.

Q Do you onboard investors at an individual fund level or more holistically to the most stringent jurisdiction's requirements?

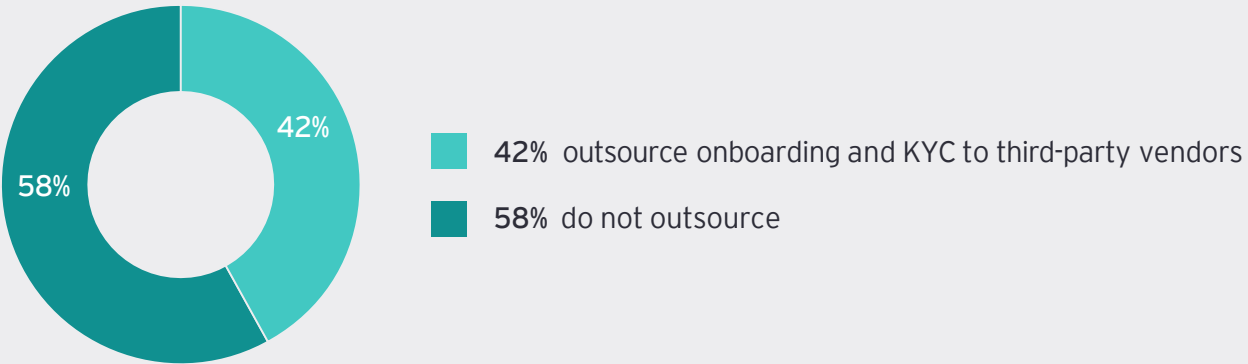




Outsourcing

Based on responses, there are significant opportunities to identify and outsource repetitive tasks that are expensive to scale internally. By outsourcing these tasks to third-party providers, asset managers have access to a flexible workforce that could upscale or downscale as business needs change and achieve cost benefits through economies of scale. Depending on the organization's appetite for an onshore vs. offshore workforce, such a move could offer considerable opportunities to reduce operating costs.

Q Do you outsource your investor onboarding and KYC to third-party vendors (e.g., fund administrators/transfer agents)?



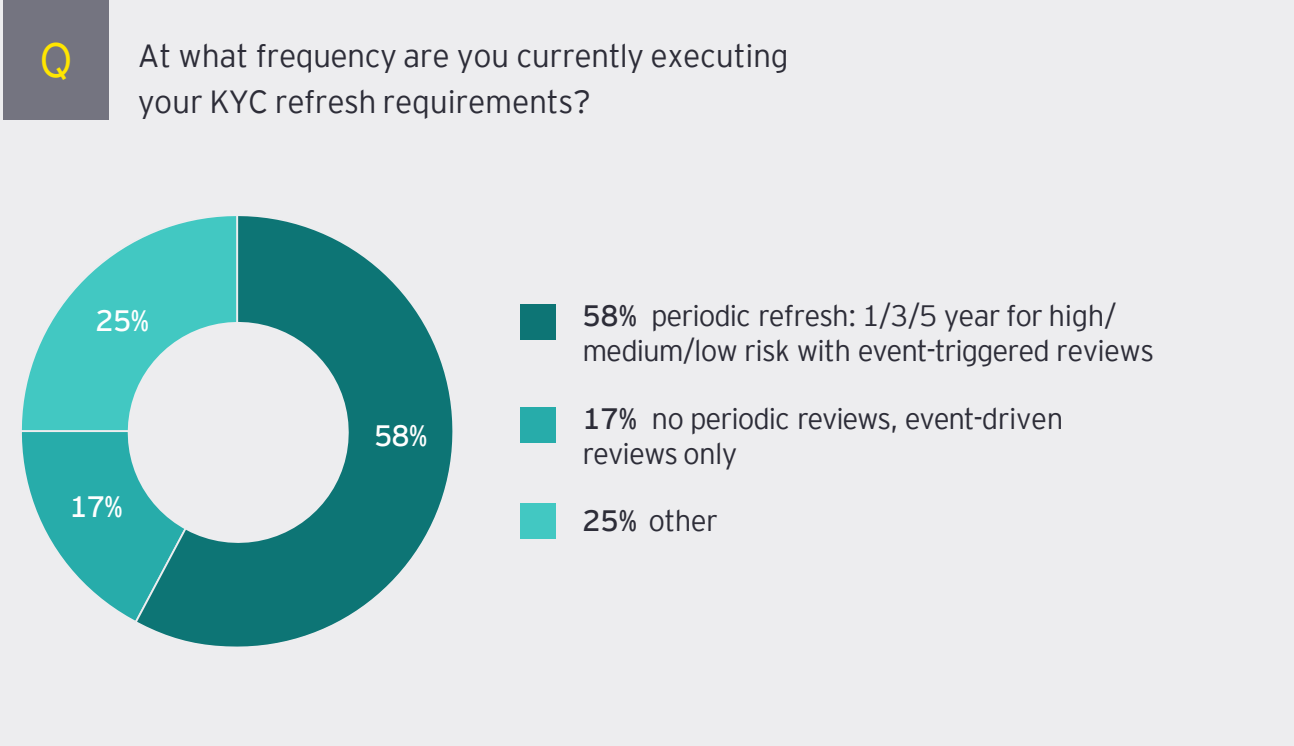
Less than half
of respondents outsource KYC to third-party vendors, such as fund administrators, transfer agents or other third parties.



