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EVOLUTION IN ASSET MANAGEMENT:

The wealth management industry is changing at an exponential rate. Successful adaptation hinges on understanding the underlying trends and putting a robust and flexible operating system in place.

Propelled forward by the rapid pace of innovation, the business of managing wealth is being reshaped before our eyes.

Five interwoven factors are driving the change; we'll briefly address each over the coming months:

1 **Fierce competition**
Competing effectively may be more complicated than it once was, but the barriers to entry are still relatively low.

2 **Vulnerable economics**
Growing competition means benchmarks for excellence are moving targets, and firms are spending more, persistently pushing up costs and pressuring margins.

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3 **Emboldened investors**
Investors have been conditioned by their experiences outside the industry to expect a more integrated solution that seamlessly caters to their needs.

4 **Complex regulation**
The proliferation of regulatory bodies worldwide means firms must contend with an increasingly complex set of rules and rule makers.

5 **Transformational technology**
Unstructured and previously inaccessible data sets are now full of promise, and there is little doubt the flood of usable data will continue to grow, sometimes in unpredictable ways.

Emboldened investors

Trends

Deteriorating economics do not mean managers can cut corners when it comes to servicing their clients.

On the contrary, our research has consistently found a mismatch between manager claims and investor needs. Satisfied investors are not rare, but there will always be room for improvement. The industry does not favor the complacent: Expectations about transparency, access and performance continue to evolve.

A number of factors have conspired to raise expectations among institutional investors. The 2007-2009 global financial crisis shook everyone awake, spurring demands for greater transparency and communication. Increasingly complex portfolios (Figure 1) are driving the need for simplified, timely and integrated reporting. Platforms and other intermediaries wield greater influence in purchasing decisions. **The transformative potential of new technology has awakened many, opening another front in the battle for client loyalty and satisfaction alongside performance and price.**

How have client expectations evolved? Improved systems and processes mean reporting is already simpler, more informative and timelier. Meanwhile, managers have made strides with transparency, but there is always a desire for more. There is also a pervasive desire for more customisation. Customised reports and detailed analysis are not particularly unusual, but they are still more likely to be available only to large investors.[1] The ability to create a unique experience for every investor would be a potent differentiator. Further improvements mean information flows will need to be better integrated going forward.

It would be a mistake to focus exclusively on client service or reporting. While both of these are important, investors have been conditioned by their experiences outside of the industry to expect a more integrated solution that seamlessly caters to their needs. A significant part of the fintech revolution that is now well underway focuses on addressing pain points across financial services. It is not a stretch to imagine a well-funded startup or an established player such as Amazon or Google leveraging their customer-centricity and data analytics prowess to revolutionise the wealth management client experience.

We pointed out this development in our 2018 study of branding in asset management, where we noted that, “Bolstered by millennials’ distrust of traditional asset management solutions, together with eye-grabbing marketing campaigns, innovative fintech firms ... promise to be objective and cost-effective one-stop shops for financial well-being, perfectly positioning to capitalise on several converging trends, not solely portfolio performance.”[2]

This means closely integrating CRM systems with other systems and sources of data to deliver a reliably excellent experience. The payoff should be tangible. As noted in our 2018 study, *Digitising the Investor Experience*, executives see “a direct correlation between digitisation of customer experience and the bottom line,” with firms identifying themselves as leaders in digital transformation expecting much stronger growth than their peers.[3,4]

Implications

Many firms are still playing catch up, but this is undoubtedly an opportunity to differentiate.

As such, there are clear implications for operational infrastructure, processes and personnel. With investors commonly allocating to multiple asset classes and structures, consolidated and integrated reporting is critical. As it becomes more challenging to get new investors in a more competitive marketplace, faster onboarding with less friction is also desirable, if not a point of differentiation.

Understanding investor needs is challenging, especially at a time when so many relationships are indirect (via intermediaries, infomediaries, and/or platforms). Research by Hearts & Wallets has shown that "the majority of major mutual fund providers saw investor awareness erode in recent years" as managers "ceded so much influence to their distribution partners in terms of consumer discretion" that it has rendered many of them essentially "interchangeable and irrelevant."[5]

Intermediaries such as OCIOs are often tasked with simplifying things for their clients, especially those faced with more complex portfolios. As such, OCIOs prefer to engage with asset managers who can help them deliver solutions seamlessly to their clients. This means "...some brand building will inevitably be done via intermediaries who are the primary point of contact for most investors today. Content marketing via intermediaries can be an effective tool for raising brand awareness for both advisers and end investors. But for highest impact, the messaging will need to be highly relevant and tailored to the audience, with material for end investors being significantly less complex than messaging meant for advisers or intermediaries."[6]

Regardless of whether the experience is oriented toward intermediaries or end investors, best practices are moving targets. Luckily, they may not even be particularly useful in this fast-moving environment, as they tend to be backward looking.

