

GLOBAL TRENDS IN THE ASSET AND WEALTH MANAGEMENT INDUSTRY 2020

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Foreword

COVID-19 is pushing many economies into an unprecedented recession. Economic activity has shrunk, impacting income levels and capital. The asset and wealth management industry experienced a decline in asset accumulation, assets under management (AUM), and revenue in the first quarter of 2020. Over the next few years, asset accumulation, net new AUM, and revenue are expected to grow at a slower pace. The industry's operating model and technology infrastructure need to be reimaged to meet both economic and consumer demands.

Fee income, already under pressure due to regulations, is expected to decline. Changes in fee models will be required,

focusing more on performance-based fees and developing low fee-based active investing products. The recent market volatility has made active investing prevalent in the short run. But in the long run, active investing is set to become less attractive, and more investors will move toward passive investing and alternatives due to the market slump.

Personalized offerings and digital channels will attract millennials and the mass affluent. Application programming interfaces (APIs) will increasingly be used for better connectivity and interoperability. Increased use of blockchain and artificial intelligence (AI) to generate process efficiency will help optimize costs. Distribution models are set to be disrupted

with an aim of eliminating multiple intermediaries. Digitization and the new work-from-anywhere model will make cybersecurity a key concern.

COVID-19 will accelerate adoption of these business and technology trends over the next few quarters. Prodding further into their consequential impact, the insights derived are likely to guide technology service providers to plan and take calculated steps. This paper documents our view on how things will evolve in this sector in the near term. We write these views in the full knowledge that predicting the future is an uncertain art, and even more so given the lack of clarity around how recent events in the first half of 2020 will play out in the second.

COVID SLOWDOWN WILL NOT STOP THE SHIFT TOWARD PASSIVE FUNDS AND ALTERNATE INVESTMENTS

In the wake of COVID 19, there is an adverse impact on new investments and the need for a change in fee model has accelerated further. Alternative investments are slowly gaining pace with the evolution of technology and improvements in valuations, making them attractive for investors.

Trend 1: Demand for increased transparency and lower fee-based products to disrupt fee models

Fee income had been declining prior to COVID-19 due to stringent transparency requirements from regulators and clients' demands for lower fee-based products. Historically, as AUM grew, fee income declined, indicating that the operating model was not optimum, with rising costs pulling margins lower. As per estimates, the ratio of revenue to AUM gradually declined by almost 10% from 2012 to 2017. This is likely

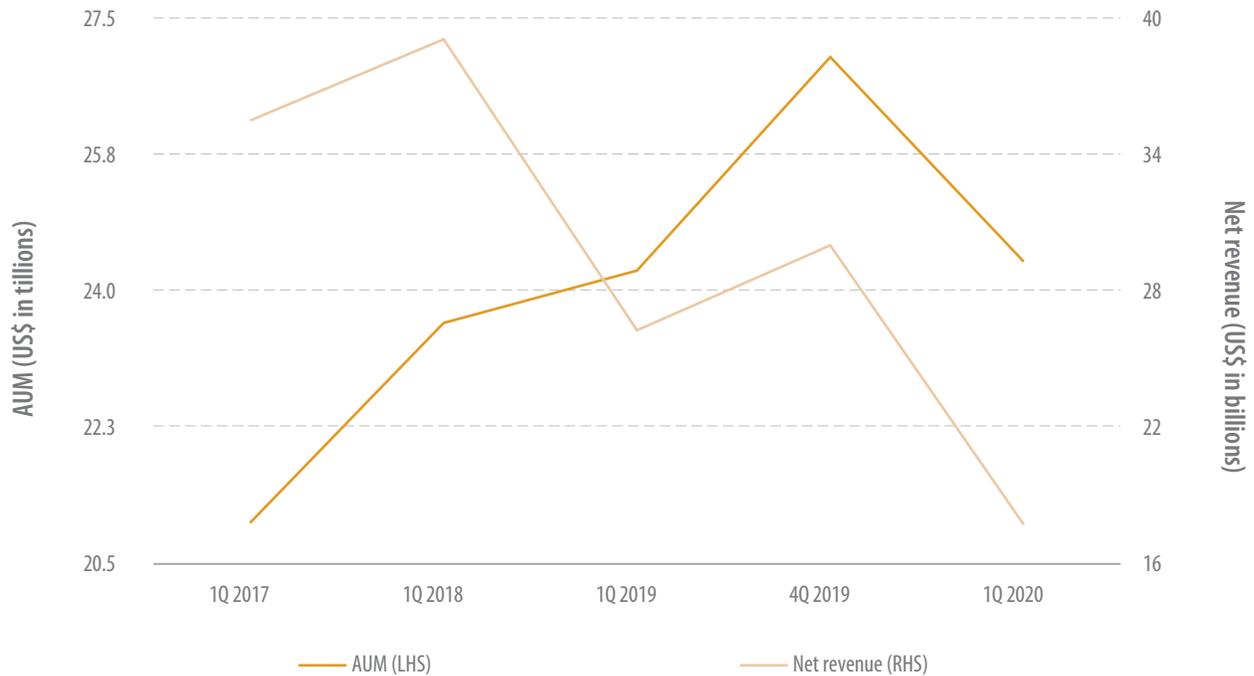
to fall further through 2025 — revenue per AUM for traditional long-only managers is expected to drop from 0.40% in 2017 to 0.31% by 2025.

As more investors shy away from the active investment market and move toward passive investments, and new low fee products such as Smart Beta — an actively managed fund that uses AI and machine learning to self-correct and generate alpha — enter

the market, fees generated will continue to decline.

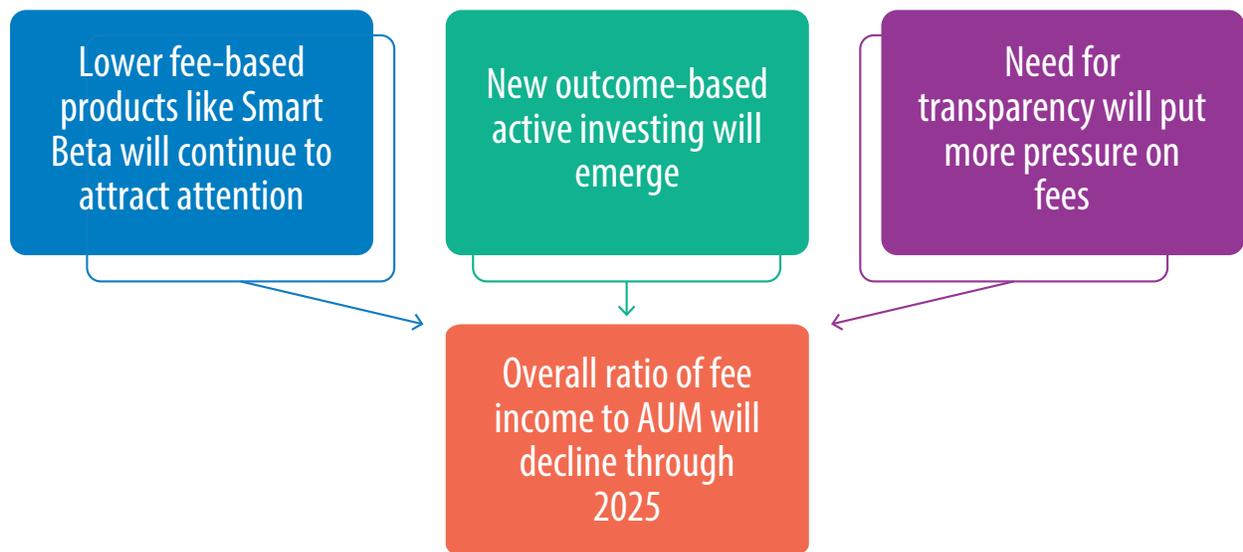
Asset prices across the world have declined due to COVID-19, and fee income for asset and wealth managers has followed the trend. In response, firms may conduct a thorough revision of fees, commissions, and charges on their products and services. Regulators could also continue to further review fees and commissions charged by industry players.

