Top concerns of asset management CEOs

What keeps them up at night – and how they can get some rest

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As part of KPMG's most recent Global CEO Outlook Survey[1], more than 100 chief executive officers (CEOs) from a variety of asset management firms—ranging from hedge funds, mutual funds, real estate funds, alternative investments and wealth management – weighed in to discuss their top concerns.

Their feedback revealed a striking image of global CEO expectations for business growth, the challenges they face, and their strategies to chart organizational success over the next three years.

As we begin the new year, we find that asset management CEOs' biggest fears center on the following critical four areas:

- Customers – retaining them and meeting their evolving needs
- Competitive landscape – staying current or ahead of the curve on products/services
- Managing risk – identifying/analyzing/prioritizing risk better
- Innovation/technology – deciding whether to evolve or revolutionize/reinvent

Let's take a closer look at these concerns, what asset management CEOs are doing about them, and provide some perspectives on what they should be doing.

[1] KPMG LLPs (KPMG) 2016 Global CEO Outlook Survey captured the perspectives and insights of nearly 1,300 CEOs from companies across 11 industries in 10 countries.

1. Focusing on customer loyalty

A whopping 90 percent of asset management CEOs are concerned about customer loyalty. In addition, 92 percent are worried about how millennials and their particular wants and needs will impact business.

What are they doing about it?
Fifty-five percent are using new technology and digital outlets to connect with current and potential customers (e.g., targeted messaging, social media). However, the same percentage feel that these efforts are not as effective or efficient as they should be.

Thirty-four percent reported that they are bringing customers in earlier in the process in order to get their input on new products or services, or before making changes to existing products/services.

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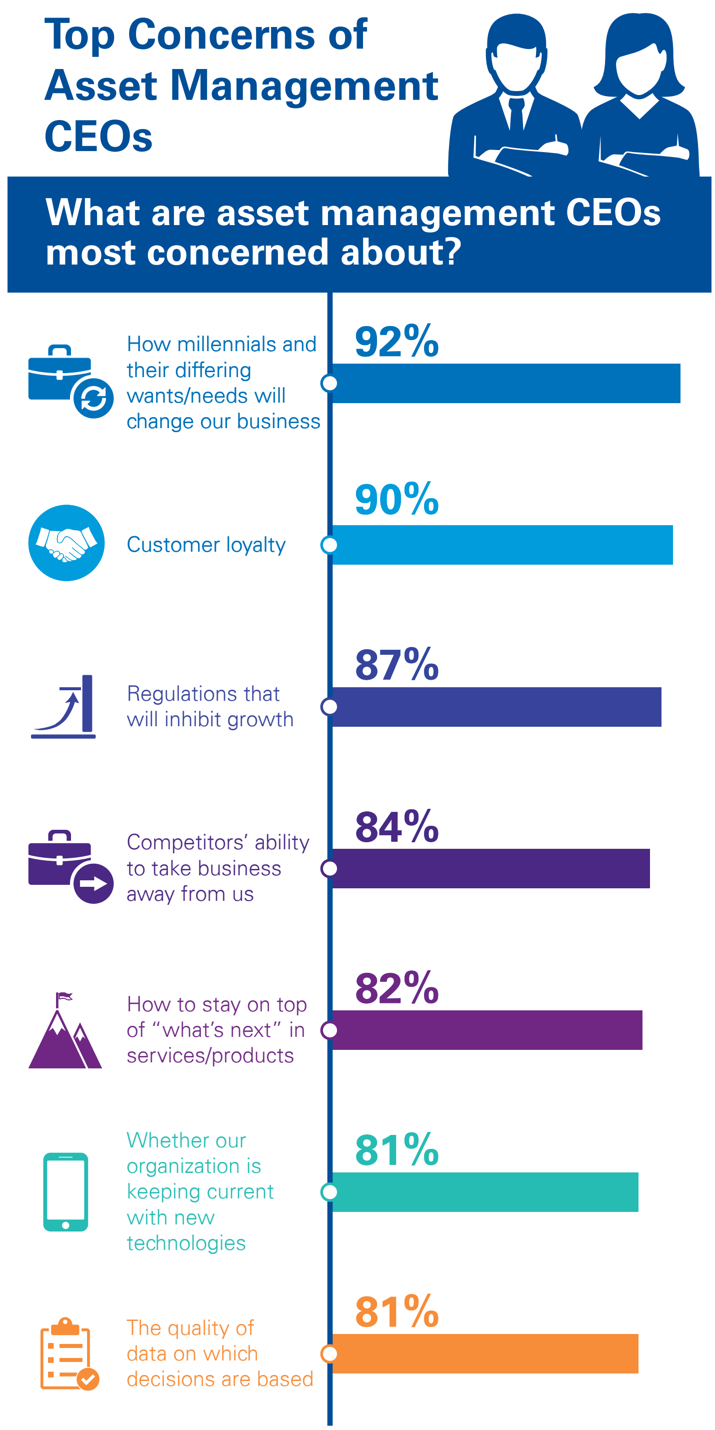
One way to enhance customer loyalty, particularly with millennials, is to look for ways to differentiate your firm from your competitors. "Examine your strengths and weaknesses through the lens of the customer," stated Sean McKee, KPMG's national practice leader, Public Investment Management. "You want to be viewed as a partner who shares in a customer's financial success, not one who gets paid regardless of customer outcome."