Shift from periodic reviews to 'ongoing' KYC

Over the past few years some firms have moved away from the traditional structure of a periodic review cycle toward a more fluid ongoing KYC process. While this concept might be less palatable for higher-risk clients (which tend to remain on frequent periodic reviews), there is a growing openness from asset managers to adopt an ongoing KYC model for portions of their client portfolio.

Of survey respondents, **58%** reported that they perform reviews on the traditional 1/3/5 cycle. The remaining **42%** of respondents are using a fully event-driven process, a blend of periodic and event-driven reviews, or a unique customized approach.





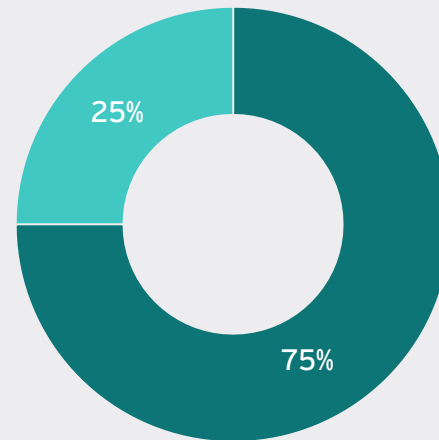
Process differentiation for onboarding vs. refreshing KYC

For the 25% of respondents that do not differentiate between KYC processes for client onboarding and a periodic refresh, there are opportunities to enhance their processes by leveraging lower risk and stable client demographics that tend not to change between new client adoption and the KYC refresh cycles.

The opportunity to improve processes, leveraging the technology automation opportunities mentioned earlier, presents a window for asset managers to make a substantial impact in lowering processing time and enhancing the client experience, while maintaining an acceptable risk culture for their firms.



Are there unique processes for new accounts (onboarding) vs. updates to existing accounts (refreshes)?



- 75% have unique processes for new accounts
- 25% do not have unique processes for new accounts

