VIEWPOINT

THE TECH DRIVING ASSET AND WEALTH MANAGEMENT'S FUTURE

Asset managers are profitable but face troubles ahead from shrinking fee revenue and rising compliance costs. To grow their businesses, firms are turning to new strategies and technologies such as open banking and hyperpersonalized services in order to boost their client base and revenue.

Infosys Knowledge Institute

Despite a faltering global economy, 2020 was a mixed year for the asset and wealth management industry. Global assets under management increased 11% to $103 trillion — growth that was seemingly undeterred by the pandemic. However, the increases in revenue (1%) and profitability (2%) did not keep pace.[1]

Asset managers are finding their bottom lines pressed from both sides. Regulators and customers have demanded that firms lower their fees. Retail investors pay on average 50% higher fees than those of institutional investors, according to the European Securities and Markets Authority.[2] At the same time, regulators in the U.S. and the EU have begun taking measures to bring in greater transparency of fees and expenses, which has increased regulatory and compliance costs.

To mitigate this financial strain, asset managers are trying to broaden their client base through new personalized offerings that better resonate with millennials, who account for an increasing share of investors. Asset managers are also increasingly using cloud, application programming interfaces (APIs), analytics, and other technologies to improve their offerings. For example, BlackRock decided to run its investment and risk management system Aladdin on the cloud. This allows the asset manager to improve innovation and build fresh services.[3] Recently, BlackRock partnered with data cloud specialist Snowflake to power the Aladdin Data Cloud platform to let clients make the most of investment data.[4]

Financial services firms have found that it's not so easy to execute these tech-focused plans though. Asset managers generally do not have access to these technologies in-house or to this expertise among their employees. Asset and wealth managers are filling this gap by collaborating with third-party fintech firms or by investing in new platforms and infrastructure.

A few asset managers were gradually laying the groundwork for these new personalized offerings before the pandemic. But now firms are accelerating this new business and technology strategy and counting on it to ensure their long-term success. Democratization, collaboration, hyperpersonalization, sustainability, and consolidation are all key themes moving forward.

Asset and wealth management for all

Many asset and wealth managers are trying to democratize how advice is delivered by offering robo-advisory services. This helps attract more customers, as the fees charged are generally lower by between 50% and 75%.[5] Robo-advisory services also provides easily accessible digital consultations. This allows the industry to cater to underserved customers and offer low-cost products and services that were once inaccessible to them.

Asset managers are also increasingly using open banking technologies.

APIs allow firms to more easily connect to an ecosystem in which asset managers and fintechs obtain direct access to customers and their data. The collaboration allows firms to quickly roll out new offerings that target emerging and existing consumer segments. Institutions can use digitized operations and more efficiently distribute products directly to customers.

> With APIs, firms can connect easily with asset managers and fintechs that enjoy direct access to customers and their data

In 2021, SIX Swiss Exchange added APIs to its platform so it can connect banks and third-party portfolio management systems with wealth managers.[6] This gives firms cost-effective access to multiple consumer segments and provides the dual benefits of increased revenue streams and profitability.

Customer-centric, personalized solutions

Asset and wealth managers can now use advanced data analytics to understand a wider variety of customer profiles in order to target and serve them better. This fine-grained customer segmentation — based on individual spending patterns and risk profiles — makes hyperpersonalization possible. These options benefit customers too; more accurate profiling ensures that consumers can maximize returns while balancing risk.

The benefits are increasingly clear. Hyperpersonalization now tops the digital agenda for most wealth management firms, according to a 2021 survey by software firm Objectway.[7] Companies said they intend to use this approach for portfolio construction, new product design, financial planning customization, risk profiling, and reporting.

> Advanced data analytics help asset and wealth managers to understand, target, and serve different customer profiles

Hyperpersonalization has gained traction in the past few years, but it requires a multipronged approach to generate the promised payoffs. This typically requires firms to develop open architecture with data aggregation and improved predictive analytics capabilities. Data analytics coupled with machine learning algorithms help firms create customized portfolios that can meet client needs. At the same time, the portfolios can be rebalanced periodically based on patterns picked up by the algorithms.