Figure 1. The revenue of the top 25 public asset managers has been declining, hastened by COVID-19



Source: Pionline.com

Figure 2. Key fee income trends



Source: Infosys

Building an effective business operating structure is key to tackling the decline in fee income and maintaining profitability. This means connecting fees to

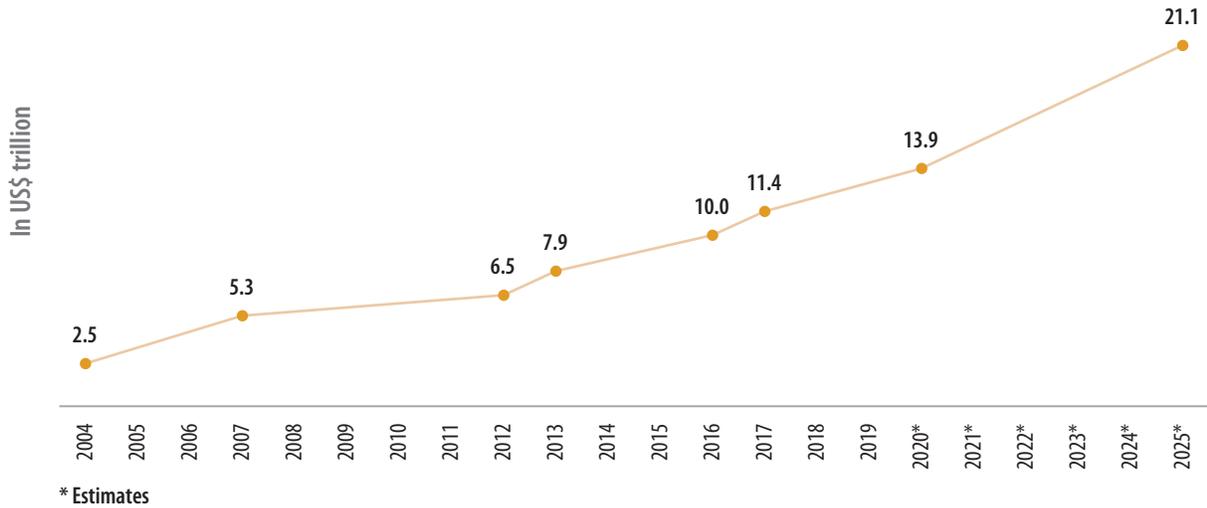
performance, building more outcome-based investment themes, and aligning innovation and offerings around what customers want as their goals.

Increased transparency in fees will also enhance confidence in asset managers — both from clients and regulators.

Trend 2: Alternative investments will cautiously evolve

Alternative investments have seen a heightened interest from clients in the 18 months prior to the COVID-19 crisis. These assets held by investors are expected to grow nearly six fold to US\$13.9 trillion in 2020 from US\$2.5 trillion in 2004, according to PwC research.

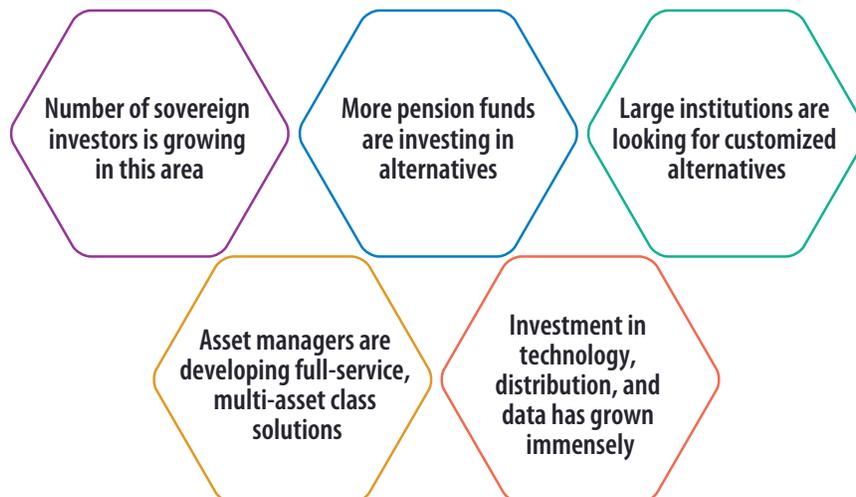
Figure 3. Alternative investments have steadily grown over the last two decades



Source: PwC

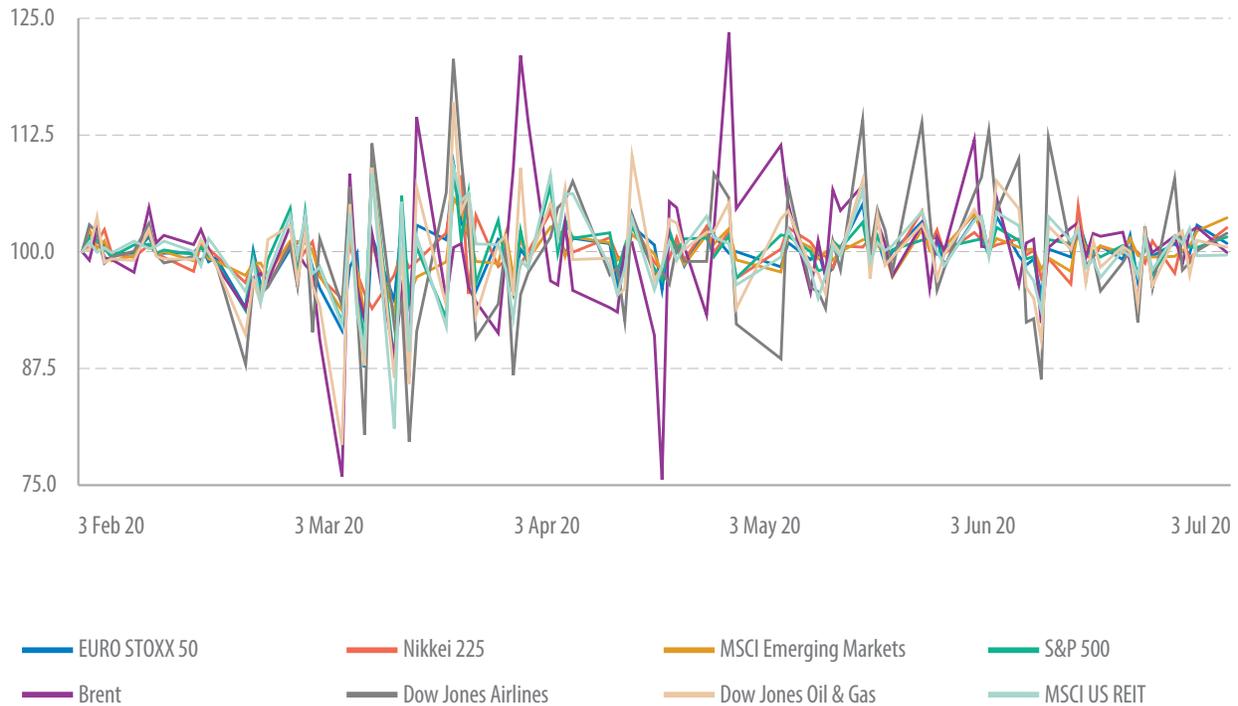
Historically, there have been transparency and liquidity concerns around alternative asset classes including corporate debt, real estate debt, micro finance debt, real estate development projects, and real estate rent-oriented projects. But this has changed in the past five years.

