18th Annual Global CEO Survey

Key findings in the asset management industry

Redefining competition in a world without boundaries

95%

of asset management CEOs say they're 'very' or 'somewhat' confident about growth over the coming three years

82%

of asset management CEOs whose companies have a diversity and inclusion strategy say it enhances business performance

63%

of asset management CEOs fear mounting cyber threats

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Introduction

This report is a summary of our survey findings in the asset management sector, based on the answers from 155 asset management CEOs in 46 countries. To see the full results of the 18th Annual Global Survey, please visit www.pwc.com/ceosurvey

Asset management CEOs are adapting to a changing world. They're optimistic about growth in assets and revenues. Yet with competition mounting and regulatory disruption set to intensify, they're looking to redefine their businesses, moving into new growth areas and leveraging digital technology.

That's not surprising at a time when powerful trends are transforming the industry. Passive management and ETFs are rapidly gaining market share. Emerging markets are gathering wealth. Regulation is adding significant cost. And bank deleveraging is creating opportunities for asset managers to expand into new product areas.

A high 95% of asset management CEOs say they're 'very' or 'somewhat' confident about growth over the coming three years. Yet they're also aware of the challenges they face. Compared with three years ago, when the financial crisis's after effects were even stronger than today, they see both greater opportunities and greater threats. Sixty five percent of asset management CEOs either 'agree' or 'agree strongly' that there are more opportunities, while 56% see more threats.

"Asset managers face a volatile environment over the next three years but there's never a time when all the variables are completely positive or negative," asserts Barry Benjamin, PwC's Global Asset Management Leader. "Opportunities exist because of some of the mega trends, but there will also be challenges for those asset managers that don't have a strategy to succeed in high-growth areas."

The findings of our 18th Global CEO Survey echo the conclusions of PwC's Asset Management 2020 white paper, which predicted global assets under management would exceed $100 trillion by 2020 (from $63.9 trillion in 2012), with much of the growth from emerging markets in Asia and Latin America. Yet it also predicted the emergence of new fee models and opportunities in products that might disrupt traditional banking, as well as the rise of passive funds and ETFs.

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Barry Benjamin
Global Asset Management Leader, PwC

CEOs remain optimistic, but see new risks

Asset management CEOs are confident about revenue growth, although they might not be so optimistic about profits. A high 88% of CEOs express themselves to be either 'very' or 'somewhat' confident about their revenue growth as they look forward to 2015, rising to 95% over three years. Yet with fees under pressure from the rise of ETFs and passive funds, it's no surprise they remain vigilant on costs. Almost half (46%) aim to cut costs in 2015, which is fewer than in other industry sectors of this year's CEO survey, but still a significant number. Similarly, 28% of asset management CEOs are looking to outsource.

With economic conditions varying significantly across the globe, 39% of asset management CEOs think the global economy will improve in 2015, but 45% think it will stay the same. Their perspective might depend on where they're based. While the United States is back on a growth path, Europe has several flat years ahead as it wrestles with its underlying problems and China looks unlikely to be able to sustain recent growth rates.

China and the US are viewed as the most important countries for growth prospects in 2015. There are good reasons for this finding. In our experience, asset managers regard China as having strong potential for high growth and are keen to establish their brands in the country. By contrast, the United States remains the world's largest asset management market, although its maturity means firms wishing to grow might have to do so through acquisition.

63%

fear mounting cyber threats, such as data security, which have become an ongoing business risk.

But the growth opportunities are matched by threats, including economic, social and policy threats. Foremost among them is over-regulation, which 83% of asset management CEOs state they are 'extremely' or 'somewhat' concerned about. Mounting geopolitical uncertainty is also a major concern, according to 74%. What's more, 74% of asset management CEOs still regard an increasing tax burden as a major risk.

From a business perspective, 68% of asset management CEOs are 'extremely' or 'somewhat' concerned about the availability of key skills, which is natural in a people business like asset management. Sixty three percent also fear mounting cyber threats, such as data security, which have become an ongoing business risk. What's more, the lack of trust in business remains a concern, according to 61%, even seven years on from the financial crisis.

A fifth of asset management CEOs (20%) plan to grow through cross-border merger and more than a quarter (29%) through domestic merger in 2015 – a higher percentage than for the rest of financial services. As Asset Management 2020 revealed, the rapid expansion of passive and ETFs, as well as the growth potential of Asia and the need for scale are driving a desire to reshape businesses. Even so, mergers and acquisitions have proved difficult to execute in asset management since the financial crisis, mainly due to differences between buyers' and sellers' price expectations. Whether this gap narrows depends on whether financial markets perform well and buyers are prepared to pay more.

31%

Almost a third (31%) of the asset management CEOs surveyed reported engaging with customers through joint ventures, strategic alliances or informal collaborations, while another 32% are considering doing so.

"A lot of people are sitting around and waiting for this gap to narrow," asserts Barry Benjamin. "How much longer can they wait? The key factor is how the markets perform. A lot of smaller asset management shops in areas such as credit are looking to realise the value of the businesses they've built."

Finding new paths to profitable growth

Asset managers are finding new, innovative ways to grow. For some, there are better opportunities outside their traditional markets, while others are partnering with customers or suppliers to access new markets.