Firms are also focusing on customer-centricity in a variety of ways. They are utilizing digital channels to deliver offerings anytime and anywhere. And asset managers are counting on data-driven personalization to help them attract millennials, whose wealth is expected to increase by nearly $58 trillion in the coming decades.[8] Data-driven personalized advice delivered through channels enables millennials to access products previously reserved only for ultrahigh-net-worth individuals.

Sustainable investments

Environmental, social, and governance (ESG) funds in the U.S. reported record flows — $51 billion in 2020. These proved less risky than traditional funds and offered stable returns.[9,10] Many financial powerhouses, including Goldman Sachs, Vanguard, and BlackRock, launched their first ESG-related products in 2020.[11]

In 2021, ESG is evolving into a mainstream investment strategy as regulators and investors pressure companies to disclose sustainability data. The availability of standardized ESG data — a long-standing problem — will allow investment firms to create more relevant and trustworthy funds. The European Union's Sustainable Finance Disclosure Regulation now requires companies to release data on carbon emissions, water usage, energy consumption, biodiversity preservation, and other sustainability issues. The regulation also covers additional ESG issues, including gender pay gaps, CEO-to-worker pay ratios, human rights, and diversity.

To continue down this path, firms need to build platforms that can consume and process a wide variety of ESG data and integrate with various data sources. These platforms can be configured to use third-party data, generate sustainability governance scorecards, and aid decision-making by screening for company guidelines. Also, data analytics and machine learning algorithms can help firms identify patterns and derive insights from the ESG data and ratings.

Product diversification, shrinking margins fuel consolidation

The asset and wealth management industry is largely fragmented, with the top 10 asset and wealth management firms controlling just 35% of the market.[12] These firms are trying to increase their scale and grow their business to offset reduced margins and increasing costs.

Consolidation will help asset managers grow their client bases, deal with disruptions such as robo-advisors, and satisfy changing investor preferences. To offer more diversified products, mergers and acquisitions provide gateways to new geographies,

new sectors (renewable energy), and new investment areas (ESG). Consolidation will create additional revenue streams and cash flow, as well as wider distribution networks that can counteract lower fee revenue. For example, the $7 billion acquisition of Eaton Vance enabled Morgan Stanley to add more fee-based revenue while insulating the bank from weak trading periods.[13] In another instance, Franklin Templeton's $6.5 billion acquisition of Legg Mason allowed the firm to increase its presence across geographies, diversify its client base, and strengthen the investment teams.[14]

> Mergers and acquisitions offer gateways to new geographies, sectors, and investment areas

These types of mergers are expected to continue. Many large institutions, including J.P. Morgan and Goldman Sachs, have excess cash and are searching for ways to expand their businesses.[15]

Growth opportunities galore — with the right technology

The global asset and wealth management industry remains healthy despite all its challenges. The sector is expected to grow steadily, particularly as vaccination rates increase and economies emerge from their COVID-19-induced shocks. PwC has projected that the industry will grow to $147 trillion by the end of 2025 — a 5.6% compound annual growth rate.[16]

To capitalize on these opportunities, firms need to focus on technology-led initiatives that take a broader, holistic view of what is needed and what is possible. A few firms started their transformation with the cloud while others prioritized analytics. Most were seeking to improve customer experience. But firms now realize that customer experience is not limited to the front end. Historically treated as cost centers, the mid-office and back office can become value centers with the right mix of approaches and technology (cloud, Agile, artificial intelligence, automation). These initiatives — generated in-house or externally — can provide the front office with insights to better serve the customers through hyperpersonalization while still lowering costs.

The asset and wealth managers that make the most out of their data will be able to democratize and differentiate their products and offerings. With this stronger foundation, firms can deliver socially conscious and financially sound returns that increase customer demand and investor confidence.

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