News release

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Asset & Wealth Management CEOs very optimistic about growth, but aware of potential for AI, big data, blockchain to transform industry

Hamilton, Bermuda - Asset and Wealth Management (AWM) CEOs remain very confident about growth prospects in 2018, but are aware that regulation, technology and changing consumer behaviour are ushering in disruption.

That's the main conclusion from the report 'Optimistic CEOs, buoyant growth, disruption ahead', which is part of PwC's 21th Global Survey and questions 126 of the AWM sector's CEOs about the threats and opportunities facing their companies.

Key findings

- 87% of AWM CEOs are confident about revenue growth in 2018 – slightly lower than in 2017 when 92% were optimistic

- 79% of AWM CEOs are gearing up for organic growth in the year ahead, compared with 76% in 2017. To prepare for this, 57% intend to increase headcount

- AWM CEOs 3 biggest concerns are over-regulation (83%), geopolitical uncertainty (80%) and tax changes (77%)

- Almost three quarters (73%) of AWM CEOs are 'somewhat or extremely concerned' about cyber security threats

- While 70% of AWM CEOs believe changes in core technologies will prove 'disruptive or very disruptive' over the next 5 years, just 38% believe that robotics and AI can improve the consumer experience

Although Assets under Management (AuM) will be buoyed by rising asset prices and PwC estimates that by 2025 global AuM will have almost doubled – rising from US$84.9 trillion in 2016 to US$145.4 trillion in 2025 – major changes to fees, products, distribution, regulation, technology and people skills, mean it won't be business as usual in the years to come.

Top threats

The threat of regulation putting further pressure on asset management fees and demanding greater transparency is the greatest worry for CEOs.

CEOs are rightly anxious about the many threats they face. **Regulation is their greatest worry**, with 83% stating that they're 'somewhat or extremely concerned'. Regulations are putting further pressure on asset management fees and demanding greater transparency.

Similarly, tax changes are a big issue.

Scott Slater, PwC Bermuda Tax services partner, says: "For some asset managers, new tax rules are challenging historic tax structures. With the Foreign Account Tax Compliance Act (FATCA) and Common Reporting Standard (CRS), the rules for sharing of tax information about individuals between countries places the burden of reporting on financial institutions. In addition, the US recently enacted comprehensive tax reform, which has caused a review of how US-based businesses and US-owned foreign businesses are structured and operate."

Fast-emerging disruptive threats from technology companies mean the sector must learn new ways to differentiate their offerings, reach the market and gain scale. The question is whether CEOs recognize the urgency surrounding this threat.

Scott Watson-Brown, PwC Bermuda Asset & Wealth Management leader, says: "Asset and Wealth Management CEOs are struggling to come to grips with how technology is changing consumer behaviour. Simply speaking, customers want better products and services, more quickly and at a lower cost. However, just 38% of the interviewed CEOs believe that robotics and AI can improve the consumer experience. This seems a very low number and hard to reconcile with the possibility that AI may come to reduce or eliminate completely roles such as the investment analyst.

"Artificial intelligence, robotics, big data and blockchain are all transforming the way asset and wealth managers work. All of this will have an impact on the role humans play in delivering success."

More organic growth, further consolidation

CEOs are gearing up for organic growth in the year ahead through increased staffing; but with fees under intense pressure, particularly in the largest markets of the US and Europe, finding ways to cut costs will be high on the agenda.

Further consolidation of the AWM sector is expected. More than a third (43%) are planning mergers and acquisitions (M&A) in 2018, while 48% intend to expand capabilities through either strategic alliances or joint ventures. This follows 2017 when M&A in asset management reportedly climbed to an eight-year high. CEOs report varying motivations for M&A, including economies of scale and synergies, entering new markets and the need to offer a more diverse range of products.

Whether through M&A, joint ventures or straightforward expansion, CEOs remain eager to access markets outside their home base. As North America remains the world's wealthiest region, it's no surprise that 48% of CEOs regard the US as the most important market outside their own. But almost as many, 40%, are looking to China.

There's also a drive to collaborate with entrepreneurs and start-ups: 29% of CEOs say that they are planning to do so within the next 12 months in order to drive corporate growth or profitability. It's nothing new for large asset managers to team up with boutiques staffed by talented fund managers, but wealth managers may be keen to team up with FinTech entrepreneurs. As it becomes clear that many start-ups lack the capital to become serious competitors, greater scope for collaboration is created.

ENDS

Notes to editors:

126 Asset and Wealth Management CEOs were surveyed as part of PwC's Global CEO Survey. For more information see: www.pwc.com/ceosurvey.

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