Figure 4. Alternative investment growth indicators



Source: Infosys

Figure 5. Globally asset prices have been extremely volatile since the outbreak of COVID-19



Indices rebased to 100

Source: Investing.com, Infosys

Alternative asset prices and valuations have plummeted due to COVID-19. Investors holding cash may reconsider investing within these asset classes.

Smaller companies will find it difficult to seek investments from private equity firms in the current environment, despite private equity firms having access to US\$2 trillion of reserves. Private equity firms will invest in areas that offer recurring revenue models rather than transactional businesses and will manage their existing portfolios.

Venture capitalists with portfolios having exposure to consumer-sector startups are likely to

be impacted, as lockdowns have resulted in a dearth of consumption. Late-stage startups, irrespective of sector, will find it challenging to deal with the downturn. Enterprise technology startups are likely to fare better than others. Growth-stage firms will attract better valuations and investments, and noncyclical firms and businesses that promise high cash generation are likely to be businesses of choice in a wealth manager’s portfolio. New fintech startups will find it difficult to obtain investments.

Across markets, restructuring and sell-offs have occurred. Even for high-performing portfolios, there will be challenges to exit due to

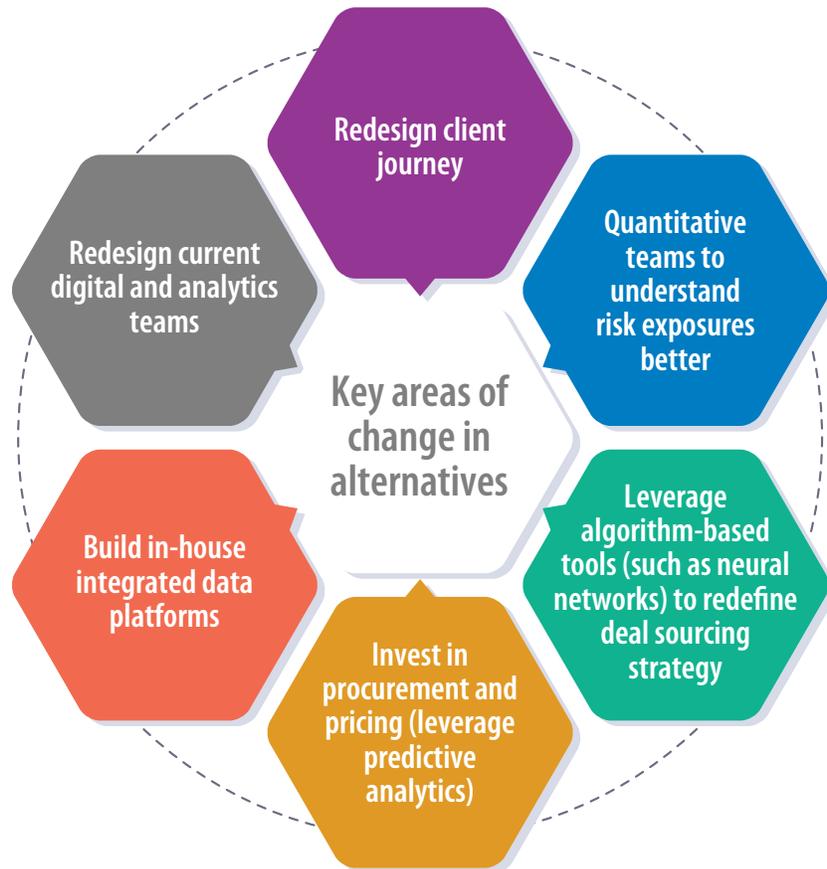
market uncertainty and lower liquidity.

With the vast volumes of data available, AI and machine learning are increasingly being used to value real estate assets and deliver outcomes.

Alternative managers have invested heavily in areas that were not so mature earlier such as data, analytics, operations, customization, procurement, pricing, and risk exposures. While the short-term outlook for the sector is cautious, ongoing investments in the following areas will bring benefits to the industry in the mid to long term:



Figure 6. Alternative investment technology change areas



Source: Infosys



DISINTERMEDIATION AND DEMOCRATIZATION OF WEALTH MANAGEMENT TO HELP LOWER COSTS AND FEES CHARGED

Regulatory pressure, the need to lower costs and advancements in digital technology are pushing asset and wealth managers to employ APIs to create an interconnected ecosystem enabling disintermediation and interoperability. Firms are directly reaching out to new client segments through digital marketplaces and enticing them with low fee based products

Trend 3: Digital distribution models will evolve and take products directly to end customers

Distribution of products and services has historically involved multiple intermediaries such as banks, custodians, transfer agents, distributors, and sub-distributors. This has led to a lot of inefficiencies, slow processing times, and high administration costs. Regulations such as MiFID II and the Retail Distribution Review, with their emphasis around transparency of fees and inducements, have made firms look for alternate distribution

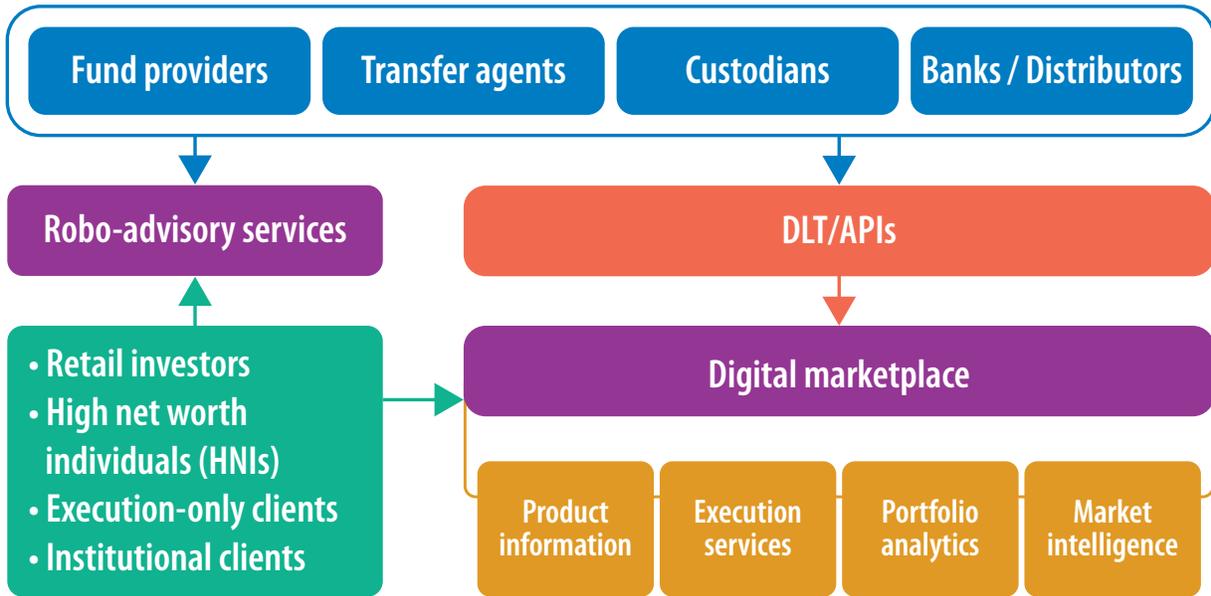
models. Digitization has helped disrupt processes and business models, making them more efficient and cost effective.

