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The future of distribution (part II)

CONNECTIVITY, ACCESS AND ONBOARDING

Connecting the world of distribution

WITH FUND MANAGERS MOVING CLOSER TO DIGITISING THEIR DISTRIBUTION PROCESS, STICKING POINTS INCLUDE CONNECTIVITY AND DATA, AS OUR SECOND REPORT ON THE TWO-PART 'FUTURE OF DISTRIBUTION' SURVEY HIGHLIGHTS.

SEVERAL FINDINGS FROM OUR 'Future of Distribution' survey offer a clue as to how asset managers intend to achieve their distribution goals in an increasingly digitised world. Real-time data was one of the answers that attracted a higher number of respondents, as did simplified onboarding, better connectivity and mobile access (see fig 1).

"THE WIDER CHART ILLUSTRATES A WORLD THAT THE FUNDS INDUSTRY IS BECOMING MORE FAMILIAR WITH – A WORLD OF AI-POWERED ROBO-ADVICE, MOBILE ACCESS, MASS PERSONALISATION, BIG DATA, AND THE INCREASED CONNECTIVITY THAT MAKES EVERYTHING HANG TOGETHER."

Respondents were asked to select three of the most important elements, out of the suggestions given, for

Pain Points

Our survey asked respondents for their top-three distribution 'pain points'.

Regulation was overwhelmingly highlighted, particular concerns being the evolving regulatory environment for asset managers and the costs of ensuring compliance when firms operate across multiple jurisdictions.

Falling margins were also a significant pain point for asset managers, with rising costs putting pressure on the bottom line. Regulatory and compliance, marketing, asset servicing and data were all areas where respondents found costs were rising.

Fee compression was also cited as a contributor to falling margins, as the rise of passive investment strategies has encouraged clients to expect performance to come at a lower cost.

Indeed, senior management may have to become more fluid to adapt to the changing way in which firms reach clients through technology.

"The inability to reconcile the aspiration of highly customised, high-touch client experience versus management expectations that the business should scale as it grows [is a pain point]," said one respondent.

"Management generally still operates under the assumption that business growth is predictable and linear."

their distribution needs in future.

'Tokenised products' scores highly, albeit with a smaller number of overall responses. In general, though, the wider chart illustrates a world that the funds industry is becoming more familiar with – a world of AI-powered robo-advice, mobile access, mass personalisation, Big Data, and the increased connectivity that makes everything hang together.

Even if the future is on our doorstep, we see there are still some notable, shorter-term imperatives for our fund management respondents: cyber security attracted a relatively large number of responses, with 72% of those that selected this answer saying there needs to be better cyber security for distribution to improve.

Futurama

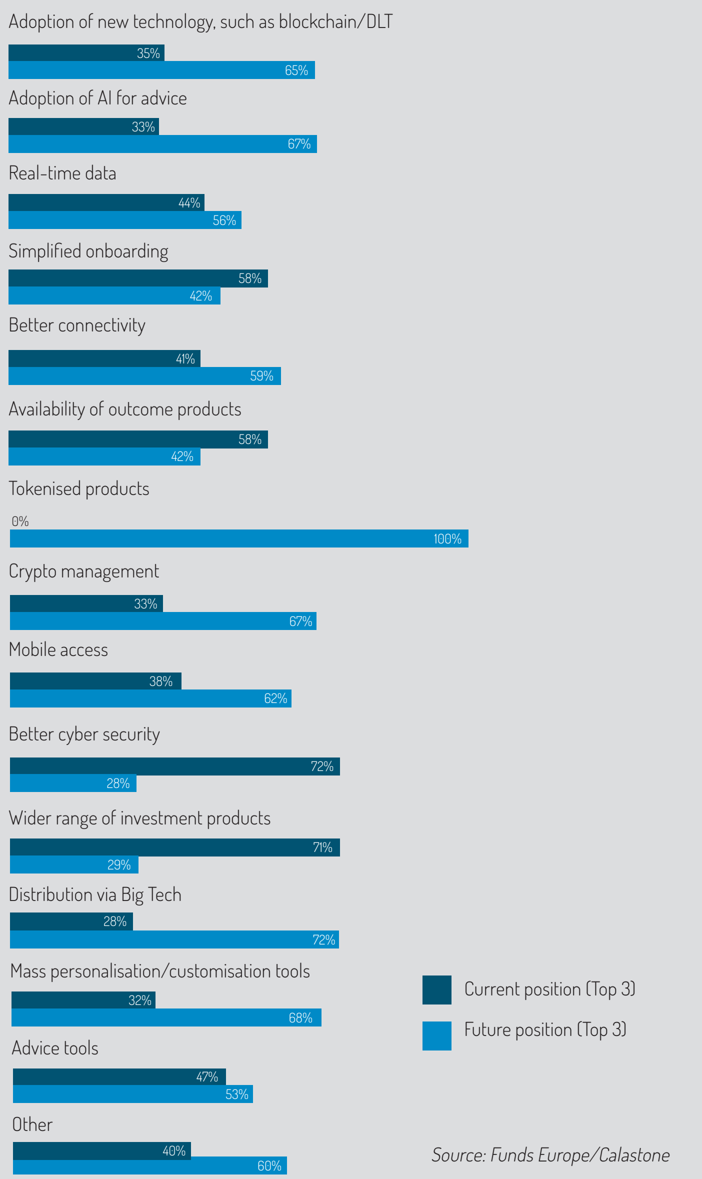
Asset management's vision for the future of distribution is simple enough. Firms want increased fund distribution into growth markets such as India, powered by digital technology that not only helps them to grapple with old and new operational problems, but to extend their profit margins.

