

Unlocking operational alpha for asset managers

Building blocks of sustainable target operating model

Point of view 1 of 2

January 2026



This is the first of a two-part analysis on the asset manager's transformation to unlock operational alpha

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The path to operational alpha

The asset management industry has reached an inflection point. Persistent fee pressure, rising costs, increasing operational complexity and evolving client mandates have eroded the profitability buffer that once protected firms.

While some of these challenges have persisted since the introduction of the Markets in Financial Instruments Directive (MiFID), our recent conversations with asset managers suggest the situation has become unsustainable now, necessitating urgent action.

There is a growing consensus among asset managers that simply ‘stemming the tide’ is no longer enough; instead, a fundamental transformation of the operating model is required to be future-ready for 2026 and beyond.

Performance belies structural pressure

For more than a decade, strong market performance has masked a deeper structural challenge in the asset management industry. Strong equity markets and buoyant inflows have helped firms sustain profitability, giving the perception that operating structures were keeping pace. However, an in-depth scrutiny of the underlying drivers has exposed structural challenges, such as fee compression, rising costs, and increasing operational complexity with newer products and evolving client mandates.

Today, the situation has reached an inflection point.

Even as global assets under management reached record highs in 2024, revenue growth has decoupled from profitability—revenue rose 10%, but margin inched up only one percentage point¹

Over the years, asset managers have inherited a legacy cost structure built with focus on breadth rather than efficiency. What were once manageable inefficiencies have become unmanageable drag, such as legacy systems, manual workarounds, high-headcount, fragmented vendors, redundant workflow and effort duplication.

Every client conversation leads back to the same conclusion; market tailwinds can no longer offset structure inefficiency and industry’s challenge is no longer cyclical but structural.

This paper focuses on how asset managers must separate what generates returns (investment alpha) from what sustains it (operational alpha). It also delves into the relevant levers that make this cost base work harder to sustain it.

It is estimated that asset managers need to reduce their cost base by at least 20% to maintain historical levels of profitability¹

¹ BCG Global Asset Management Report (2023)