Currently, with advancements in digital technologies, firms are slowly moving away from the intermediaries and are able to directly reach out to their end clients with the help of fintech-powered digital marketplaces and robo-advisors.

APIs are enabling asset and wealth managers to transition to a more

open private ecosystem that enables real-time connectivity with all intermediaries, which can evolve into a digital marketplace. This can unlock various direct-to-customer opportunities and reduce the cost of products and services available to the customer. Distributed ledger technology (DLT) could also help in the evolution of distribution channels with its ability to connect all stakeholders through a permissioned distributed network.

Figure 7. Digital marketplace model



Source: Infosys

Robo-advisory services are also evolving as a key distribution channel with their ability to provide automated advice and wealth planning services 24/7. Independent robo-advisors have a direct-to-customer approach, and many industry players are implementing in-house robo-advisory services by collaborating with fintech startups. Assets

managed by robo-advisors are projected to increase to US\$16 trillion by 2025 from US\$0.3 trillion in 2016.

Asset and wealth managers are expected to embrace the disintermediation of the distribution value chain due to regulatory pressure, advancements in digital technology, and the benefits

disintermediation brings from reaching out to customers directly. The time taken to list and distribute new products will diminish and can be done at a lower cost. This provides more opportunities to attract new segments of retail investors and millennials, which will enable new revenue streams.

Trend 4: Open APIs enable data sharing and interoperability in a connected ecosystem

Open banking will start to move from experimentation into a truly transformational architecture. Currently, stakeholders work with each other over a secured and permissioned network. However, with open banking, the current ecosystem will transform into a private ecosystem

using shared APIs. This will connect all stakeholders to an interdependent business network.

According to a 2019 Gartner survey, over 13% of asset management firms have rolled out APIs in production, 36% of firms plan to deploy APIs in the short term, and 25% of firms plan to

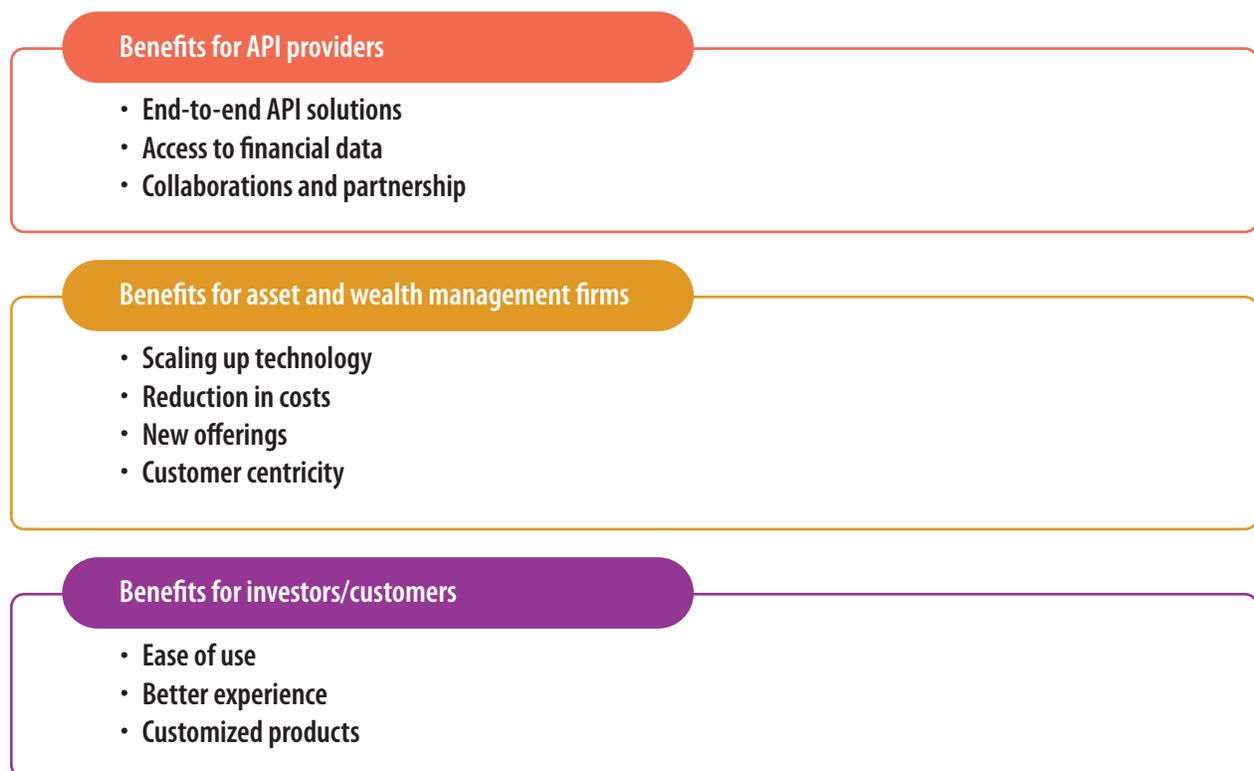
deploy APIs in the medium term. Fintechs are at the forefront of introducing API-based solutions. Digital retirement platform Vestwell has created solutions around retirement planning and the generation of legal documents. Fintechs DriveWealth and Hedgeable provide API-

based solutions in onboarding, execution, and front-office trading. Trizic develops enterprise platforms for wealth management firms, allowing firms to build their own portfolio rebalancing and management suites using APIs. APIs help asset and wealth management firms avoid manual data entry by automating client onboarding and accessing clients' bank account data. Know Your Customer (KYC) checks can also be performed digitally. This enhances the client's experience and client advisors can focus their work on higher value-added activities. Packaged APIs help make financial planning more dynamic by obtaining a client's information,

such as spending patterns, savings, and income, in real time. Plans can be altered automatically in real time based on changes to one of the parameters. Personalization of products and services can be improved by making available various client data points to financial advisors through APIs. Advisors can pitch existing products or create tailor-made services as per a client's financial situation and preferences. Independent advisory firms and registered investment advisors can use portfolio rebalancing services offered by fintech firms by feeding in the client's portfolio and risk tolerance information along with

a model portfolio via APIs. With the model as a reference, multiple portfolios can be rebalanced quickly, assets reallocated, and orders placed. Many startups provide generic APIs for third-party integration that can be modified based on a firm's functional needs. With a host of innovative API providers to choose from, wealth management firms are looking to procure scalable platforms to address current challenges while mitigating the need for expensive middleware. Apart from being used to build customer-facing platforms, APIs foster simplified information sharing and analytics for clients.

Figure 8. Benefits of an API ecosystem



Source: Infosys

PERSONALIZED OFFERINGS FOR THE NEW-AGE CLIENT

Investors increasingly expect services personalized to suit their individual goals. While this was not historically possible, emerging technology has enabled wealth managers to gather huge volumes of client data, analyze it, and offer services that are tailor-made for each client. With enormous wealth expected to fall into the hands of the technology-savvy millennial, wealth managers must focus on offering advisory services that can span multiple generations with digital capabilities.

