



cutting through complexity

FINANCIAL SERVICES

# Investing in the future

HEADLINES

How megatrends are reshaping the future  
of the investment management industry

[kpmg.com/investinginthefuture](https://kpmg.com/investinginthefuture)

KPMG INTERNATIONAL



Have you ever  
considered what  
the **investment  
management** industry  
will look like in **2030**?

Nobody can predict the  
future - but one thing  
is clear, it will be very  
different to today.

**At KPMG, we believe that the future for the investment management industry is very positive and yet to capture the opportunities presented, it will have to overcome unprecedented challenges.**

We hope that you find this paper thought-provoking.

Our intention is to stimulate debate and encourage you to think more laterally about the impact of megatrends on the investment management industry. Specifically, what the investors of the future will look like, how their needs, requirements and behaviors will evolve and what this could mean for investment managers - their propositions and how they structure, organize and manage their businesses. As you read the paper, we ask you to consider which trends will impact you most? Do you need to take action now? Which do you need to monitor and track going forward? How might the rules of the game change and what would you do?

We have also published a fuller report which can be found at the following link.

**[www.kpmg.com/investinginthefuture](http://www.kpmg.com/investinginthefuture)**

We would welcome the opportunity to discuss and reflect on the themes covered and encourage you to contact us or reach out to your local KPMG member firm to discuss how these megatrends will impact your business.

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# Introduction



**The world in which we live and work is changing rapidly, driven by a number of deeply-rooted forces – megatrends. We have been tracking these trends and considering the potential implications for the industry.**

Seismic shifts in demographics, technology, the environment and social values and behaviors are set to re-draw the corporate landscape. Investment management will not escape this overhaul. In fact, the impact could be profound. We feel that the industry will need to radically reshape to remain relevant.

However, there is a significant prize up for grabs. Not only is the industry likely to be considerably larger in 15 years' time than it is today, but perhaps more interestingly, we believe it will have a more important role to play in clients' lives and society in general. Great news for existing players which are able to take advantage, but also for new entrants that may find it too attractive a market to ignore.



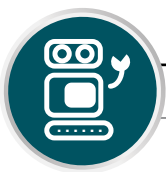
### Demographics

Demographic trends will not only magnify the need for effective investment management, but over time, they will radically change the nature of the challenge and an investment manager's potential client base.



### Environment

Resource insecurities are changing the nature of investment opportunities and demand for risk protection, as well as increasing the importance of socially responsible corporate behaviors and investment strategies.



### Technology

Technological developments continue to act as major drivers of social, economic and environmental change, creating new opportunities and disrupting existing business models.



### Social values, behavior and ethics

Technology and the internet have combined to revolutionize how a large proportion of the world's population interacts, communicates and behaves.

**"You can analyze the past, but you need to design the future."**

**Edward de Bono**

Maltese physician and author





# Clients will be more diverse

**We believe that the confluence of megatrends will drive significant changes in the needs, requirements and behaviors of investors in the future. The clients of tomorrow are likely to be very different from the clients of today.**

The demographic drivers are clear. There will be more older people living for longer. By 2030, 13 percent of the global population will be over 65, compared to 8 percent today<sup>1</sup>. But other trends such as the changing role of women, growth of the middle class, increasing mobility and growing economic influence of the developing world will help to make gender, culture and even religion more important drivers of change.

But perhaps more importantly for the industry, individuals will need to take greater responsibility for their retirement planning. It is clear that no one else will do it for them given the decline of state provision in many countries and continued pressure on the traditional annuity models.

Today's younger generations will see first-hand how their parents' and grandparents' higher lifestyle expectations, coupled with rising healthcare commitments, eat into retirement nest eggs. An increasing number of people will simply run out of money in retirement. The prospect of having to take care of parents and of far lower inter-generational wealth transfer will, in our view, shape future generations' attitude to savings. They will not be able to afford to ignore the issue.

**"We are continually faced with a series of great opportunities brilliantly disguised as insoluble problems."**

**John W Gardner**

Former US Secretary of Health,  
Education and Welfare


This presents an opportunity for the industry to capture clients earlier and build a cradle-to-grave relationship, rather than only focus on attracting clients when they have assets to invest, an approach which has been prevalent to date.

The net result is likely to be a much broader, younger, more diverse, multi-generational and multi-cultural client base. This opens up a great opportunity. However, each client segment will have very different requirements, needs and expectations. Herein lies the challenge for an industry which to date has largely served a relatively narrow demographic.



