Reimagine Financial Services: Customer Journey

The Changing World of Asset Management

Baringa
Brighter together

baringa.com

Reimagining Asset Management

By Naeem Randeree

Asset Managers are facing unprecedented industry shifts and developments. Intense competition is putting a pressure on traditional fee models, technology is becoming central to client offerings and asset managers are seeking to expand their bespoke services. Whilst this has improved accessibility to the mass market, it has also forced asset managers into fundamentally rethinking their business.

How have these shifts impacted the industry and how can you seek to get ahead of your competitors?

Industrial Shifts

Passive investing is on the rise, pushing active asset managers to seek innovative ways of delivering value and returns above their benchmarks. This has led to them providing a more tailored approach through taking into account the investor's moral, social or financial preferences. For example, socially conscious investors are increasingly pushing for their asset manager to score their funds based on environmental, social and governance (ESG) factors. Adapting to create a more personalised service has helped asset managers to preserve clients and continue to generate revenue.

In parallel, asset managers have introduced performance-based fees (advocated by the CFA Society). This seeks to charge the investor a management fee as a percentage of the return delivered above the benchmark. While this has introduced flexibility into the marketplace and aligned the objectives of the asset manager and investor, it has also meant that the asset manager is only rewarded for the value they provide to the investor.

Changing Investor preferences is fostering innovation

Asset managers are diversifying toward providing technological solutions that appeal to 'mass affluent' and millennial customers. This is personified by the shift toward robo-advisors that offer a tailored and virtual experience. Investors can grow, manage and change their investments at their fingertips. Additionally, the entire client contact model has become virtual, driving operating costs down and allowing management fees for robo-advisors to be far lower than for traditional asset managers.

Five ways to get ahead

Rather than looking at the developments in isolation, we believe that they demand an all-round rethink of how you go to market and deliver value for investors. We have identified five ways to do this:

Take the best from passive and active

Client understanding and flexible responses are set to be equally important within retail investment. For example, we are now seeing the emergence of products that combine automated passive investment at their core with input from expert fund managers. The benefits include being able to compete on both cost and performance. Advanced digital client profiling and robo-advice also mean that these active/passive crossover products can be geared to a range of different risk appetites and investment preferences.

Integrate ESG into product marketing and fund management

ESG is already an important driver of portfolio innovation and differentiation. In response, forward-looking firms are integrating ESG criteria and KPIs into their mainstream fund management and reporting. Asset managers need to urgently invest in this space or risk being left behind.

Take automation further, but don't lose the human touch

Automation and digitisation can go much further and could soon become the default for most basic operations. *This does not eliminate the human touch*, far from it. Rather, the key is maximising the value from human input for both you and your clients. With machine learning and natural language processing advancing all the time, for example, a virtual assistant could deliver equal if not better support at much less cost than standard human engagement. But a real person still has the edge in empathising, dealing with complex queries and designing customised solutions.

Sharpen your bespoke capabilities

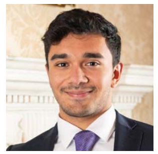
With competitive fee levels now becoming table stakes, customisation offers the key to differentiationw within active investment. The move to bespoke models demands closer client engagement and understanding, using both human expertise and digital intelligence. It is also important to broaden expertise in areas such as alternatives and ESG to open new avenues for investment and reflect changing client demands.

Increase flexibility on fee structures

Just like risk appetites and investment goals, fee preferences also vary. This calls for more flexible fee structures and includes utilising performance and hybrid arrangements to align the interests of managers and clients. For retail clients, we are also likely to see greater availability of tiered models or discretionary fees for active management to augment passive investment.

Window of Opportunity

Rather than any single disruptor, it is the combination of fee pressure, digital advances and innovative client offerings that are raising the competitive bar, challenging traditional models and forging new ones. Rethinking what's possible as humans and machines come together would not only enable your business to control costs and target resources more effectively, but also enhance customisation, experience, and performance.



Naeem Randeree
Consultant
naeem.randeree@baringa.com

About Baringa Partners

Baringa Partners is an independent business and technology consultancy. We help businesses run more effectively, navigate shifts and reach new markets.

We use our industry insights, ideas and pragmatism to help each client improve their business.

Collaboration is central to our strategy and culture, ensuring we attract the brightest and the best.
And it's why clients love working with us.

Baringa. Brighter together.

Baringa Partners LLP
62 Buckingham Gate
London
SW1E 6AJ
United Kingdom

+44 (0)20 3327 4220
enquiries@baringa.com

baringa.com

Baringa
Brighter together