Trend 5: Hyperpersonalization of services to meet customer expectations

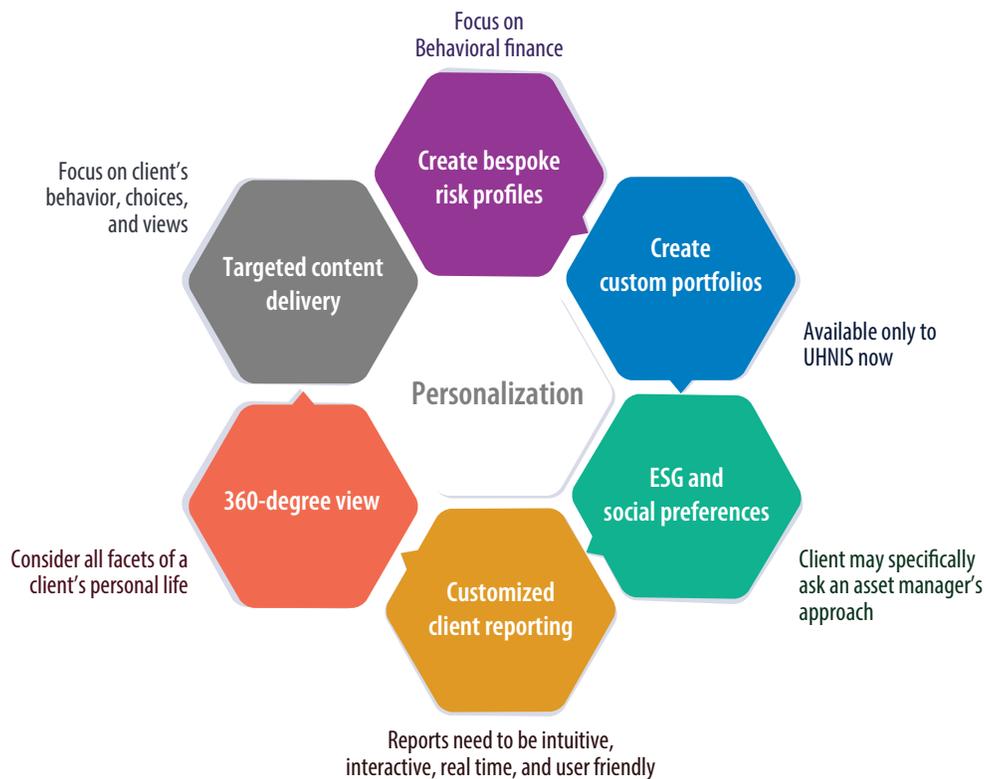
Standardized services are no longer suitable for the asset and wealth management industry. Investors are looking for advice relevant to their goals and needs, not generalized offerings. The industry is in the midst of a Netflix-like revolution where investors expect goal-based,

personalized, and subscription-oriented offerings. Data-driven digitization is helping achieve this in the following ways:

- **Personalized risk profiles** can be created by analyzing data of the financial behavior of a client, including their social media activity across

channels. The data is analyzed alongside the client's income and payment history or results obtained from risk profiling, suitability analysis, and classification during onboarding.

Figure 9. Key hyperpersonalization factors



Source: Infosys

- Personalized portfolios** can be created for individual clients or a group of clients whose objectives match. Currently, the cost of portfolio maintenance is high, but with technology advancements such as robo-advisory services, creating personalized portfolios will become possible for more investors. At the moment, the industry is able to offer customized portfolios only to ultra high net worth individuals (UHNIs). It is yet to become democratized for the mass affluent.

After the COVID-19 outbreak, private investments in firms that offer robo-advisory services increased significantly. With social distancing becoming a norm, more investors are moving

online and utilizing self-service options. According to an Oliver Wyman survey, wealth management client interactions across digital channels have increased nearly 10x during the first quarter of 2020.

- Environmental, social and governance (ESG) and ethical investing** is at a nascent state yet is garnering attention. Although service offerings in this area have not yet matured, customers are showing interest in including these in their portfolios. Firms have to take this into account and develop offerings around them for interested investors.
- Targeted content delivery** communications with clients must focus on the client's

context and needs. This can be driven by a client's habits, choices, social media analytics, and travel history, among other things. Client-relevant communication that is not just driven by investment pattern or market movements must be delivered to have the maximum impact and outcome.

Hyperpersonalization requires a multipronged technical approach. These revolve around building an open architecture, developing data aggregation techniques, improving predictive analysis capabilities, and using the power of the cloud to process data faster and in real time. Some approaches including the scope are described below.

Figure 10. Key pillars of personalization

Open architecture	Empower ingestion and analysis of data
Aggregation	Empower and develop single view of client
Rebalancing	Enable constant, real-time rebalancing of portfolios
Cost transparency	Display transaction cost at security level
Predictive analysis	Real-time simulation and multiple scenario analysis
Cloud migration	Accommodate more data volume and improve processing power
Speech to text and NLP	Capture more insights from discrete types of interactions

Source: Infosys

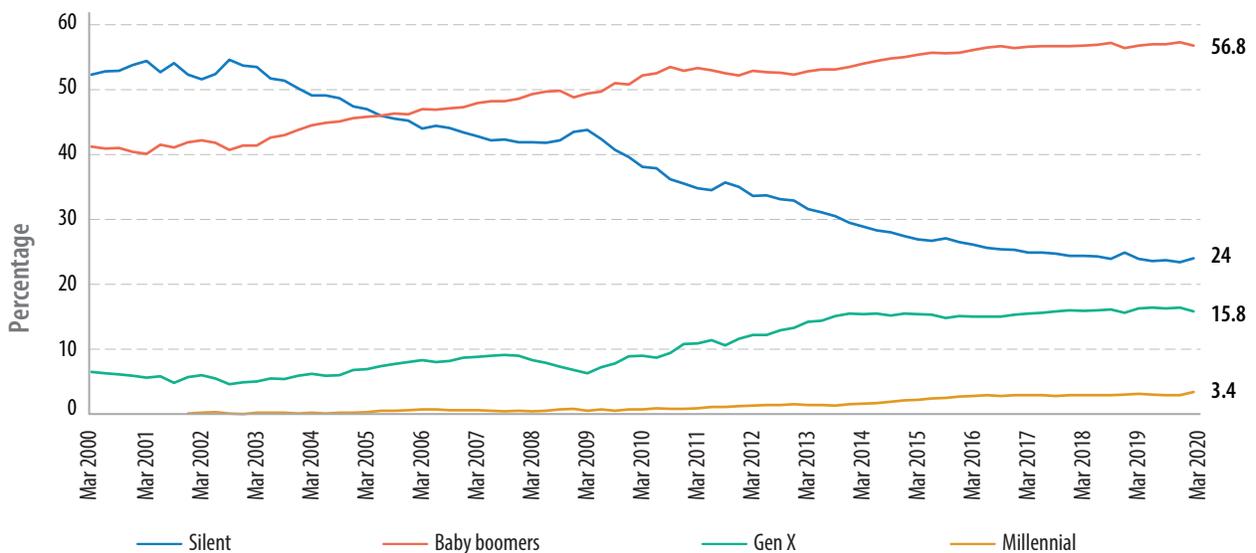
Trend 6: Intergenerational transfer of wealth is driving the need for digital preparedness

Baby boomers, with an estimated US\$30 trillion to US\$40 trillion in assets, are expected to have a profound impact on the asset and wealth management industry. As per research estimates, between

2007 and 2061, nearly US\$58 trillion worth of wealth will be handed over to their millennial heirs, whose expectations from a wealth manager are completely different from their predecessors.

