Asset and wealth management trends 2019

AWM CEOs are cautious but a focus on productivity could improve their outlook

Part of PwC's 22nd Annual Global CEO Survey trends series

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A focus on productivity

For traditional asset and wealth management (AWM) firms, the biggest disruptor in recent years has been the growth of passive investments and their associated lower fees. Declining fees, along with shrinking shelf space as distributors streamline the range of the funds they offer, are among the main reasons productivity has become such a key issue. Indeed, the growing popularity of passive funds — which are often tied to indices and lower-fee products such as smart beta funds, which use technical filters rather than market cap to rank asset selection — could cut fees by almost 20% on an asset-weighted basis across the mutual fund industry by 2025. This is a somewhat troubling forecast as assets under management are expected to continue to increase during this time.

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Other, more widespread factors are impinging AWM firms as well. For instance, globalisation of the industry has opened new markets and opportunities for managers, but it also has increased the complexity of operating in those markets. And uncoordinated regional and global regulation is swelling the cost base, exposing the weaknesses of legacy technology that cannot produce the information required to satisfy either in-house needs or policymakers' requirements without significant additional costs.

Ratcheting up the pressure, volatility has returned to financial markets with no end in sight. Tense geopolitics, such as US–China trade talks and Brexit negotiations, have combined to form a potent mix with quantitative tightening, rising interest rates, and early signs of a possible synchronised global economic slowdown. Equity and bond markets alike are jittery.

Facing these headwinds, it is not surprising that AWM CEOs are less optimistic than they have been in years. According to PwC's 22nd Annual Global CEO Survey, more than one-third of respondents foresee global economic growth declining in 2019, and only one-third said that they are 'very confident' about their company's revenue prospects in 2019 — the lowest level in five years (see Exhibit 1).

Dealing with the crisis

Navigating this perilous environment is not easy, particularly because it is still in so much flux. However, we've identified three interrelated steps that AWM firms can take to improve productivity and put themselves in a better position to compete.

1. Adopt technology more aggressively

Central to improving productivity is better data management. Data is the 21st-century fuel businesses can use to be faster, smarter and more responsive to market conditions.

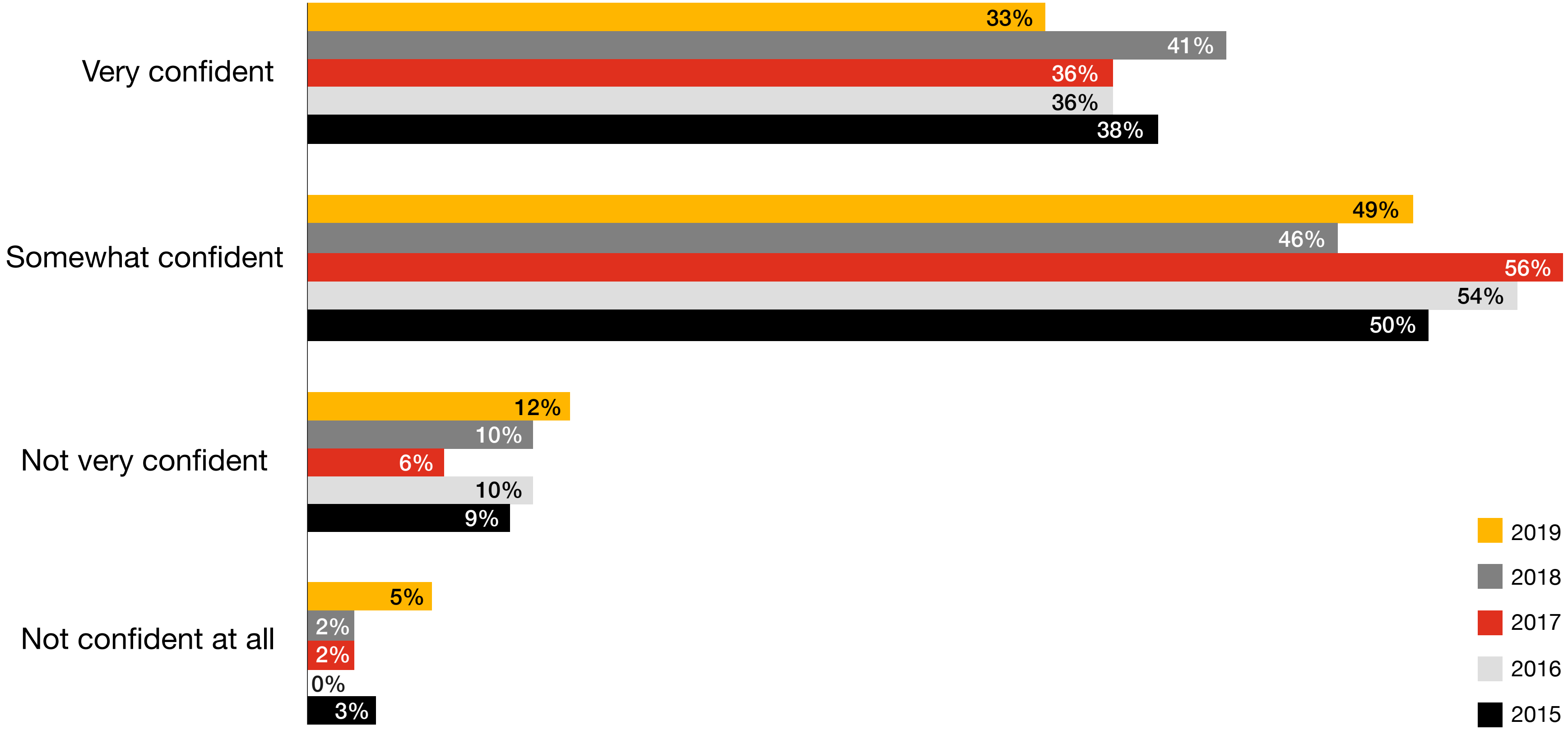
After a decade or more of specific and uncoordinated technology investments, today's successful firms are treating data as a true corporate asset. The result is organisations that share data and information seamlessly throughout the enterprise, leverage market insights and customer feedback faster, and adopt