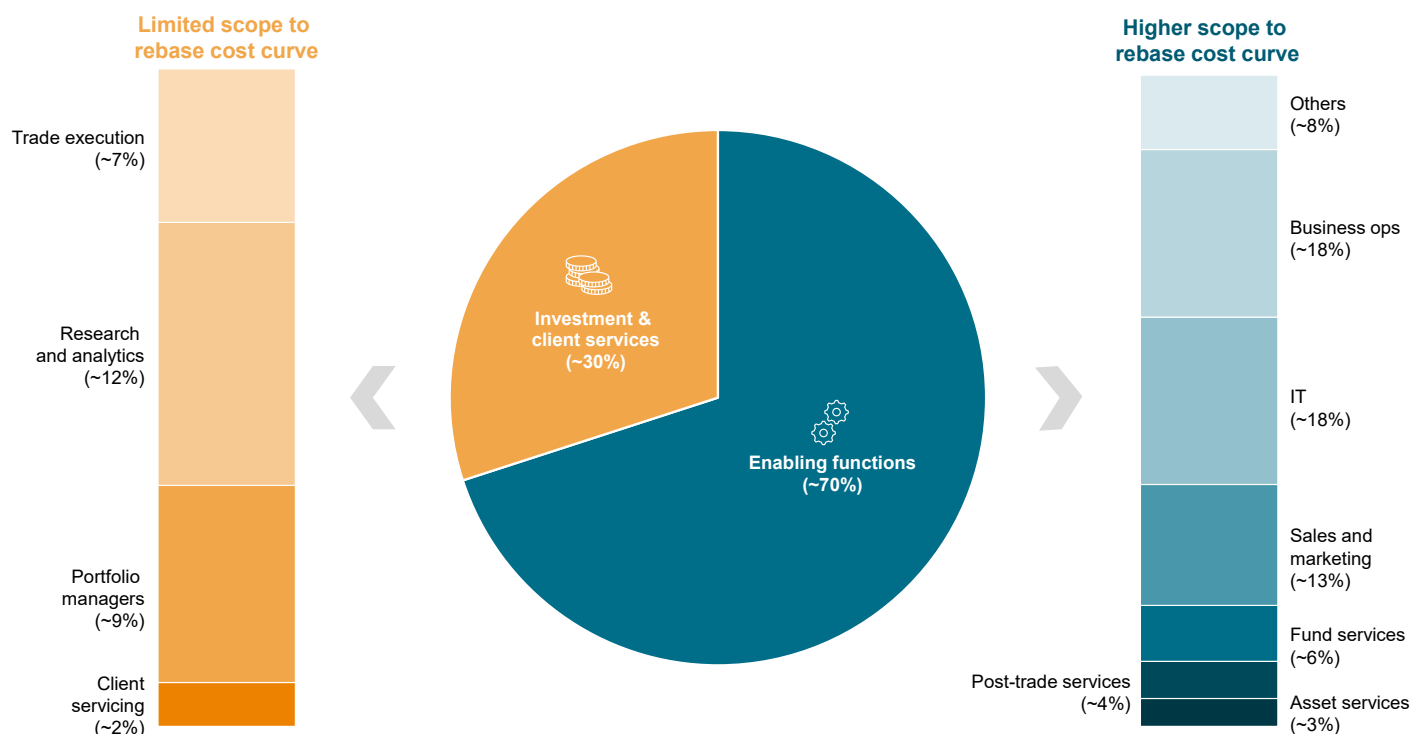
Where and how to optimize

Every asset manager's cost structure aligns with its investment identify, which effectively translates into inherent cost trade-offs between differentiation and efficiency. Yet, beneath these differences, there is one constant—the potential to cost transformation sits outside the investment and client servicing functions.

The cost conundrum

Across the value chain, the investment and client servicing engine (research, client servicing and trade execution) typically absorbs only 30% of the total cost, depending on strategy and product mix. The remaining share of spending flows into enabling functions—the workflows that keep a firm running—that are essential for stability but not a source of competitive advantage. Therefore, efficiency, not differentiation, should be the focus of the enabling functions.

Target enabling functions to drive a step-change in the cost curve and let the benefits cascade to investment and client servicing functions



Source: BCG Global Asset Management Benchmarking

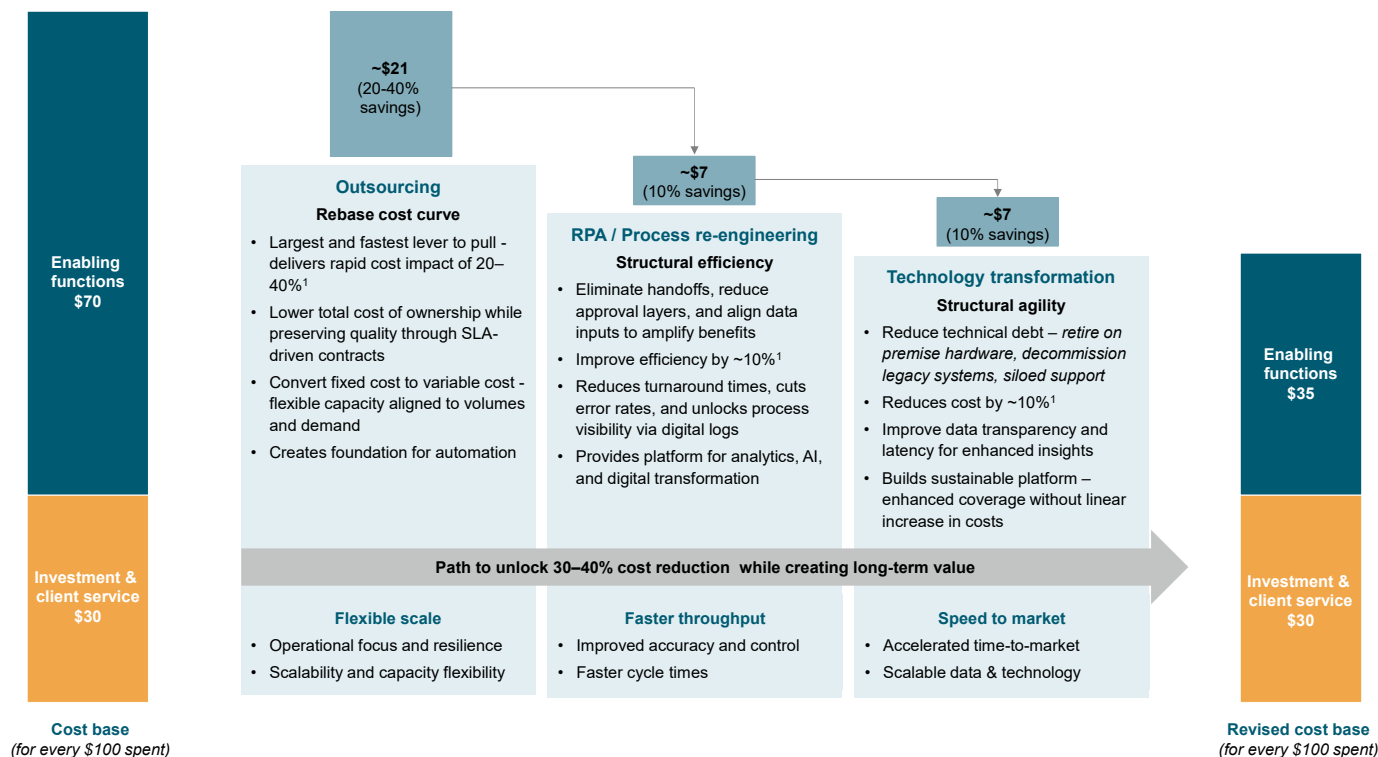
While investment and client servicing functions are not immune to optimization, the elasticity is limited. Any cut or automation risks diluting performance, culture or investment discipline or delays client servicing. Cost actions (such as artificial intelligence-based analytics and portfolio construction simulation) in these workflows tend to be incremental and do not significantly impact the cost curve.