Historically, wealth changing hands has led to change of the wealth advisors in 90% of the cases.

Figure 11. Similar to the share of wealth switch from silent to baby boomers, the switch from baby boomers to Gen X will happen within the next 10 years



Note: Silent - People born before 1946
 Baby Boomer - People born between 1946-1964 (aged between 56 - 73)
 Gen X - People born between 1965-1980 (aged between 40 - 55)
 Millennial - People born between 1981-1996 (aged between 24 - 39)
 Source: U.S Federal Reserve

At the same time, around 43% of U.S. financial advisors are of the median age of 55 and approaching retirement. Wealth managers are presented with significant challenges and opportunities due to this, and the client advisor relationship is also going to change significantly. Traditional wealth managers may be complacent or slow to react to the long-term consequences of the wealth transfer.

Firms that are more focused on improving their digital capabilities

and channels stand to gain by attracting new millennial clients or retaining heirs of existing clients. Firms will have to try to understand the millennial mindset and provide customized services. Millennials have a higher appetite for taking risks and they prefer to stay in control of decisions. They prefer digital channels, personalized features, and carrying out their own research while seeking advice from their own peer group.

Wealth managers should create wealth plans that span multiple generations and deploy digital capabilities and tailor-made personalized services to attract millennials. This helps retain clients when the wealth is transferred. Advisory services will require major changes such as reskilling advisors in new ways of working and deploying digital advisory services that can enable advisors to handle additional client relationships.

Figure 12: Changes required to tap the millennial market



Source: Infosys

Asset and wealth management firms with a digital edge and investments in technology will grab a major portion of the

transitioning wealth in the next few years. This has the potential to slowly change the investor

expectations and transform the industry as firms adapt to the changes.



DIGITIZATION SUPPORTING INDUSTRY PAIN POINTS

From client onboarding to portfolio rebalancing, technology is helping shape multiple processes and supervisory activities in the asset and wealth management industry. With an increasing focus on digitization, asset and wealth managers are increasingly utilizing machine learning, APIs, and blockchain technology, among other things, to provide customers with a seamless experience and protection from cyber threats.

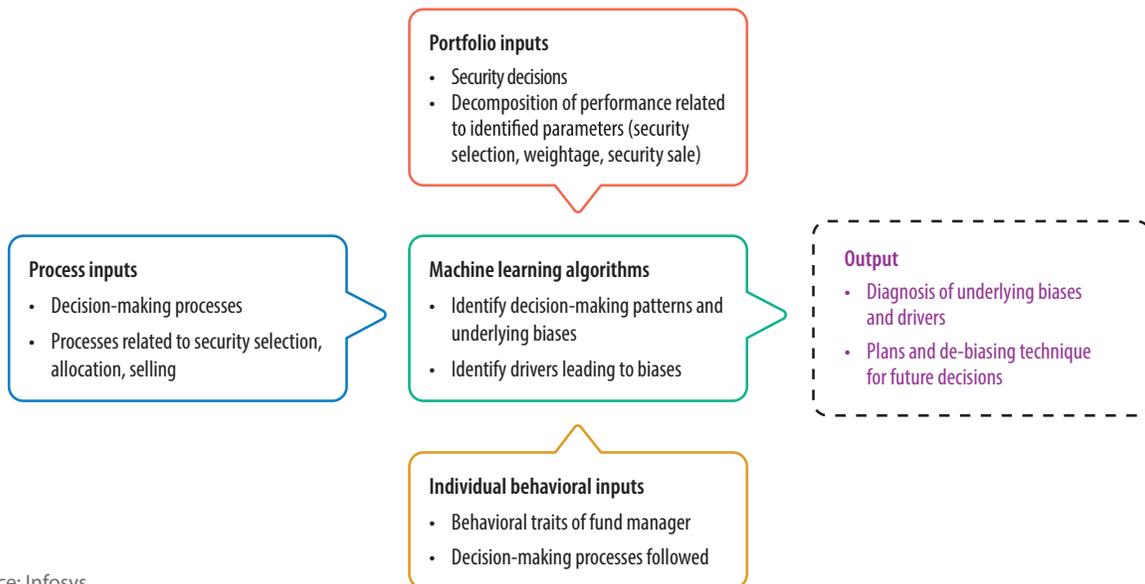
Trend 7: Machine learning to help eliminate cognitive biases in investment decisions

Advancements in behavioral science and psychology have explained how biases can impact a person's thought process. Asset and wealth managers have recognized the risk of biases creeping into the decision-making process. The asset and wealth management industry is looking to de-bias the decision-making process using various techniques and technology. As the industry is facing issues with profitability and investors preferring passive investing, there is an increasing need to improve the performance of actively managed funds. Asset managers have realized that applying de-biasing techniques

can help generate more alpha. Funds have started using machine learning algorithms that are designed based on inputs from behavioral experts on the historic data sets to analyze investment decisions. Parameters such as security selection, allocations, and weightages given to each security and timing of stock sale are analyzed and the underlying biases are identified. A decomposition analysis gives insights into how decisions on the parameters have impacted the performance. Machine learning algorithms can help the investment managers pick up patterns of decision-making and recurring biases.

According to studies, some of the leading funds' performances have improved by 100 to 300 basis points due to de-biasing, and more asset managers are expected to embrace these techniques as the machine learning algorithms and technology evolve. Early adopters can gain a competitive edge over their peers and improve alpha of active funds by implementing de-biasing processes and methods, especially in times of market slumps.

Figure 13. Use of machine learning for de-biasing



Source: Infosys

Trend 8: Blockchain will increase process efficiency and transparency and lower costs

Blockchain is moving beyond cryptocurrencies and gaining momentum in the digitization of asset and wealth management functions. It allows the sharing and updating of records in a distributed and decentralized manner. Participants of the distributed network can propose, validate, and record information in a synchronized ledger.

Regulatory bodies and watchdogs have shown support for the adoption of blockchain, as it has enhanced market transparency and compliance and increased auditability.

DLT can track the history of digital assets, serve as a common platform for realizing the transactions, and enhance the clearing and settlement process and records management. Tokenization and digitization

are being done for asset classes such as equity, debt, derivatives, real estate, and other forms of alternate asset classes, such as art and carbon credits. This is changing the way assets are bought and sold. Tokenization of digital assets helps investors diversify their portfolios, as digital assets can be transacted upon easily. This also helps lower administration costs linked to the life cycle of an asset.

Blockchain is disrupting fund distribution models. It connects all stakeholders of the fund distribution value chain through a permissioned DLT network. Intermediaries such as transfer agents can be eliminated as fund subscription requests from the investors are directly fed into smart contracts and transactions are processed and settled in near real time. This enables investors

to initiate fund subscriptions or redemptions without going through a distributor and payments can be made using digital currency.

KYC and anti-money laundering (AML) are other areas where blockchain can solve inefficiencies. Digital identities of investors can be validated and stored in an identity management block of a permissioned DLT network. Stakeholders who are part of the network can access the digital profiles of investors to validate and authenticate the requested transactions. This helps avoid duplication of the KYC or AML process while effectively fulfilling compliance requirements.