EXHIBIT 1

AWM CEOs' 'very confident' outlook has decreased from that of previous years

QUESTION

How confident are you about your company's prospects for revenue growth over the next 12 months?



Source: PwC, 22nd Annual Global CEO Survey
Base: Asset and wealth management (2019, 164; 2018, 126; 2017, 185; 2016, 189; 2015, 155)

emerging technologies and innovations quickly. It's not simply a matter of *applying* technology — it's a matter of moving away from the status quo that sees islands of technology and data within a firm. Integrating knowledge about clients, markets and productivity within a firm creates a platform from which organisations can benefit and thrive in today's competitive market environment.

Complex and disparate IT systems have kept costs high. But increasingly AWM firms are trying to mitigate this by, for example, assessing the possibility of IT outsourcing for tasks including front-office investing and back-office processing. That can be effective if it is strategically planned. But in our view, data is a core competency for asset managers. An integrated front-to-back platform that can track all aspects of data throughout an organisation as well as provide reporting and analytical tools is crucial. To this end, many companies are making use of large service providers or technology firms to provide a uniform data platform, one that spans the value chain, asset classes and geographies, which will in turn lead to greater workforce productivity. These platforms introduce digital innovations that vastly improve effectiveness and efficiency, especially in cost-intensive areas such as the front office.

Turning to artificial intelligence (AI), nearly all AWM CEOs who participated in the 2019 survey said that the technology has huge potential for their firms (see Exhibit 2). AI will be especially valuable in the front office as analysts seek to distil investment signals from huge data sets.

But although AWM CEOs clearly recognise the importance of data and analytics, they generally don't regard the data that their companies amass as comprehensive, with only 15% satisfied with data about customer preferences.

What's more, just 24% of AWM CEOs regard 'speed of technological change' as a top threat to their businesses, far lower than the 32% average for financial services generally, suggesting some complacency. Cybersecurity is viewed as a top threat by a little more than one-third of respondents, again lower than other financial services sectors. As AWM firms become more reliant on technology, they'll have to limit the danger of cyber threats.

As technology takes on increasing importance in the AWM arena, it will be essential that management firms lift the digital IQ of their workforces as a prelude

EXHIBIT 2

Nearly all of AWM CEOs agree that AI will significantly change the way they do business

QUESTION

To what extent do you agree or disagree that artificial intelligence (AI) will significantly change the way you do business in the next five years?