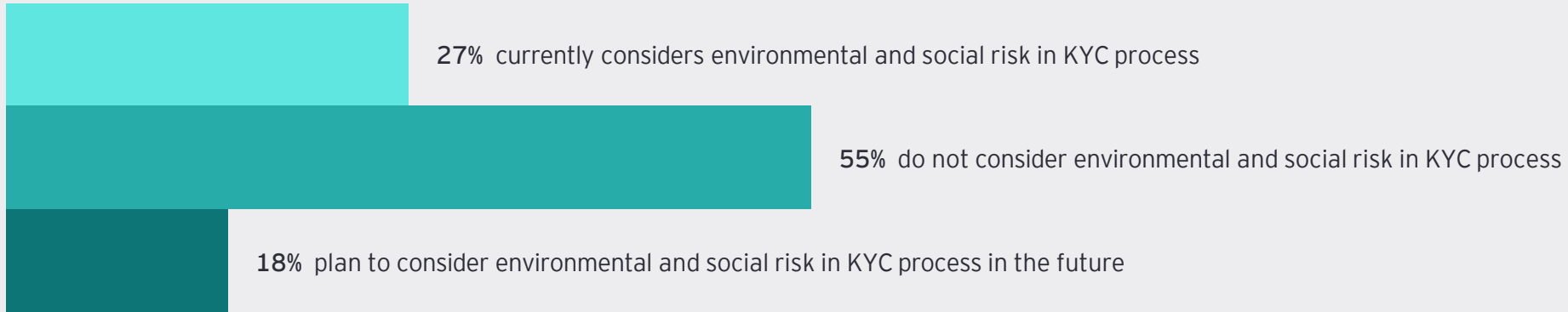


Environmental and social risk

One objective of KYC is to manage the reputational risk, and this expands beyond simple due diligence. The onboarding strategy should mirror the firm's mission and purpose including the environmental, social and governance (ESG) risk. Yet when asked, more than half of the respondents said their firms do not consider environment and social risks as part of their KYC process. As the trend of increased scrutiny continues for asset managers to align their ESG policy more closely to their investment operations, compliance organizations undertaking KYC or broader onboarding transformations should take the opportunity to integrate their ESG policies into their onboarding process to provide an additional reputational risk data point.



Does your firm consider environmental and social risk as part of your KYC process?



Tax considerations

While there have been significant improvements over the last several years in the amount of data collected and stored for tax purposes, more than **40%** of the firms' CRM systems do not account for tax requirements. In addition, over half of the tax documentation is still collected manually.





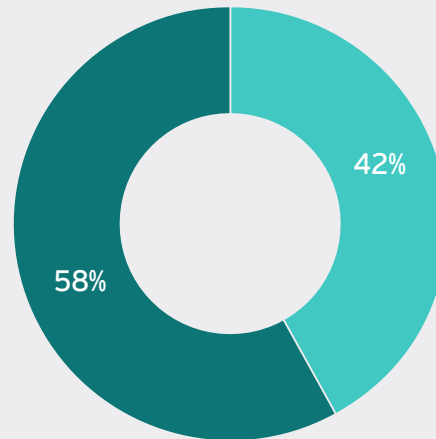
Electronic collection of tax documents

Almost all of the respondents consider tax actions as part of the account onboarding and refresh process, but the process is still mostly manual. Of the respondents, **58%** said no tax documents are collected electronically at their firms. As a result, asset managers experience continual barriers to:

- ▶ Maintain a clean, golden source of data for tax purposes
- ▶ Systemically validate and compare account holder data to facilitate consistency and compliance with reporting withholding and other tax requirements
- ▶ Directly feed data into the tax computation and reporting process
- ▶ Automate year-end and periodic tax reporting

Q

What portion of your tax onboarding process, if any, is electronic?



42% <50%-75% collected electronically

58% none of the documents collected electronically



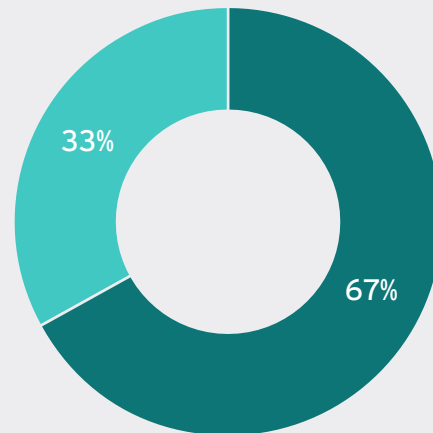
Compliance and reporting

Only **one-third of the respondents** say they are very confident that their firm's current tax form validation process meets compliance standards and that reporting and withholding are done properly. Methods to address these problems include:

- ▶ A tax form validation service such as the EY US Electronic Tax Form Validator (eTFV) that electronically ingests, validates, and digitizes the information collected on the tax forms.
- ▶ A service that maintains all investor and legal entity information in one place and assists clients in easily accessing the form's validity, expiration, changes, and information reporting requirements.



How confident are you that your firm's current tax form validation process is meeting compliance standards and reporting and withholding are done properly?



- 67% somewhat confident about compliance and reporting standards
- 33% very confident about compliance and reporting standards

Investment guidelines and fees

A common practice found across survey participants is that investment guideline interpretation and coding are managed between the rule coding and onboarding teams. These teams closely coordinate with other key stakeholders involved in guideline negotiations for a consistent approach to rule coding. However, due to the time constraints at the time of onboarding, few firms have a process in place to reduce the duplication of rules.