1: National Institute on Aging,  
"Why Populations Matter:  
A Global Perspective," March 2007





**Expectations will  
be very different**



## We believe that investors' expectations of, and interactions with, the industry will change considerably as a result of the evolving client profile.

While there will inevitably still be the 'time poor', 'uninterested' or those looking for 'someone to take away the problem', we believe future generations will be more engaged in managing their savings and planning their retirements.

Investors will seek greater certainty and personalized solutions which can transition across life-stages. They will also demand a more holistic overview of their finances, saving and investments.

The growing relevance of online communities and social networks is also changing attitudes and behaviors. They are already creating a new 'trust paradigm', with people increasingly looking to 'people like me' rather than professionals for advice, guidance and direction.

As tomorrow's client looks to an increasing array of sources and peers for advice, being able to provide timely, relevant, engaging and personalized information and education about the choices available to an investor will become as important – if not more so – than the underlying product.

And of course, the increasing ubiquity and capability of personal technologies, combined with the search for convenience and immediacy will continue to drive demand and expectations for all this to be delivered seamlessly through a multiplicity of devices at any given point in time.

The incredibly rapid rate at which new technology is adopted is one of the stand-out features of the modern age and the pace of development will only increase. Seventy-five percent of the global population now has access to a mobile phone and by 2030, it is thought that 50 percent of the world's population will have access to the internet<sup>2</sup>. This will drive huge change in behaviors.

**"The first step in exceeding your customers' expectations is to know those expectations."**

**Roy H Williams**

Author and marketing consultant

**"To a one year old, a magazine is an iPad that's broken."**

**Kevin Kelly**

Editor of Wired magazine

And while it is perhaps easier to visualize change through the eyes of personal investors, institutional investors will also be changing. We see no reason why they won't be calling for greater information, education, flexibility, solutions and certainty. And we are already seeing an exponential increase in institutional demand for tailored and multi-faceted delivery and reporting.



2: European Institute for Security Studies, 2011



**What does this mean  
for the industry?**

**We believe that a new investment management value chain will emerge. This will necessitate far reaching changes to proposition sets, client engagement strategies and key aspects of the operating model.**

Today's proposition is unlikely to be suitable for the broader client base of the future.

The days of the 'product-push' model and being able to attract flows solely on the premise of delivering a decent return are in our view numbered. Not only will aspects of the investment process be called into question, what investors' value from the industry will change, potentially fundamentally.

Traditional products will increasingly become components of more flexible solutions. We will see a greater demand for outcome certainty, investment niches will become more mainstream and the current approach to investing may change radically in the 'new world'.

We also believe that investment managers can play a much broader, deeper role in clients' lives and the industry value chain. However, it will require a very different business model; one which requires providers to be much more engaging and relevant to a broader range of customers. This will mean understanding clients far better than today and creating a new value proposition based around education, outcomes (not just returns), flexibility and personalized solutions.

Investment return will continue to be important but we believe that the pendulum is continuing to swing from manufacturing to distribution. As such, client proximity and understanding will become increasingly important differentiators.

This is often easier said than done, particularly in an industry where intermediaries are prevalent. And yet, investment managers have a range of inherent capabilities which could be better leveraged to play a more important role in the value chain. This could be through a greater role in asset allocation, development of a broader range of solutions, helping intermediaries better understand and educate end-investors or taking a lead in aggregating an investor's total financial position.

And if the industry is to aspire to serve a broader client base with value-added services, it will need to rethink its operating model.

Technology will play a central role. While huge investment is being made in IT, this is primarily to address the legacy issues of yesterday and the problems of today rather than the needs of the business tomorrow. Investment managers will need to invest for the future. They will need to design and create new

**"The future belongs to people who see possibilities before they become obvious."**

**Ted Levitt**

American economist and professor  
at Harvard Business School

platforms with the flexibility, scalability and functionality to support a much more diverse client base and deliver a step change in costs, control and the client experience.

The technology platform and supporting infrastructure must also provide the ability to capture, harvest and leverage data. Ironically for an industry founded on analysis, to date it has struggled to take advantage of the information available to deliver insight into its clients and shape proposition and engagement strategies accordingly.

One of the other looming issues is people. The new business models will demand new skill sets and technology could continue to replace many traditional roles. The industry will need to adjust to the prospect of acquiring talent from different pools and employing a more diverse multi-generational staff which will have a similarly diverse range of expectations.