In contrast, enabling functions can support a step-change potential in the cost curve as these operate at scale, are repeatable and tend to have a legacy of fragmentation and redundancy that can be redesigned.

Levers to unlock value: How to optimize

Transforming the cost structure is not about across-the-board cuts but a focussed approach addressing scale, efficiency and sustainability. This further requires a nuanced approach as managers navigate the complexities across different asset classes. This targeted approach via the following three levers will help managers change the shape of the cost curve without undermining capability – (1) outsourcing, (2) automation and (3) digital transformation

Sequential levers to rebase the cost curve and unlock 30–40% cost reduction



1. Based on Crisil's experience of delivering such transformations

- **Outsourcing: Unlocking scale:** As cost pressure turns structural, outsourcing is often the fastest lever to pull. When done right, this not only provides cost benefits, but also releases trapped capacity. Outsourcing models have now gradually evolved from a fragmented approach to strategic partnerships where the provider is accountable for end-to-end process. This enables managers to consolidate vendors, improve service-level agreements (SLAs), reduce the governance burden and build process resilience, unlocking 20-40% of cost reduction across the enabling functions
- **Robotic process automation / process re-engineering: Embedding efficiency:** Process optimization and automation become the bridge between scale and intelligence. Executed alongside outsourcing, automation should help turn repetitive processes into self-learning systems, freeing capacity and delivering an estimated 10–20% cost reduction. In addition, automation provides value via error reduction, faster turnaround and enhanced auditability
- **Transformation: Building a sustainable platform:** While outsourcing and automation improve today's economics, transformation helps set up for tomorrow's viability. Cloud migration, platform modernization and workflow digitization helps reduce infrastructure and costs 10–20%. Additionally, it provides the much-needed flexibility to launch new products, expand to new markets or meet evolving regulations and client mandates without scaling costs internally

