Investing in the future: Update

Investment managers strongly affirm issues highlighted in *Investing in the future*

In the year since KPMG launched the *Investing in the future* report, many global clients have affirmed that they are already feeling the impact of the megatrends described in the report, including a wide range of dramatic demographic, technological and competitive forces which are predicted to reshape the industry over the next 15 years.

During recent discussions with KPMG partners across member firms, C-suite investment executives stated that the themes described in *Investing in the future* reflect challenges that are increasingly evident in their markets. They recognize the need to take action in the near term – by honing key organizational capabilities – to remain relevant, competitive and profitable in the rapidly unfolding future.

A number of key themes have been reinforced

Changing consumer preferences and access points are challenging investment managers' ability to stay connected with clients

Investment managers see the urgency of reshaping or strengthening their distribution networks. They see numerous competitive threats: deep-pocketed tech firms like Amazon, Google or Apple that could apply their digital and marketing savvy and vast consumer data to enter the market; the consolidation of existing investment managers; and the risk that banks and insurers, with their embedded client relationships, could dominate access to retail investors.

This threat is compounded for asset managers without proprietary distribution channels or that rely on intermediaries since they could quickly be dis-intermediated and their products commoditized. Such fears are sparking a wave of alliances with fintech rivals, including joint ventures to fuse established asset management expertise with leading edge distribution and technology capabilities. For example, Betterment is a white label solution that provides traditional wealth managers with a quick way to implement a digital advisor channel.

One executive from a US based manager commented, "With so much industry consolidation, and large technology or financial firms dominating access to consumers and their data, there is certainly a risk that we could be displaced. Product providers will need to bring innovation and solutions to the table or risk being commoditized."

Technology is changing the competitive landscape, requiring asset managers to transform their operating models and delivery platforms

Previously skeptical of the disruptive potential of fintech firms, industry executives now observe the arrival of aggressive new entrants with sophisticated digital business models.

They range from Alibaba Group's partnership with Tianhong Asset Management to sell online market funds in China, to the new breed of digital advisor/robo advisors in North America, as well as the prompt competitive response by established firms such as Vanguard with its Personal Advisor Service and TradeKing with its Momentum offering.

One client, a mid-sized, Asia-based direct brokerage firm, reported that, "We are definitely seeing these online firms gaining brand profile and asset growth, especially when they fuse small payment and mobile technologies with asset management expertise."

Escalating business and operational complexity is driving up costs and increasing the need for new risk controls and governance structures to manage the change

While industry leaders are attuned to the need to adapt their business, they often acknowledge their struggle to do so effectively at the same time as managing costs.

Although many investment managers have allocated considerable budgets for technology revitalization, they often lack the skills, capabilities and track record of delivering large scale change. Many find themselves without a cohesive digital or multi-channel strategy to guide their investments, often rooted in a lack of reliable client or profitability data to support strategic decision-making.

As noted by a European CEO, "Although we have a broad vision and roadmap to become digital, we're not confident that our investments to date or our initiatives underway are well aligned or will guarantee the return on investment and long term cost base required in the new world. We also have a major issue with capabilities to plan and deliver the transformation required."

***Investing in the future* sees radical industry change by 2030**

Released in mid-2014, *Investing in the future* looks at what the investment management industry could look like in 2030, highlighting the challenges and opportunities that will arise for investment managers as a result of massive shifts in demographics, technology, the environment, and social values and behavior. The report examines how the confluence of these trends are expected to radically reshape the industry and drive fundamental changes to business and operating models.

Key actions

As the industry experiences the increasingly rapid impact of these trends, particularly in terms of changing client needs and behaviors, a number of actions are becoming more relevant to help investment managers navigate and position for success.

Gain a clearer understanding of the clients base

As demographics and ubiquitous technology forever change client needs, requirements and expectations for service and value, managers must improve their understanding of current and target clients in order to develop new, needs-based products and services and deepen relationships.

Data and analytics methodologies can unlock invaluable client insights. But to do so, managers must first capture, enhance, and integrate unstructured and structured internal and external data to provide the real insight required. This also requires many to work closely with intermediaries.

Enhance client segmentation

Historically, client segmentation centered around one dimensional, outcome orientated backward looking and static data relating to, for example, portfolio size, asset growth and product sales. By introducing data and analytics tools to gather accurate economic and profitability data, and by overlaying relevant client attitude and behavioral insights, managers can perform advanced client segmentation by for example, demographics, client needs, behaviors, goals and preferences.

These managers can then apply sophisticated, forward-looking predictive techniques to test new propositions, products and services and build the corresponding service models, channels, and client experience to better reflect diverse and evolving client expectations.

Implement strategic digitalization

Investment managers can learn from the revolutionary, client-oriented online services offered by technology giants like Amazon to Apple and could benefit from adapting their distribution models to reflect the level of innovation permeating the retail sector.

Investment managers can strengthen client engagement by building digital channel options that match consumers' rising demand for instant, transparent and interactive access. Once implemented, seamless integration of all service channels will be critical to improve, and not complicate, the client experience.

Beyond the creation of client-facing interfaces, digital strategies should also encompass a firm's support and operational functions to streamline processes and optimize efficiency, empower advisors and improve sales force productivity. The use of data analytics in the front office can enhance the investment process by providing more actionable insights, personalizing the client experience and identifying early indications of client attrition.

Achieve optimal business efficiency

Uncertain market conditions, and the influx of low-cost/low-margin competitors, demand that managers reduce their cost to serve clients and achieve sustainable operational efficiencies. At the same time, they face escalating compliance obligations that require additional resources and add complexity to internal processes. This can quickly lead to unsustainable cost creep.

To succeed, they must become lean, agile organizations that can quickly respond to unfolding market opportunities or threats while adeptly navigating regulatory requirements. Technology can empower investment managers to achieve cost improvements by replacing or streamlining cumbersome, costly processes and enhancing capabilities. Technology can also increase operational and financial visibility, ultimately strengthening a manager's ability to understand and control business and regulatory risk and perform far-sighted, fact-based strategic planning.

In addition to technology, a fresh and more strategic approach to cost awareness and subsequently control, that deviates from standard functional cost methodologies, could help to deliver the step change in business performance required to negate continuing margin pressure.

Questions for business leaders

In light of the tangible impacts that investment managers are now experiencing, there are a number of key questions that your business may need to consider:

1. How will the industry value chain be impacted and what role will you want to play?
2. What will your clients of the future look like?
3. How will your proposition and service model need to change to meet evolving client needs?
4. How effectively are you capturing and leveraging internal and external data to understand clients' evolving needs and behaviors and shape how you engage with them to remain relevant?
5. How are you employing digital strategies to enhance and personalize the client experience?
6. How is your operating model positioned to support the need for new client propositions and deliver both enhanced operational efficiency and financial performance?
7. How can you achieve the step change reduction in costs which will be required to negate the continued erosion of margin?
8. How could you apply technology to change the rules of the game?
9. How are you embedding the necessary risk focus into your organization to satisfy regulatory and investor demands?
10. What leadership, people skills and capabilities will you require in the future?

Contact us

At KPMG, we are engaged with an increasing number of clients in the investment management sector that are focused on building or re-energizing their client and digital capabilities, to strengthen their client orientation, achieve business transformation and optimize their operations.

We would be pleased to discuss your organizational issues and priorities and explain how we can combine our deep cross-industry experience with our 'next generation' expertise in technology, customer experience, cost and digital solutions, to enable long-term business performance.

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