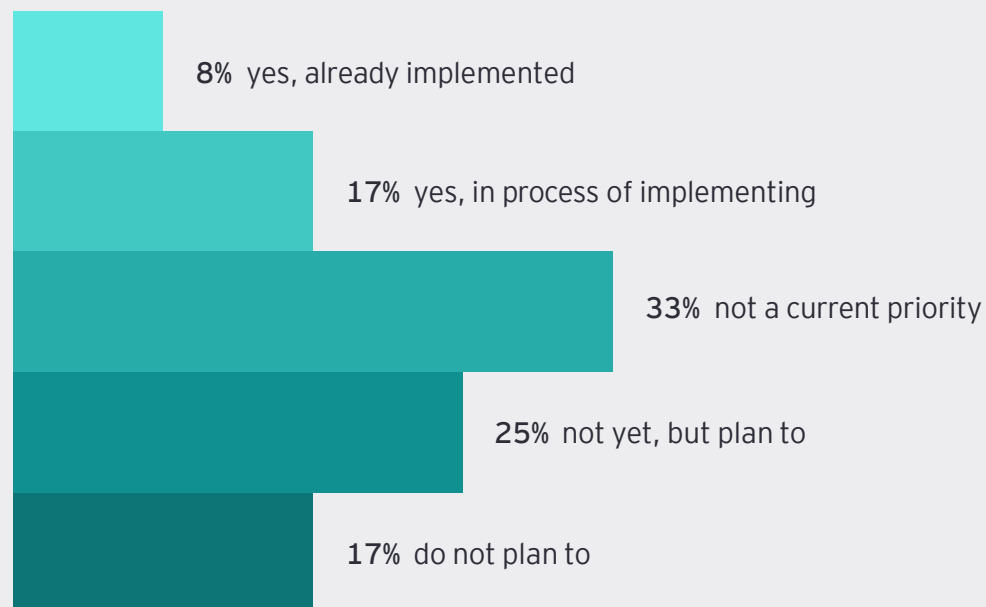
Automating investment guidelines and fees



Most respondents understand the benefit of exploring artificial intelligence (AI) and machine learning (ML) for guideline and fee extraction from contracts and rule coding and testing. While automation in this area is increasing, the guidelines and fee setup process is still very manual and can slow down the onboarding process.

Q

Have you explored AI and ML to streamline the investment guidelines onboarding process from identification of existing guidelines in a compliance system to coding and testing guidelines?