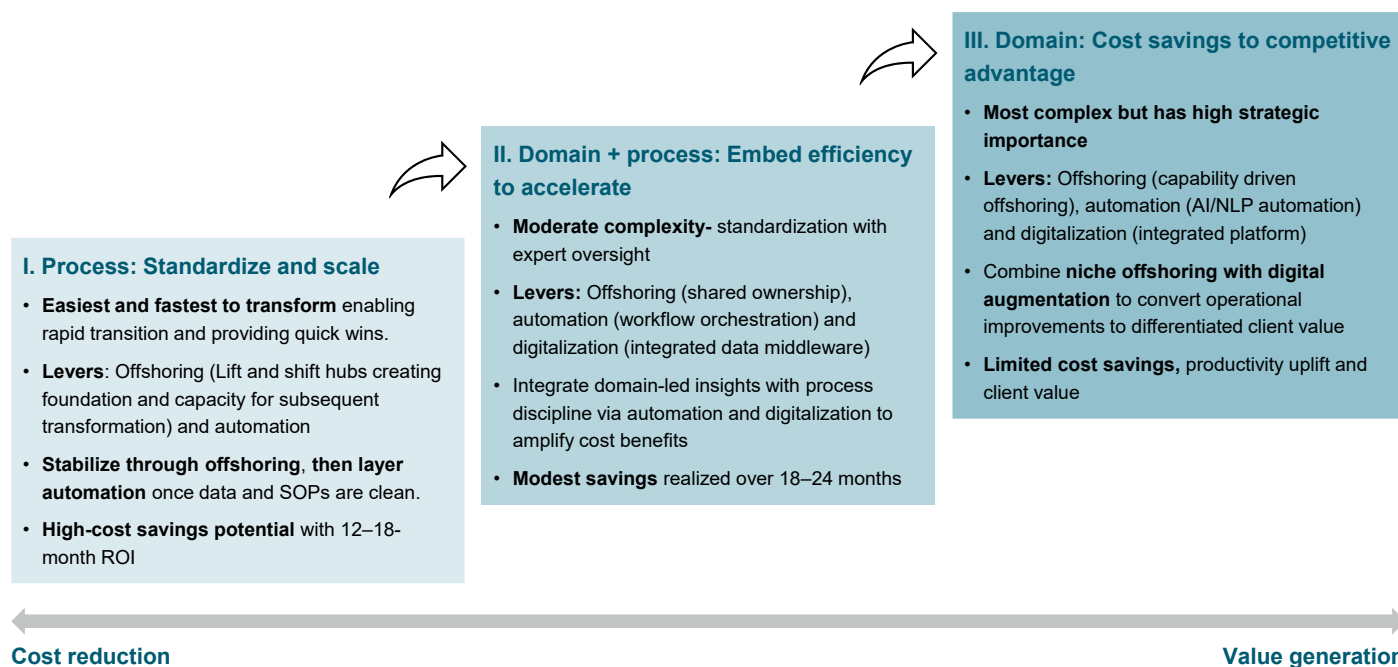
From identification to execution

Understanding levers is only half the job done. The real cost savings happen in how they are applied. Too often, such programs falter not on strategy, but on execution and effective change management. Focus should move from what to transform to more on how the organization resets ownership, redefines roles and hardwires new ways of working.

Most asset managers stop at high-level cost categories, but the real value comes from not implementing it as broad programs but as workflow-level interventions. Every workflow across different asset classes has varying degrees of complexity, judgement and standardization; hence, it is critical to map the levers to the right workflows, with the right maturity, at the right time.

The right approach starts with granular workflow mapping across the value chain and identifying activities that are primarily domain-intrinsic (expertise and context matter), process-driven (scale and repetition is high), and which lie in between. Recognizing these distinctions allows managers to implement cost transformations effectively with the implementation approach and the impact of the levers varying across these workflows.

Application of levers across process, hybrid, and domain workflows



While the above pathway provides a structural blueprint, execution rarely follows a linear trajectory. In our experience, we often underestimate the practical challenges (fragmented ownership, data friction, change readiness, workflow mapping, etc.) that often slow the momentum and impact outcomes. We discuss the practical challenges we face across the three workflows and how to course-correct.

I. Process: Illusion of easy wins

Process driven-workflows seem deceptively simple for transformation—high volume, low judgement and standardized. However, a rush to transition without stabilizing the process and controls leads to fragmented ownership, inconsistent SLAs and potential rework. The playbook should look beyond lift and shift, and needs to have detailed mapping, exception logic and accountability before integrating automation.

Case study: Setting up an offshore KYC hub for an EU-based asset manager

The asset manager was facing rising compliance costs and inconsistent onboarding times since it was expanding its assets under management. The challenge was further compounded by fragmented ownership of the responsibilities across regional teams and asset classes. We began the offshore transition of the end-to-end know-your-client (KYC) process, including onboarding and periodic reviews.

During the transition, data quality and knowledge transfer gaps emerged as key risks. These were mitigated through process documentation workshops, clear handoff protocol and a three-month parallel run. After stabilization, we integrated automation to extract data from ID documents, validate fields and pre-populate client onboarding templates. Exception handling remained onshore.

Within a year, we took over the entire ownership of the KYC process, delivering 20-30% reduction in costs. Operational improvements were also evident—turnaround time reduced 35% and error rates were lowered significantly.