Source: PwC, 22nd Annual Global CEO Survey
Base: AWM CEOs (164)
'Don't know' responses not shown

What are AWM CEOs planning in the next 12 months in order to drive revenue growth?

29%

of CEOs said they expect to merge with another firm in the coming 12 months.

41%

are seeking strategic alliances or joint ventures.

to boosting productivity with new tools. To do this, a strategy that includes training, incentives, productivity metrics and communication is required. For example, some managers are now using productivity tools that track and analyse how workers spend their time within the context of the firm's business goals. Often the analysis will expose inbuilt inefficiencies or old work practices that add no value but increase complexity and rework. As a corollary to this, some asset managers are using assessment apps to enable their workforce to 'self-monitor' their digital fitness, identify areas needing improvement and use self-learning tools to meet goals. Others are investing in digital accelerators to determine the best talent for off-site, in-depth digital training; these employees are then asked to share and embed the skills learned with the rest of the organisation.

2. Agile M&A

Mergers and acquisitions (M&A) have increased in the last few years within the AWM sphere to counter fee pressures through scale, acquire skills in new asset classes or enter new markets through innovative distribution alliances. Yet looking at M&A simply in terms of announced mergers and large-scale acquisitions misses another trend that shows great innovation in the industry.

Fresh-thinking managers are achieving the benefits of M&A without the drawbacks through joint ventures, the right-sourcing of back-office arrangements to share economies of scale and partial acquisitions (which look more like private equity investments). One reason for the inclination to avoid M&A is the gap between sellers' expectations and what buyers are prepared to pay: often this is simply too great. Indeed, some firms may no longer be worth what they once were because their role is diminishing as changes in investment products, distribution and technology leave them behind.

Joint ventures are a good way to access new skills. Often, fintechs are eager to team up, matching their culture of innovation with an AWM firm's brand, distribution and regulatory expertise. Or, in looking to diversify outside their domestic markets or narrow product sets, AWM firms may find it attractive to buy a minority stake in a complementary overseas business or enter reciprocal distribution arrangements.

Our 22nd Annual Global CEO Survey confirmed this collaboration trend. Just under one-third (29%) of AWM CEOs said they expect to merge with another firm in the coming 12 months, which seems low given the pressures facing the sector. But nearly half (41%) are seeking strategic alliances or joint ventures. It is critical, post deal or alliance integration, for a lens to be applied to the productivity of the workforce to realise the desired efficiencies that greater scale brings.

3. Nurture 21st-century talent

New technologies are changing the skills that AWM firms need, the way jobs and tasks are completed, and the very definition of talent. Asset management firms are not only battling each other for the best people, but also challenging innovative new startups and large established technology companies for talent. Managers who strategically analyse and manage their cost base are already reallocating budget to invest in talent for critical growth opportunities.

Yet these efforts are stymied somewhat because to the prospective talent pool, the sector is viewed as overly traditional and hierarchical. That perception will have to change if AWM firms hope to attract, develop and retain 21st-century talent. Companies with a more modern expression of work–life balance, diversity and inclusion are the types of places that attract young people who have the digital savvy that asset managers need. Unfortunately, despite attempts to become more diverse, AWM is still behind other industries. The sector should redouble its efforts to be more open to a multifaceted workforce in all forms, valuing diversity in skill and knowledge, as well as in gender, age and ethnicity. Indeed, where will the balance lie between human and AI, data analytics and automation technologies? Data scientists are likely to be as sought-after as research analysts in the coming years, and the industry will compete for talent with top technology companies with vastly different cultures and approaches to talent engagement.

Supporting talent is essential because AWM staff have an important role to play in helping the firm to change direction. Developing strong resources, particularly around change management and business analysis, depends on better talent sourcing and expanding mentorship programmes, career guidance and planning. Executives need to educate the entire organisation about agility and its benefits for productivity and cost.

For some firms, hiring freelance specialists — people in the so-called gig economy — for certain technical or digitally oriented tasks and development programmes could be a smart approach. Often this can keep labour costs down while staffing short- or mid-term projects that need experts in specific aspects of the overall effort.

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12%

of AWM CEOs plan to greatly increase headcount at their organisation.