This is the basic narrative painted by our findings so far (see '*Digital's role in the future of distribution*'). All findings are from the *Funds Europe* 'Future of Distribution' survey, sponsored by Calastone.

One of fund distribution's biggest facilitators is likely to be the digitalisation of the asset management industry. This will aid fund managers to expand both geographically and into additional distribution channels. Meanwhile, tokenisation offers a chance to increase access to asset classes, including alternative investments, for a wider range of investors.

In working towards this vision, our survey signals where asset managers

Fig 1. What are your current and future priorities to improve distribution?



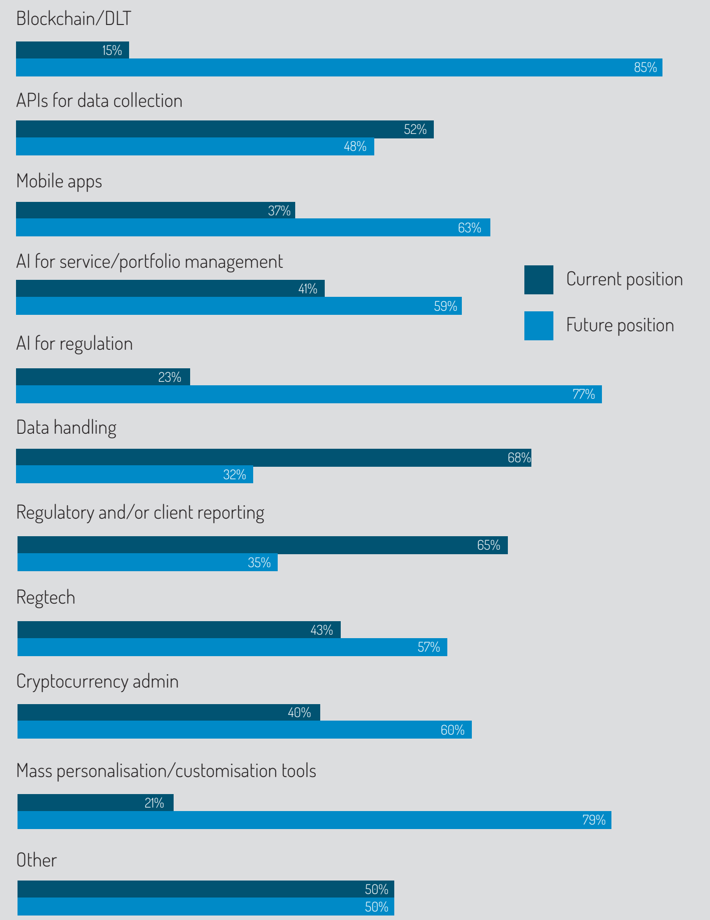
Source: Funds Europe/Calastone

"FIRMS WANT INCREASED DISTRIBUTION INTO GROWTH MARKETS, POWERED BY TECH THAT HELPS THEM GRAPPLE WITH OPERATIONAL PROBLEMS AND EXTEND PROFIT MARGINS."

feel they need to allocate resources.