Smart contracts can solve inefficiencies in portfolio management and portfolio

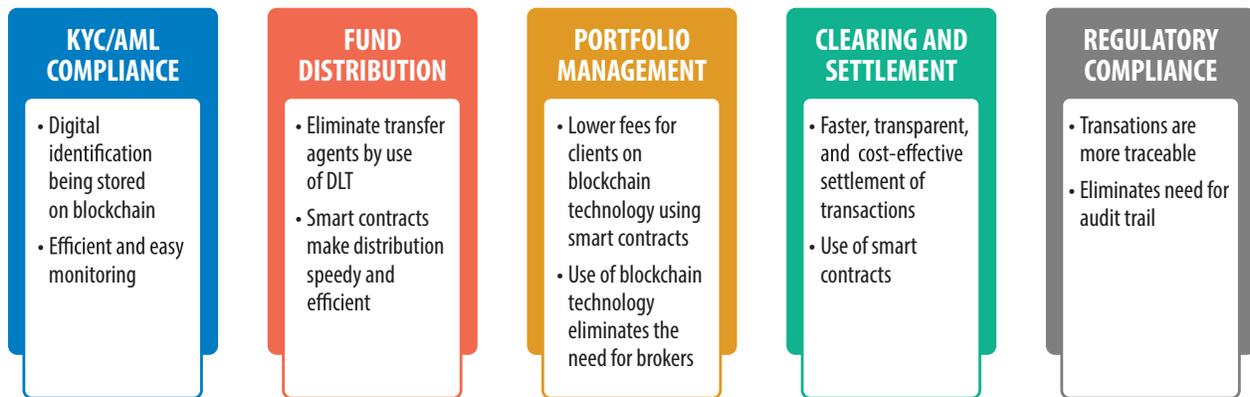
rebalancing. Portfolio characteristics are fed into the smart contract and, if there are any changes to the portfolio composition, rebalancing is triggered automatically. These

changes and transactions are transmitted to the investors in real time.

Blockchain provides multiple digitization opportunities across the asset and wealth

management value chain. As the technology evolves, its increased adoption will help reduce costs and make asset and wealth management operations more secure and reliable.

Figure 14. Use cases for blockchain in asset and wealth management industry



Source: Infosys

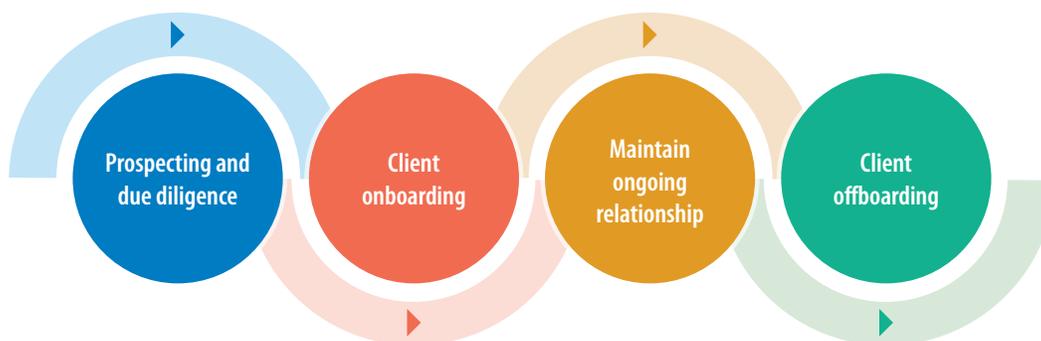
Trend 9: Client lifecycle management (CLM) processes will be streamlined using emerging technology

Asset and wealth management firms must sell seamless experiences to clients, in addition to services. There exists a business

need to engage with clients at every level. This becomes effective with the use of the latest technologies to deliver a unified

experience via multiple channels and touch points through the use of data analytics.

Figure 15. Key aspects of CLM



Source: Infosys

Notable use cases in this area are below.

1. Omnichannel experience for clients: Clients own multiple accounts across geographies and financial advisors, and opt for a plethora of products. As a result, they demand seamless services, ease of use across multiple digital channels, secure payments, a social

presence, connectivity, and shorter response times.

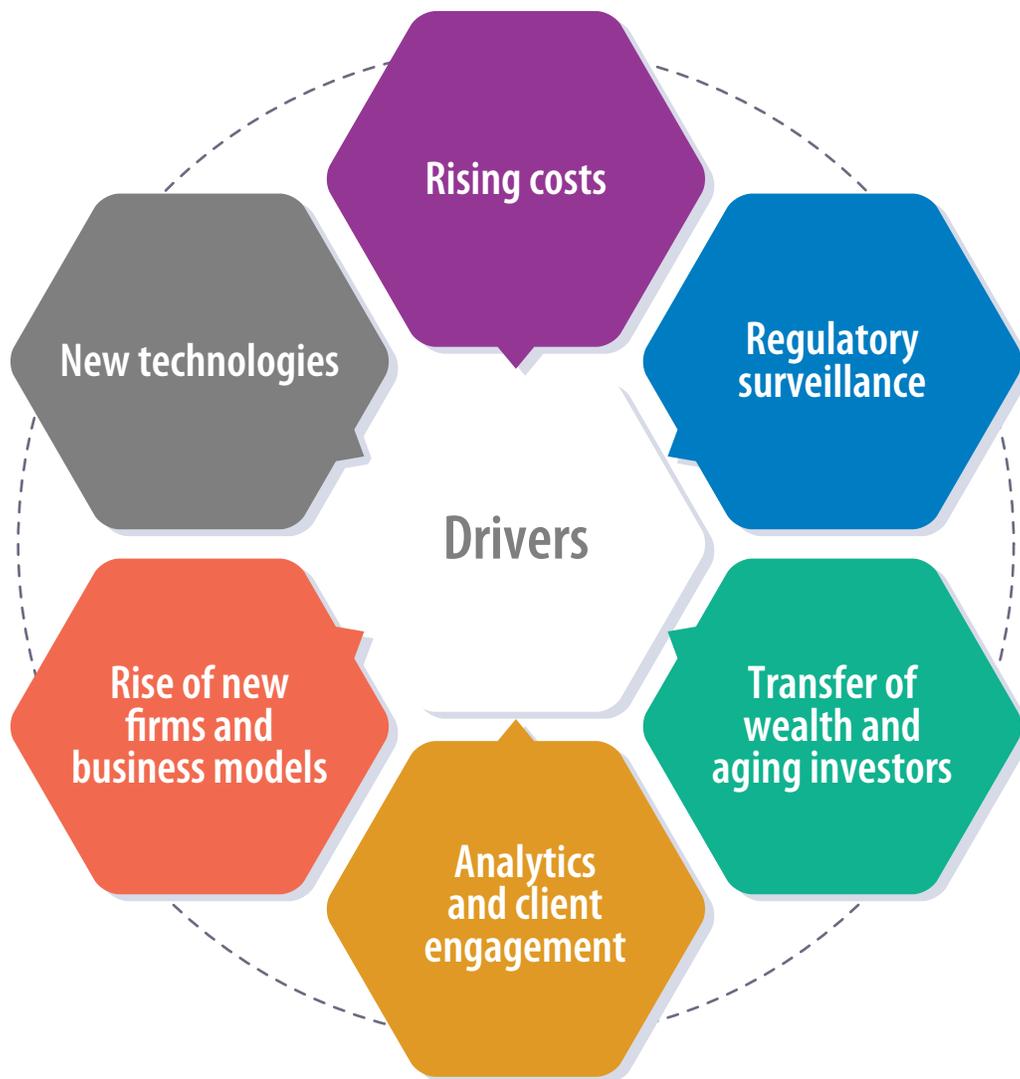
AI can enable firms to address client demands using:

- **Biometrics** for client authentication
- **Automated speech recognition** for sales, quicker data entry, and faster response times

- **Natural language processing-powered customer relationship management (CRM) systems** for analyzing client behavior and patterns
- **Chatbots** integrated with CRM systems

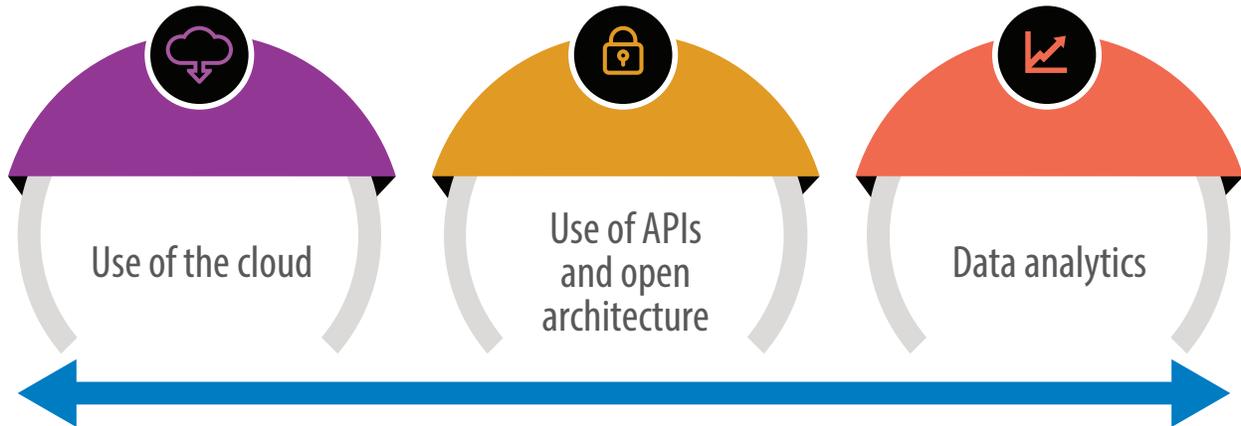
According to a survey, 84% of HNIs demand more digital interaction when they are obtaining advice or service from wealth managers.

Figure 16. Drivers for better CLM



Source: Infosys

Figure 17. Technologies to adopt while revising operating model changes



Source: Infosys

2. Fundamental changes to operating model to achieve low cost:

With changes in digital ecosystems, firms will make strategic changes to their operating models to lower costs by using the cloud, APIs, and data analytics.

Firms are offering wealth management as a service hosted on the cloud, primarily in the areas of CRM, business intelligence, and training. Using APIs and open architecture, firms can access market data and communicate with other financial institutions, and their clients' analytics help across

multiple touch points to deliver value in areas of client or asset acquisition, decision-making, and investment management to middle and back offices.

3. Robo-advisors: Asset and wealth managers have invested in robo-advisory channels, as they provide easier access to a large portfolio of clients with cost savings. The use of robo-advisors will democratize the wealth management industry because products will be offered to clients with a low entry threshold at a lower fee. Robo-advisors are being integrated with traditional models that help firms access

a larger market. The robo-advisory market is expected to grow to US\$16 trillion in 2025 from US\$3.7 trillion in 2020.

Due to the impact of COVID-19, CLM will become more dependent on technology as clients demand increasing services with higher flexibility. This will drive a need for data analytics of client behaviors, change in investment goals, and financial planning. The whole financial ecosystem will undergo changes that will have a major impact on the wealth and asset management business.

Trend 10: Amid digitization and increased work from home, cybersecurity gains criticality

Over the past few years, the asset and wealth management industry has become more digitized and interconnected. Increase in digitization has also brought risks associated with it — the largest being cyber risk. As per a study, the financial services industry was among the top three industries to be impacted by cyberattacks. According to the survey, 92% of mid-sized firms and 78% of small firms say that cybersecurity is the most important factor for them. However, when it comes to wealth management firms, it is just 60%. Firms managing 28% of the HNIs have fallen prey to cyberattacks to date. Having said that, only 60% of these firms have a dedicated cybersecurity policy or cybersecurity manager.

Cyber threats faced by the asset and wealth managers are around theft of client data, theft of intellectual property (IP) including investment strategies, data loss,

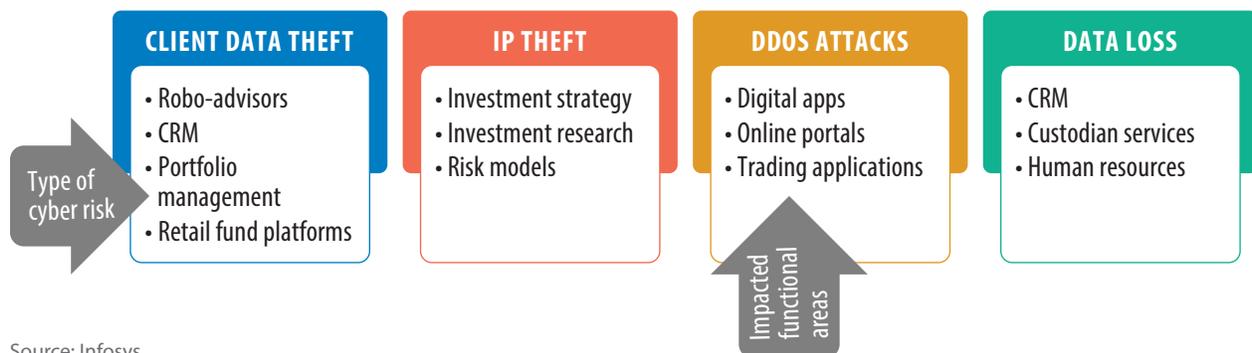
payments fraud, and distributed denial-of-service (DDoS) attacks. The use of APIs has increased this threat as sensitive data is shared with third parties. Increased dependency on third-party infrastructure providers, such as cloud service providers, to host data and applications has made firms more prone to attacks, as they do not have full control of the client and investment data. Clones of asset and wealth management online portals are being created, leading to a need for web-based cybersecurity strategies.

Client-facing areas of asset management such as CRM, portfolio management, third-party administrators and distribution platforms, and robo-advisory services are prone to client data theft, which can lead to reputational loss for a firm. Trading applications and robo-advisors are susceptible to IP theft,

including proprietary algorithms. DDoS attacks are increasing, which can compromise a network via online and mobile apps.

Emerging technologies such as the cloud, AI, and machine learning are being used to build defensive solutions for cybersecurity by collaborating with third-party vendors. As per research, nearly 75% of banks depend on AI to identify cybersecurity threats. The asset and wealth management industry is also investing in adaptive frameworks and engaging dedicated teams to manage compliance requirements and the growing threat of cyberattacks. Regulations such as the General Data Protection Regulation in the European Union are being introduced across various regions to enforce data protection. Firms are prioritizing cybersecurity as a part of their budget allocation.

Figure 18. Cyber risks faced by asset and wealth managers



Source: Infosys

With work from home becoming the new normal, cybersecurity has become critical for wealth management firms. Firms will look to deploy processes and use technology to protect their data as employees work remotely and the push for digitization increases.

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Trend 3: Digital distribution models will evolve and take products directly to the end customer

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