

Amid unprecedented economic turmoil and regulatory change, most asset managers have afforded themselves little time to bring the future into focus. But the industry stands on the precipice of a number of fundamental shifts that will shape the future of the asset management industry.

To help asset managers plan for the future, we have considered the likely changes in the asset management industry landscape over the coming years and identified key gamechangers which will impact the competitive environment.

Asset Management 2020

A Brave New World

Executive Summary



The asset management landscape in 2020

- **Huge rise in assets and shift in investor base.** The rise in the volume of investable assets is set to increase from around \$64 trillion today to approximately \$102 trillion by 2020, a compound growth rate of nearly 6%. Assets under management in the SAAAME (South America, Asia, Africa and the Middle East) economies are set to grow faster than in the developed world. Growth in assets will be driven by three key trends: the government-incentivised shift to individual retirement plans; the increase of high-net-worth-individuals (HNWIs) from emerging populations; the growth of sovereign wealth funds (SWFs).
- **Pressures on the asset management industry.** Alongside rising assets, there will be rising costs. First, the costs of complying with regulation will remain high. Commercial cost pressures will rise as firms grow their distribution networks. Fees will be under continued pressure amid the ongoing push for greater transparency and comparability. Investment in technology and data management will need to be maintained or increased to maximise distribution opportunities and to cope with regulation and reporting.
- **Nothing to hide, nowhere to hide, and nothing at risk.** Full transparency over investment activity and products will exist at all levels; there will be nowhere for non-compliant managers to hide as regulatory and tax reciprocal rights criss-cross the globe. By 2020, only the plain vanilla managed account will remain outside regulatory reporting. By 2020, regulators will have real-time access to portfolios, cross-referenced to market data.

Gamechangers that will redefine the industry

- **Asset management moves centre-stage.** Changing demographics and markets will thrust asset management to centre-stage. First, regulation will hinder banks and insurers by forcing them to abandon proprietary investing and other non-core businesses. Second, as the world ages, retirement and healthcare will become critical issues that only asset management can solve. Third, asset managers will become more important in the capital raising required to support growing urbanization and cross-border trade. Fourth, asset managers will be at the centre of efforts by SWFs to diversify their huge pools of assets. Messaging will need to be systematic and consistently focused on the value the asset management industry brings.
- **Distribution is redrawn – regional and global platforms dominate.** By 2020, four distinct regional fund distribution blocks will have formed allowing products to be sold pan-regionally. These are: north Asia, south Asia, Latin America and Europe.
- **Fee models are transformed.** By 2020 virtually all major territories will have introduced regulation to better align interests with the end customer. RDR or similar regulation on fee models will apply to all major markets, including Asia.
- **Alternatives become more mainstream, passives are core and ETFs proliferate.** By 2020, alternatives and passive products together will represent 35% of assets managed by the industry. The separation between alpha and beta will accelerate as investors increase their investment allocation to passive products in search of low fees and broad beta market exposure. In some parts of the world, alternatives will move into the mainstream to the extent that “alternative” is no longer in common usage by 2020. Alternative assets are expected to grow by some 9.3% a year between now and 2020 to reach more than \$13 trillion. Passive assets will rise to around, \$23 trillion in 2020, up from \$7.3 trillion in 2012.
- **New breed of global managers emerges.** The creation of new regional blocks and new fund platforms to service those blocks will place the emphasis on cost and efficiencies as never before. Economies of scale will become paramount. As a result, some of today's large global managers, as well as a handful of alternative managers, will become mega-managers with a foot in all geographies and channels. Branding will play a major role in both asset gathering and capital raising. Developing talent will be at the forefront of mega-managers' efforts to enhance their competitive positions with some focusing on recruiting local teams in key emerging markets.
- **Asset management enters the 21st Century.** By 2020, technology will become mission critical to drive customer engagement, data mining for information on clients and potential clients, operational efficiency and regulatory and tax reporting. By 2020 most global asset managers will have a chief digital officer (CDO).

Contacts

If you would like to discuss any of the issues raised in this Executive Summary in more detail, please speak with your usual PwC contacts or anyone listed below.

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Gamechanger sector leads

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Asset Management enters the 21st century

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For more information on the Global Asset Management 2020, Marketing programme, contact Maya Bhatti at maya.bhatti@uk.pwc.com

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