When we asked where they would be investing to build tech capability in distribution (fig 2), we found that their investment currently centres on data collection and client reporting technology. More than half of the asset managers responding to our survey selected regulatory or client reporting as an area for investment, but whereas 65% said this was an area for them now, 35% of them said this would be an area for the future.

Fig 2. Where will you be investing in technology for distribution, now and in the future? (Please tick the most important to you)



Source: Funds Europe/Calastone

"ONE RESPONDENT WROTE ABOUT HAVING 'THE ABILITY TO LEVERAGE TECHNOLOGY ACROSS THE VALUE CHAIN IN TERMS OF DATA COLLECTION, PROCESSING AND TO LEVERAGE THE DISTRIBUTION ECOSYSTEM THAT IS EVOLVING'."

Our research indicates that blockchain/digital ledger technology (DLT), and mobile apps, will assume more importance in future, as will the personalisation of products. Again, these answers attracted a higher number of respondents from the total number of asset managers who took part.

The right skills?

The ongoing challenge of data management shows up again strongly when we ask for areas where asset managers feel more development is needed, both in their own firms and service providers. Of the respondents that took this question, 'better data-handling skills' was the most cited, selected by 65%. Just over half said more provision of data sources/sharing of data was needed (fig 3).

Leaving budgetary considerations aside, we wanted to learn more about the skill sets necessary to make this tech-powered future of distribution a reality. Replying to a question on future skill needs, one respondent wrote about having "the ability to leverage technology across the value chain, in terms of data collection, processing and to leverage the distribution ecosystem that is evolving".

In other asset managers' qualitative responses, words such as 'tech', 'digital', 'mobile', 'data' and 'DLT/blockchain' cropped up repeatedly. That said, these by no means commanded the board. Responses such as 'net asset value calculation' and 'settlement' remind us that some very clunky, legacy operational challenges still need to be solved.

But can they do it?

As asset managers evolve their digital abilities, it's likely that development by third-party providers, such as custodian banks/asset servicers and tech firms, will take place alongside internal development. We asked asset managers specifically about asset servicers and how well they felt these organisations could support them.

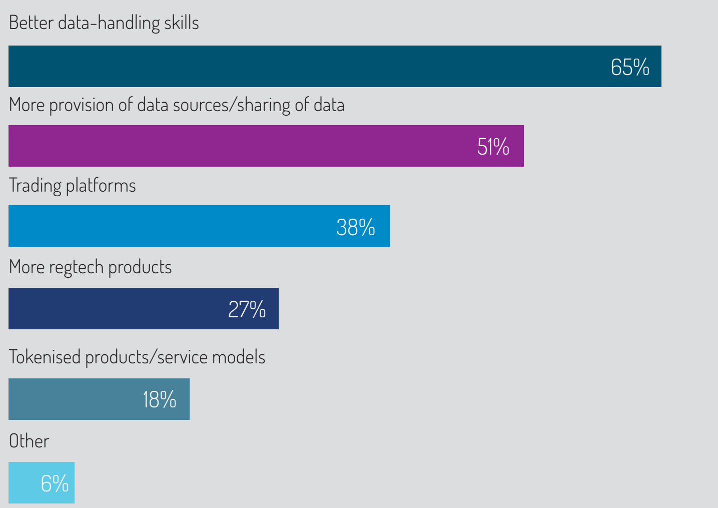
"BOTH DATA HANDLING AND DATA TIMELINESS ARE ACTIVITIES THAT ASSET MANAGERS THINK ASSET SERVICING PROVIDERS COULD DO BETTER.'"

Overall, asset managers appear to think that their providers are good at client servicing. The highest number of respondents selected this, with 58% saying asset servicers do this well. However, a not insignificant 45% said firms could do better (fig 4).

Feelings were mixed about oversight and compliance, with about half saying firms did this well and roughly the same saying they could do better.