II. Domain + process: Balancing levers with judgement

Transformation of hybrid workflows is the most challenging given the need to balance the levers with business judgement. It should be designed to enhance judgement and not replace it. While the transactional components of the workflow can be scaled and automated, decision checkpoints, quality assurance and exception management must remain anchored from a domain context.

From a technology standpoint, automation should help reduce cognitive load and not over-control the process. Typically, rule-based frameworks are used to identify anomalies and exceptions for domain review - effectively providing experts better signal to noise and not removing them completely from the loop.

Case study | IBOR reconciliation: Integrating domain oversight with process efficiency

A global, diversified asset manager faced persistent breaks and late net asset value (NAV) postings due to fragmented reconciliation process. Multiple systems and vendors were involved across the value chain resulting in redundant checks and high bandwidth for resolution

We helped create a single integrated oversight model that enabled scalability with adequate client control. To ensure a seamless transformation and avoid potential bottlenecks, we redesigned the process – (1) automated transaction-level matching and breaks classification using rules-based validation, (2) preliminary root cause analysis conducted offshore, and (3) final sign off provided by client for material exceptions.

Within 18 months, 75% of the process was managed by us thus reducing client costs significantly (~30 – 40%). Turnaround time improved 30% and accuracy exceeded 95%.

III. Domain: Scaling expertise through niche outsourcing and digital enablement

In domain-driven areas such as illiquid valuations, performance attribution, NAV review, and waterfall distributions, the constraint is not effort, but capacity and expertise across asset classes. Outsourcing, automation, and digital transformation each play a distinct and complimentary role across these workflows. Well executed operating model helps managers achieve transformation by not removing experts, but by multiplying the reach. Furthermore, it helps create a model where expert input remains the final arbiter, but never the bottleneck

Outsourcing provides access to the expertise layer - leveraging niche providers that bring in the relevant expertise and act as analytical amplifiers for asset managers. This becomes critical as asset managers scale new asset classes and geographies, and niche products.

Automation and digitalization become the capacity and intelligence layer in such operating models. They equip analysts with cleaner data and faster insights, thus providing a decision support ecosystem. Execution success depends on sequencing the process and integration of strong feedback loop to keep up with business needs.

Case study | Illiquid valuations: Foundation for scalable valuation platform

A large, diversified asset manager was facing significant challenges around its illiquid valuation workflow since volume and frequency were growing fast. Valuation cycles were being delayed—spreadsheets circulated across teams, data in silos, and audit queries consuming weeks of analyst bandwidth.

We helped re-engineer the process by setting up a dedicated offshore valuation team with experience in private asset valuation. The team took the ownership of onboarding new deals, aggregating relevant data from multiple sources, and rolling over valuation on a quarterly basis, thus setting up a repository of ready-to-use valuation models for external and internal reporting. Post stabilization, the team helped transition the spreadsheet-based valuation to a cloud-based platform with adequate user manuals, SOPs and FAQ checklists. This helped build a consolidated platform with transparent audit trail for every asset.

Within two valuation cycles, the turnaround time dropped 30% and audit queries by half. The asset manager was able to increase the coverage ~2x times, without additional headcount.

Transitioning to the best-fit target operating model

In this paper we have examined the foundational layers of the operating model, unpacking where inefficiencies lie and how targeted interventions such as outsourcing, automation and digital transformation can release cost and capacity across different workflows. Looking at these interventions in parts alone is not enough and does not provide enterprise-level resilience.

The next challenge is to connect those parts into a cohesive **target operating model** that aligns with the growth strategy, strategic priority, product complexity and risk appetite.

The question is no longer where and how to cut costs, but to re-architect the operating model to scale intelligently with clearer end-to-end ownership, reduced duplication, fewer handovers and a shared data foundation.

In the next paper in this series, to be published in the second quarter of 2026, we take that step forward, transitioning towards the best-fit target operating model. This will outline:

- **How to identify and evaluate operating model options** from captive to third-party outsourcing to hybrid constructs based on the strategic, financial and operational fit
- **How to prioritize the right book of work for transition**, determining which activities to retain, relocate or redesign
- **How to implement and sustain the transition**, embedding change management, digital enablement and clear success metrics to ensure transformation outcomes sustain

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