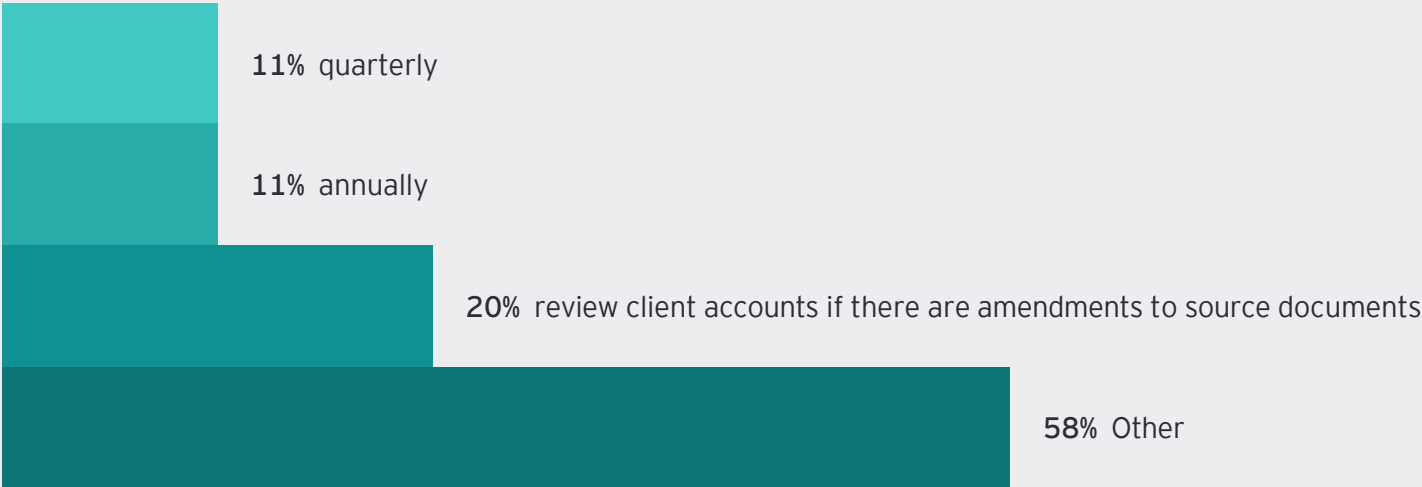
Reconciling investment guidelines



Having a reconciliation process for investment guidelines to facilitate completeness and accuracy is a leading industry practice and a regulatory expectation. Yet, **78%** of the firms surveyed don't perform periodic reviews which could introduce reputational risk if there is an investment guideline error. It remains essential that firms institute a periodic review process between the investment restrictions in the system and the governing documents to facilitate adherence to compliance obligations.



After a client has been onboarded, at what frequency do you review or reconcile investment guidelines in the compliance system to source documents for completeness and accuracy?



Only 22%

of survey respondents perform a proactive quarterly or annual review of their investment guidelines.



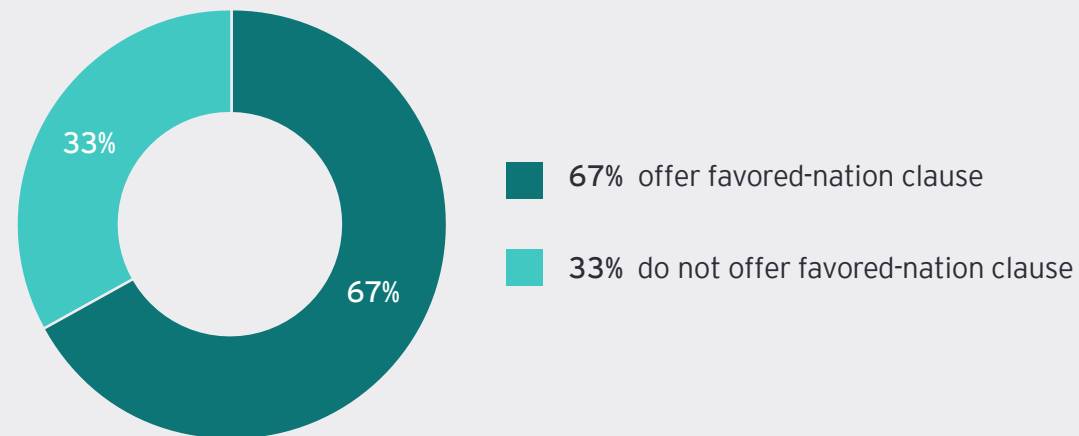
Favored-nation clauses



Asset managers are turning to new product offerings and tailored solutions to remain competitive. However, compression of management fees continues to be a differentiator in the industry. As a negotiation tool, some firms turn to favored-nation clauses with their clients as an incentive to gain their business. In the survey, two-thirds of the respondents indicated that they leverage favored-nation clauses with their top-tier clients.

Q

Do you offer a favored-nation clause for your top-tier clients?