More than a quarter of asset management CEOs (28%) reported entering a new industry over the past three years, while a further 18% said they had looked into doing so. Most were targeting financial services, including real estate. As banks have deleveraged over the past few years, partly due to regulation, PwC has seen asset managers disrupting banking by, for example, acquiring portfolios of real estate loans and lending to corporates. Alternative asset managers have broadened their product ranges to include private lending arrangements, primary securitisations and off-balance sheet financing.

Asset managers are also partnering more widely to access new opportunities. Almost a third (31%) of the asset management CEOs surveyed reported engaging with customers through joint ventures, strategic alliances or informal collaborations, while another 32% are considering doing so. Indeed, in our experience, the nature of the relationship between some asset managers and powerful institutional investors has become more akin to that of a partnership, with the investors negotiating tailored terms in exchange for long-term commitments.

A further 23% of asset management CEOs reported partnering with suppliers. In real estate, for example, partnering with local construction and development companies has become an important way to develop properties in fast-growing regions such as Africa, where there's a shortage of investment property. Our Real Estate 2020 research highlighted the importance of partnering with local government, developers and real estate experts in order to access growth in emerging markets, including the new mega cities.

Half of asset management CEOs view one of their primary reasons for entering into partnerships – whether joint ventures, strategic collaborations or informal collaborations – as to access customers. While we see some of them partnering with banks in order to lend to SMEs, others have formed strategic relationships with large investors such as sovereign wealth funds. What's more, 37% of asset management CEOs form partnerships to access new geographic markets while 36% do so to strengthen their brands.

Minimising the impact of disruption

Asset management CEOs are managing the impact of multiple disruptions in their sector. Sixty-nine percent of asset management CEOs see changes in industry regulation as 'very disruptive' or 'somewhat disruptive' over five years. But 59% are similarly concerned about changes in customer behaviour and 55% about mounting competition.

Successive waves of regulation in Europe and the US appear set to disrupt asset managers and their service providers. Among other things, they're forcing changes in fund product features, service provider arrangements, regulatory and investor disclosure, distribution channels, compliance and risk management. While many of the post-crisis regulations are in the implementation phase, others have yet to be fully defined.

Related to regulation, asset management CEOs' anxiety about tax issues is a constant theme. While 67% state that an internationally competitive and efficient tax system should be a government priority in their country, 50% see governments as having generally failed to achieve this.

But asset management CEOs do see some benefits from regulation. More than half (53%) say that improved regulatory coordination is increasing cross-border capital flows. What's more, almost half (48%) believe better coordination between nations is leading to increasing convergence of tax policies and rates.

61%

of asset management CEOs say they plan to increase the headcount in 2015. As they set out to do so, only 47% have a strategy in place to promote diversity and inclusion. We believe this reflects the small size of many boutique asset management firms, which lack the scale to have formal strategies of this type.

Beyond regulation, asset management CEOs' concerns about customer behaviour reflect existing trends. Already the shift towards no-frills, low-cost ETF and passive products is causing active asset managers to lose market share and putting their fee models under pressure. With the population ageing, there's growing demand for fixed-income and income-generating assets. Either asset managers need to have ETF/passive products in their portfolio of businesses or they must know how they'll counter this threat.

Similarly, anxiety about competition disrupting their business models isn't surprising at a time when active managers are losing market share. Looking outside asset management, CEOs regard competitors as most likely to come from technology, financial services or business services. Already 'robo adviser' business models are appearing that threaten to disrupt wealth management through automating asset allocation.

Embracing talent diversity

As asset management CEOs continue to expand their workforces, they recognise the benefits of hiring from a wide talent pool and promoting inclusiveness. Yet relatively few actually have a diversity and inclusion strategy.

Sixty one percent of asset management CEOs say they plan to increase the headcount in 2015. As they set out to do so, only 47% have a strategy in place to promote diversity and inclusion. We believe this reflects the small size of many boutique asset management firms, which lack the scale to have formal strategies of this type. In PwC's experience, firms also need to develop ESG strategies in order to compete for the best young talent.

Those CEOs that do have diversity and inclusion strategies see clear benefits. Eighty two percent believe they enhance business performance. CEOs also see benefits in the areas of attracting talent, and strengthening brand and reputation. In our view, active management of diversity and inclusion can be a competitive differentiator as asset managers compete for talent.

Leveraging digital technologies

While other sectors have tended to make greater use of technology, asset management CEOs are turning to technology in order to deal with the cost pressures they face. The most CEOs, 88%, report their main use for digital technology as improving operational efficiency.

But while they haven't embraced digital technologies to the same extent as their peers in banking, a high percentage regard them as 'strategically important' in a range of areas. Foremost among them are data mining and analysis (according to 78% of asset management CEOs), cyber security (77%) and mobile technologies for customer engagement (71%). Surprisingly, only 57% of asset management CEOs see socially-enabled business processes as strategically important.

"By 2020, technology will have become mission-critical to drive customer engagement, data-mining for information on clients and potential clients, operational efficiency, and regulatory and tax reporting," explains Benjamin. "At the same time, cyber risk will have become one of the key risks for the industry, ranking alongside operational, market and performance risk."

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Contacts

If you would like to discuss any of the issues raised in this report in more detail, please get in touch with me or your usual PwC contact.

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