Also, reach out to customers — in person, by telephone, and via the Internet (social media, web site, mobile apps) — to learn what they're interested in and looking for in terms of products and services. Along these lines, asset managers will need to create better user interfaces and better user apps. "That's what millennials are used to and want," observed James Penman, Advisory director with KPMG's Financial Services practice. "It will be worth the investment of time and money upfront to design and build rich and deep mobile apps that allow for personalization and customization."

Another approach for building customer loyalty is to develop investment strategies with a "social responsibility" mandate (e.g., clean environment, aiding local communities, etc.) and incorporate this message on your web site.

"Millennials tend to be more socially conscious than older customers, and are more likely to favor companies with a similar mindset," noted Laurence Godin, principal, national practice leader of the Asset Management sector of KPMG's Financial Services Regulatory practice. "However, you need to tread carefully as you don't necessarily want to gain favor with one group of customers at the expense of another; millennials are not monolithic in how they think and don't all support the same causes."



2. Remaining competitive

What are they doing about it?

In addition to taking the actions listed above regarding being more attentive to customer wants and needs, and leveraging technology, more than 20 percent reported that they are hiring personnel away from their competitors to acquire necessary talent.

KPMG perspectives

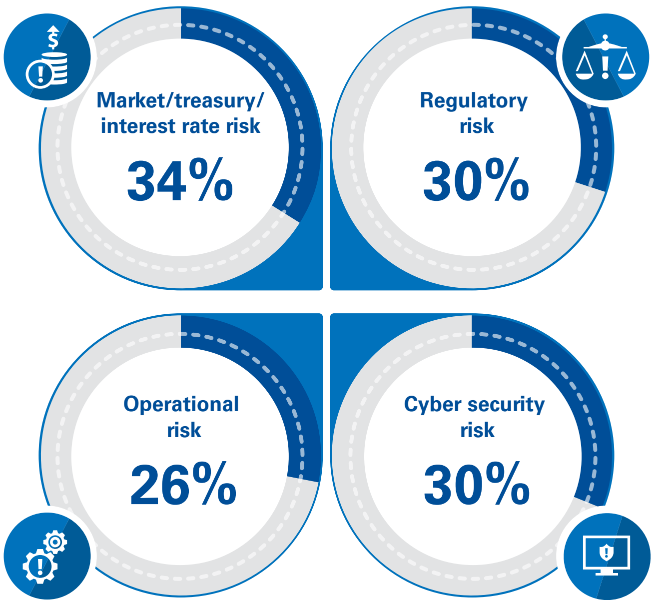
"Focusing on differentiating your firm will pay off from a competitive standpoint as well as from a customer loyalty perspective," McKee noted. "Asset management firms should also be investing in new technology, including robotic process automation (RPA) and cognitive, in order to improve operations as well as the customer experience."