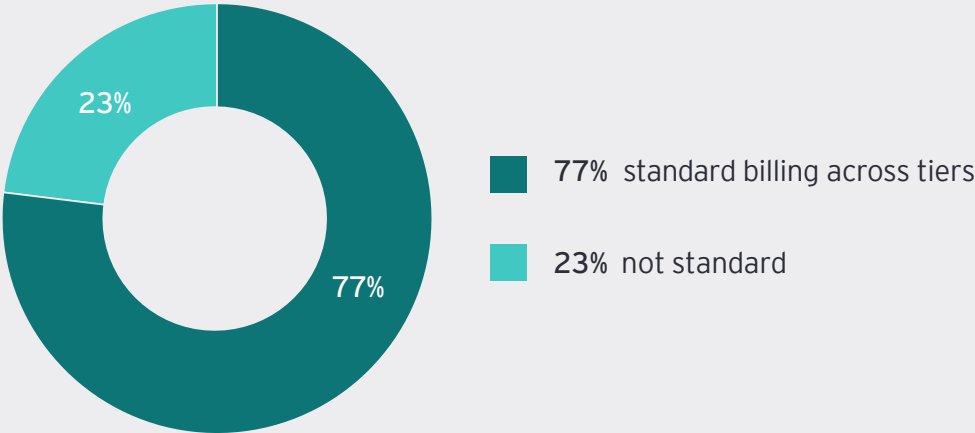
Billing process



In recent years, firms have standardized their billing processes and technology. Yet despite regulator and investor expectations, **23%** of the respondents do not follow a consistent billing methodology, which increases the risk of incorrect billings, revenue loss and negative client satisfaction.



Do you have a standard or consistent billing methodology across your client tier and segment?



Majority
of respondents have a standard
billing process across tiers

EY US point of view





EY US point of view

Asset management firms recognize the challenges in onboarding. Siloed processes and a lack of automation create stress in the system, which is further strained when factors like increased M&A activity or modernizing the approach to underlying technology are added to the mix. Yet, few have taken the step toward transformation. Based on survey responses and conversations with clients, the key objective is to reduce the time to onboard. By investing in a holistic approach, asset management firms can streamline the onboarding process, generating revenue sooner and enhancing the client experience.

- ▶ Clients expect tailored solutions that cover multiple asset class portfolios and they are looking for ease, clarity and transparency in how they are serviced. Establishing this during the onboarding process has become the expectation. The technology exists and the application of modern solutions will require coordination across multiple capabilities and business lines for the most complex, large asset managers. Smaller asset managers have an upper hand in adjusting and applying solutions in the early stages of onboarding.
- ▶ Tech-enabled solutions can be a catalyst for cost efficiencies and for accelerating revenue opportunities. Streamlining the comprehensive experience provides a greater benefit than upgrading the individual sub-components on their own. As the interest in generative AI, advanced automation, chat bots, and blockchain continue, firms will need to address these areas in the context of onboarding to see the return on those investments. Investing in the digitalization and automation of account onboarding will have a far-reaching impact on the delivery of services to clients.
- ▶ Defining client personas and their end-to-end journeys could help identify ways to decrease high-cost specialized services throughout the onboarding lifecycle and increase digitalizing and automating processes for future business growth.
- ▶ Leverage internal teams and external providers to assess the costs to serve clients. Define key onboarding KPIs and the return on investment (ROI) to rationalize the investments required for transformation.
- ▶ Identify the opportunities to buy or build accelerators and tools that will streamline workflow activities. Select an interoperable solution that can address other similar functions such as fund launches, counterparty onboarding, and requests for proposals (RFPs) and due diligence questionnaire (DDQ) processes.

EY US point of view



To bolster the business case, asset managers should also assess other use cases for similar solutions, including new fund launches and mergers, separately managed account (SMA) onboarding, account conversions, counterparty onboarding, and unifying public and private market onboarding. By creating an onboarding process, asset management firms are taking the first step on the path toward enhancing the client experience and time to market.

EY US can help by providing:

- ▶ Business case development to rationalize investments and accelerate business objectives
- ▶ Workflow automation - tool selection and implementation
- ▶ Operational and outsourcing support for AML and KYC and tax services
- ▶ Automation of the investment management agreement (IMA) reading and integration into the core system, compliance rule coding automation, testing and periodic reviews
- ▶ Generative AI use case development and implementation across the onboarding value chain

Contacts



Emma Monaghan
Principal
Ernst & Young LLP
emma.monaghan@ey.com
+1 212 773 1577



Stephen Strand
Managing Director
Ernst & Young LLP
stephen.strand@ey.com
+1 213 977 3595



Adam Gahagan
Senior Manager
Ernst & Young LLP
adam.gahagan@ey.com
+1 212 773 6063



Michael Carletta
Managing Director
Ernst & Young LLP
michael.r.carletta@ey.com
+1 904 633 2870



Michelle Ferrara
Senior Manager
Ernst & Young LLP
michelle.ferrara@ey.com
+1 212 773 8737



Alina Ehsan
Manager
Ernst & Young LLP
alina.ehsan@ey.com
+1 212 773 9245

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