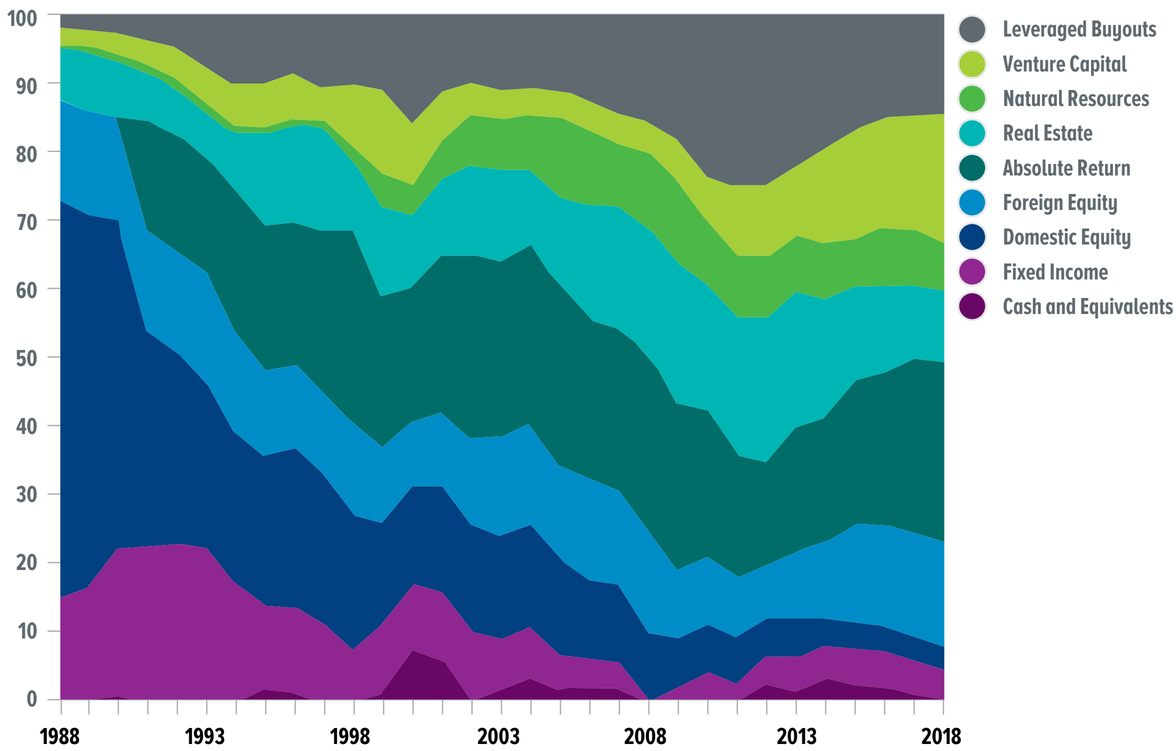
There are nevertheless three guiding principles that can help focus improvement efforts:

1. Listen to clients. This is easier said than done for firms more accustomed to communicating "to" investors rather than "with" them. Whether it is done systematically or opportunistically, establishing a true dialogue should ultimately produce more satisfied clients, better long-term retention and a more attractive proposition for potential new clients.

2. Deliver data effectively. Legacy systems can make it difficult to provide clients with the data they need, particularly if it is anything out of the ordinary. Processes may need to be redesigned.

3. Aim for real-time, customisable, client-driven reporting capabilities. Even if clients are not yet demanding these things, their expectations are shaped by seamless, cloud-based apps in other parts of their lives, and they will inevitably expect them from you, too.

FIGURE 1 | Average Asset Allocation by Yale University Endowment, 1988-2018



Source: Yale University

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References

[1] *Digitising the Investor Experience*, SEI, 8 June, 2018.

[2] *Branding Investment Expertise in the 21st Century,* SEI, 2018.

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