But in all of these training and recruitment campaigns, AWM executives shouldn't forget to consider improving the technical skill sets of their best employees from the old 'analogue' worker pool. These people know the organisation well, and institutional knowledge is often missed when it is allowed to leave. Only by also boosting productivity in the existing workforce can firms achieve significant efficiency gains and advance to the next level.

Talent development is a core prerequisite of the best companies in any industry. And AWM CEOs are well aware of their need to expand their workforce. But more than half (55%) of the respondents to the survey concede that it's becoming more difficult to hire workers.

For AWM firms, successfully evolving and adapting to a new era will depend not only on how artfully they manage new technology, M&A and talent, but, more importantly, on how they use those aspects of operations to become more productive. As fees shrink and competition expands, some managers may find their cost bases unsustainable.

We believe the AWM industry will need to push efficiencies through tech-savvy employees, scale and streamlined methodologies, while balancing costs as it adapts to the changes ushering in a new era.

It's clear that CEOs' optimism has been shaken this year. Yet many CEOs still believe in their ability to drive organic growth. They can do so through differentiated products and distribution, leveraging new technologies, building a twenty first century workforce and learning from versatile M&A. That will drive a future that looks very different, but that will be just as bright.

Strategy made real

What are the benefits that advanced technology can bring to the operational side of an asset and wealth management firm?

Unparalleled levels of digital disruption and an increasingly complex regulatory environment are putting asset and wealth managers under severe pressure. At the same time, concerns about rising fees mean that costs will only grow as revenues decrease in the future. As many managers struggle, those who have embraced technology throughout their value chain have seen some reprieve.

Implementing a new way of working, which includes removing costly and cumbersome legacy systems and replacing them with new technology platforms across the business, has many implications for managers. They have the opportunity to utilise their workforce to the fullest, up-skilling where necessary and creating synergies between departments. As businesses become more data-driven, we will see continued changes to operating models as they search for the best way to use this data in-house. For example, as managers leverage automation technology from end to end, roles will free up and traditional back-office employees could become more client-facing. Additionally, repetition-heavy roles will benefit from advances in robotic process automation and machine learning, and P&Ls will improve as expenses decrease. Changes will be seen not only in the back and middle office, however, as AI-based trading and portfolio management become increasingly more common across the industry.

In addition to increasing efficiency within the organisation, new technology makes partnering with fintech firms increasingly easy for managers, which only enhances managers' value proposition. As managers search for ways to attract millennials, both as clients and as workers, an investment in technology will continue to be crucial.

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Authors and contacts

Ireland

Olwyn Alexander
Global Asset and Wealth Management Leader
Partner, PwC Ireland
+353-1-792-8719
olwyn.m.alexander@pwc.com

Andy O'Callaghan
EMEA Asset and Wealth Management Leader
Partner, PwC Ireland
+353-1-792-6247
andy.ocallaghan@pwc.com

Singapore

Justin Ong
Asia-Pacific Asset and Wealth Management Leader
Partner, PwC Singapore
+65-6236-3708
justin.ong@sg.pwc.com

United States

Thomas J. Holly
US Asset and Wealth Management Leader
Partner, PwC US
+1-410-215-0627
thomas.j.holly@pwc.com

John Stadtler
US Financial Services
Partner, PwC US
+1-617-530-7600
john.w.stadtler@pwc.com

John Siciliano
Asset and Wealth Management
Managing Director, PwC US
+1-646-471-5170
john.c.siciliano@pwc.com

Lara De Vido
Global Financial Services Marketing
Senior Manager, PwC US
+1-646-322-9378
lara.de.vido@pwc.com

About PwC's 22nd Annual Global CEO Survey

PwC conducted 3,200 interviews with CEOs in more than 90 territories. There were 164 respondents from the asset and wealth management sector, and 18% of asset and wealth management CEOs reported an annual revenue greater than US$1bn.

Notes:

- Not all figures add up to 100%, as a result of rounding percentages and exclusion of 'neither/nor' and 'don't know' responses.
- We also conducted face-to-face, in-depth interviews with CEOs and thought leaders from five continents over the second half of 2018. The interviews can be found at ceosurvey.pwc.
- Our global report (which includes responses from 1,378 CEOs) is weighted by national GDP to ensure that CEOs' views are fairly represented across all major regions.
- The research was undertaken by PwC Research, our global centre of excellence for primary research and evidence-based consulting services: www.pwc.co.uk/pwcresearch.

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