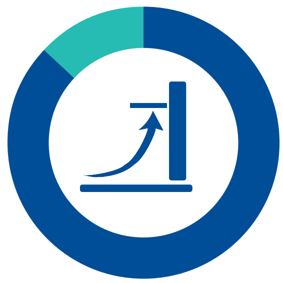
Asset managers also need to become more outward–looking. "They tend to be focused on making their products better, but often need to study what their competitors are doing," said Penman. "Also, they concentrate so much on sales that they may overlook data that shows their existing products have become dated and can no longer successfully compete with what other firms are offering."

Another way asset managers can remain competitive is to design investment strategies that can be delivered through multiple channels. "For example, a portfolio manager with a great investment strategy may be able to create a framework to simultaneously deliver that same strategy as a mutual fund, Exchange Traded Fund (ETF), defined contribution and defined benefit pension portfolio, a retail separate account model, endowment, and/or foundation portfolio," Penman added. This can broaden the potential customer base and deliver a product the way the customer wants to receive it.

3. Managing risk

With regard to potential risk exposure, the survey found that the **top four** areas of concern for **asset management CEOs** were:





87 percent of **asset management CEOs** were concerned that regulations will inhibit the growth of their firms

What's more, nearly 90 percent of the CEOs were concerned that regulations will inhibit the growth of their firms.

What are they doing about it?

Interestingly, while more than three-quarters felt that they're not "fully prepared" for a cyber event, an identical percentage were comfortable with the actions they've taken to mitigate cyber risk.

Many asset management firms are employing a proactive risk assessment approach to guard against cyber and other risks. In addition, many will map out "if-then" scenarios so they're prepared to act if certain regulatory measures are enacted or repealed, or if certain market events occur (e.g., interest rates rise). Interestingly, more than 80 percent of CEOs reported that they were not confident about the data on which they based their risk decisions.

KPMG perspectives

"A key to managing risk is understanding which ones are unique to, or particularly impactful on, your organization, and how they potentially affect key stakeholders, including regulators, employees, shareholders, intermediaries, and investors," observed McKee. "Asset management firms need to establish a framework that allows them to identify and assess risks, and a governance structure that actively integrates this information and enables the firms to respond to it both strategically and tactically."

At a minimum, this framework requires CEOs to have regular discussions with their risk management, legal, compliance, and internal audit partners to understand what the issues are, what's happening elsewhere, and the ways in which similarly situated firms run into trouble and resolve these problems. "It's also crucial that this risk review process not be a one-and-done exercise," added Godin. "Risk is fluid; a potential danger that might not have existed two months ago might be posing a critical threat today."

Godin noted that one additional risk asset managers should be concerned with is what he referred to as "culture risk." That is, how does a firm ensure that its personnel – from the C-suite to middle-managers to rank-and-file employees — adhere to rules, regulations and legal requirements, and raise their hands when they see something is wrong? This is one of the things that regulators look at when they come in for an examination, stated Godin.

"What happens to people who fail to demonstrate an understanding of proper culture? Are their performance goals and compensation aligned with proactive and reactive risk mitigation factors and actions taken to eliminate bad behavior?" he asked. "If risk mitigation and ethical behavior are part of the objectives on which people get paid and promoted, then they will pay attention to it."

4. Planning for innovation and disruption

Along with concerns about keeping pace with their customers' changing needs, asset management CEOs are uneasy about their competitors' ability to out-innovate them. What's more, almost 70 percent worry that their business model may be disrupted by a company that's currently not even thought of as a competitor.

Nearly 85 percent of the CEOs acknowledge that they need to think strategically about the forces of disruption and innovation with regards to their firm's future. And nearly three-quarters believe that their organization is capable of fostering a "culture of innovation."

What are they doing about it?

Three-quarters of asset management CEOs understand that innovation is not a "go-it-alone" process, and that they need to collaborate with external parties, including customers, business partners and suppliers. Also, 85 percent are considering integrating artificial intelligence (AI) and cognitive technology into certain automated business processes.

Other CEOs are trying to determine where they might be susceptible to challenges by disruptive or nontraditional competitors, and how to respond when this occurs.