# Is there potential for more disruption?



**Given the combination of positive market prospects, the current lack of innovation and the speed of technological development, we believe there is potential for more radical disruption from new entrants and new propositions.**

## New entrants

We are already seeing some signs of new entrants challenging the status quo. While relatively small in both number and scale at this stage, there are emerging models leveraging a combination of technology, data and social networks to bring fresh propositions to market which play to the evolving megatrends. These could have the potential to cause waves in the industry.

One of the key challenges many new entrants have, is creating a brand and building an appropriate profile and distribution footprint. This has been a perennial issue.

A trusted brand which resonates and appeals to a more diverse client demographic and a new generation of investors with widely different values and behaviors will be increasingly crucial to build scale. Financial services brands may struggle for some time having been hammered in the aftermath of the crisis.

This potentially provides opportunities for non-traditional new entrants. It may seem a little clichéd but could the likes of Amazon, Google and Apple be the next powerhouses in investment management? After all, they are the top three in the Fortune World's Most Admired Companies list in 2014.

Instinctively they have the attributes and capabilities: Brand ubiquity which is increasingly trusted by younger generations; propositions that engage and are relevant; business models which put them at the centre of extensive networks designed to understand needs, anticipate requirements, aggregate information, make clients lives easier, solve problems and change behaviors; enviable distribution footprints and huge client bases spread across all demographic groupings. This is combined with an ability to capture and leverage data to really understand clients and an infrastructure which can deliver personalized and tailored services.

There are, of course, major challenges to becoming a fully fledged investment manager and we are not suggesting that these players will enter the fray in the short term. However, this or the possibility of strategic partnerships with established providers should not be discounted. Indeed, we have already seen some examples of diversification into aspects of financial services and aggregation. In addition, there are countless examples where new models have fundamentally changed the competitive landscape in other industries.

Even if the threat is not considered real at this point, it would be a useful exercise to consider how they would approach the challenge. What would the proposition look like? We suspect it would be very different to how the existing industry is currently thinking.

## New propositions

We can also see an opportunity for even more radical propositions to shake up the industry, particularly in response to challenges such as the pension time-bomb.

With investors likely to increasingly value outcomes and certainty over returns and look for opportunities to lock-down value earlier, for some, the focus could shift to products and services rather than cash savings. At the end of the day, cash at retirement is a means to an end rather than an end itself. For most, retirement planning is about securing lifestyle expectations rather than simply cash accumulation.

On that basis, options to secure holidays, cars and healthcare during retirement may be as attractive as putting aside cash. Of course, there are inevitable hurdles to overcome, but in a world where consumerism is hard to break and there is a general lack of trust in financial services organizations' ability to deliver the promise, we believe such a paradigm shift could be feasible.

**"Never innovate to compete, innovate to change the rules of the game."**

**David O. Adeife**  
Innovation author



# Conclusion

We are not attempting to predict the future. We are simply looking to better understand how megatrends could impact the industry. The spectrum of outcomes is broad and there is certainly no 'one-size-fits all' response.

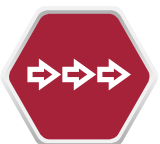
Some firms may decide that remaining true to models that have served them well for decades is actually the right strategy. Maybe they'll be right – but this has to be a conscious decision, not the result of inactivity or apathy.

However, we firmly believe that the megatrends will drive fundamental changes in what investors of the future need, want and expect. This cannot be ignored and is likely to require a significant reshaping of the industry's model.

In our view, simply appreciating that this shift is taking place and pursuing a strategy of incremental change will for many not be sufficient.

**We have set out what we regard as the top ten questions to help you consider how you and your business may need to respond:**

- 1** What will your clients of the future look like?
- 2** How will the industry value chain be impacted and what role do you want to play?
- 3** How will your proposition and service model need to change to meet evolving client needs?
- 4** What are the implications for your brand and market profile?
- 5** What opportunities are available to extend or reshape your existing geographical footprint to take advantage of emerging market developments?
- 6** How well positioned is your operating model to support the propositions required and satisfy investors' increasing demand for information, education, personalization and immediacy of access across a range of media?
- 7** How are you capturing and leveraging internal and external data to help you better engage with clients and remain relevant?
- 8** How are you ensuring that a risk focus is embedded within your organization to meet the increasing scrutiny demanded by regulators and investors alike but in such a way that it does not stifle innovation?
- 9** What people skills and capabilities will you require in the future?
- 10** Where do you see the key risk of market discontinuity coming from?





“Changing the answer  
is evolution. Changing  
the question is  
revolution.”

**Pep Guardiola**

Spanish football manager and  
manager of Bayern Munich

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