KPMG perspectives

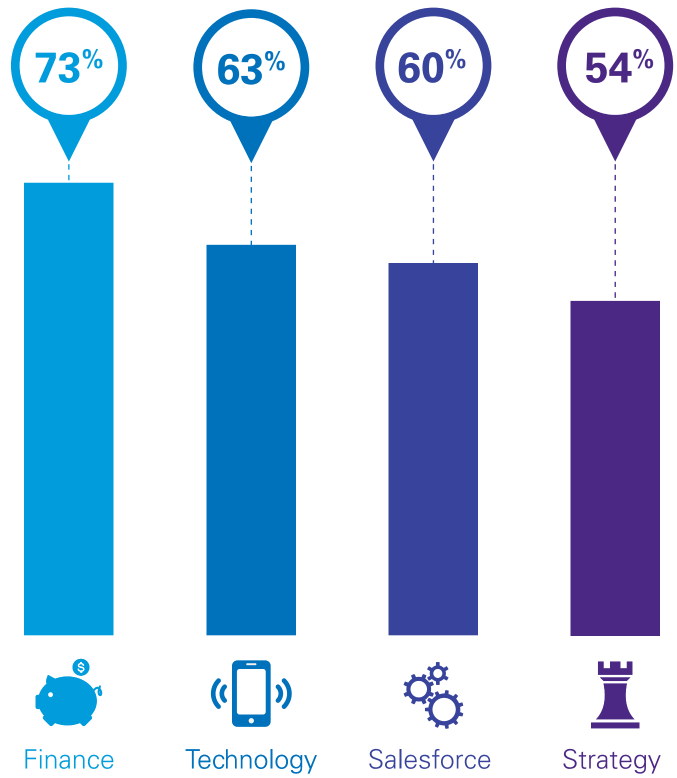
"To stay competitive, you need to build product development, R&D, and innovation into your organization's core business process," declared Penman. "They need to be an essential and ongoing part of an asset management firm's framework, and not viewed primarily as overhead expenses."

In addition, marketing and product development departments constantly need to be on the lookout for disruptors entering their space, or new technologies that may impact the firm. "Get out of the office and into the community, attend industry conferences, and talk to clients so you can better monitor disrupters and the technology revolution," he stated.

"Also, read white papers and industry magazines; a lot of future innovation and disruption is discussed years before they become reality. You may be able to spot these developments while they're still in their infancy, and perhaps build or buy the capability," Penman noted.

He also unequivocally stated that cognitive technology and AI are the wave of the future. "If you don't find a way to incorporate them into your operations and business models, your competitors will and become much more efficient than you."

The likelihood that automation/machine learning will replace at least 5 percent of your workforce in the following areas within the next three years:



Almost **70** percent of asset management CEOs are worried about their business being disrupted by a company that's currently not thought of as a competitor.

Final thoughts

The pace of change in all facets of business continues to accelerate. Confronted with rapid and unremitting technological change and global economic shifts, asset management CEOs need a new way of thinking and operating in order to achieve long-term success.

We have examined some of their major concerns: technology and innovation advancements, increasing global competition from both traditional and disruptive contenders, growing cyber security and other risks, an ever-more complex and shifting regulatory and market environment, and finally, changing customer needs and expectations.

As we kick off 2017, now is the time for CEOs to develop and execute innovative strategies, and be prepared to transform continuously in order to succeed in the face of these ever-growing and shifting challenges.

Why choose KPMG

KPMG provides audit, tax, and advisory services to a broad range of industry players—from startups to FORTUNE 50 diversified financial service firms. We offer tax and advisory services designed to enhance financial and operational structures, and we help our clients proactively take advantage of change rather than merely react to it.

Our experienced professionals understand the dynamic nature of the marketplace—domestically and in the investment centers around the world—and its enormous growth potential. And we understand the issues that asset management firms face on local, national, and global levels.

Thanks to our extensive geographic footprint—established through our global network of member firms—we have access to first-hand, real-time information on matters that impact you, no matter where you are located or where you operate.

Additionally, our professionals have a broad range of experience across the asset management industry. Their vision, technical capabilities, industry training, technology resources, and practical experience enable us to:

— Anticipate new challenges and opportunities in light of economic, market, regulatory, and technological developments

— Provide options that allow you to respond to opportunities with speed and agility

— Design customized approaches to help your firm operate more effectively and efficiently

— Share leading practices gleaned from working across a variety of relevant industries

For more information

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