But the answers regarding data are significant, given the importance of data already reflected above. We see that both data handling and data timeliness

Fig 3. What areas need developing within your organisation or within service providers, if used?



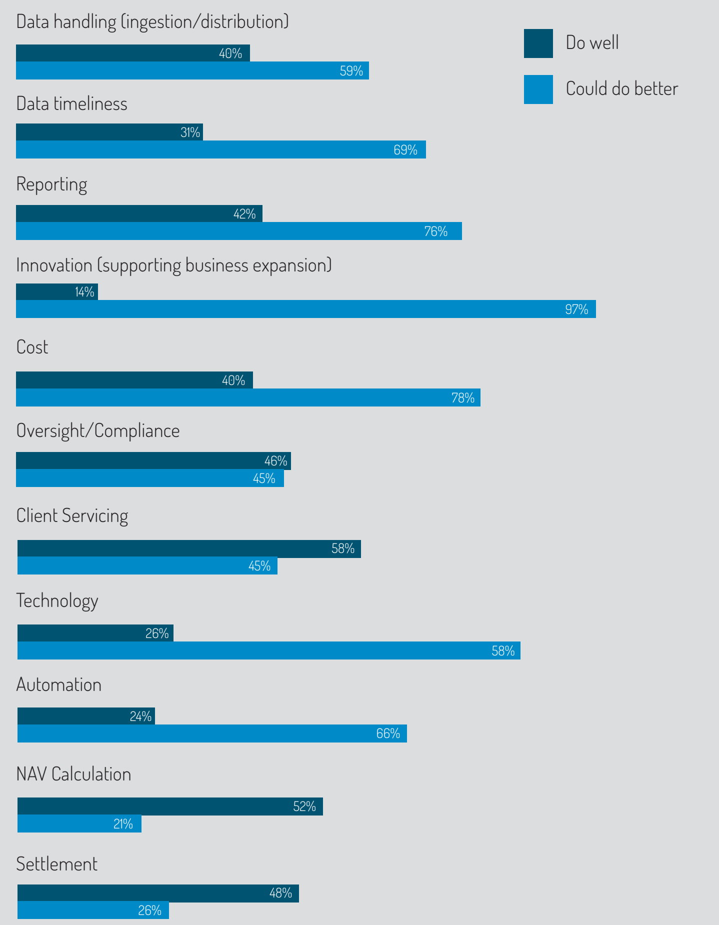
Source: Funds Europe/Calastone

are activities that asset managers feel asset servicing providers could do better.

Though only 34 respondents gave their views on how well third parties performed in technology, 85% of those said firms could do better.

“CONNECTIVITY RUNS RIGHT THROUGH THE VALUE CHAIN OF ASSET MANAGEMENT, BUT WE SPECIFICALLY ASKED HOW ASSET MANAGERS SAW THE USE OF TECHNOLOGY TO CONNECT WITH TARGET MARKETS CHANGING.”

Fig 4. The investment funds industry depends upon asset servicers to fulfil much of its distribution needs. In what areas do they perform well and in what areas could they do better?



Source: Funds Europe/Calastone

Connectivity

Arguably the most crucial element for the future of digitally enabled distribution – including efficient management of background activities such as regulatory management, NAV calculation and settlement – will be connectivity.

Connectivity runs right through the value chain of asset management, but we specifically asked how asset managers saw the use of technology to connect with target markets changing. A striking 79% of respondents that took this question said connectivity through technology would be paramount (fig 5).

Remember, our research has shown that future customers will increasingly be in emerging markets. This almost certainly means that tech-powered platforms will become more important in reaching investors there.

In addition to wishing for more connectivity, asset managers want distribution processes to be automated – what we might call the ‘Amazon recommends’ model.

Currently, 8% of the respondents to this question called full connectivity a ‘pipe dream’ – though clearly it isn’t for the 3% who said they have it already. We might speculate that this cohort have comparably small distribution footprints, national at most and in limited client segments.

Industry standards that would facilitate connectivity and automation have long been an issue. The resulting pressure points include inconsistencies between how market players communicate fund orders. As figure 5 shows, 32% of asset managers cite

standards as important for connectivity to improve.

Opportunities and threats

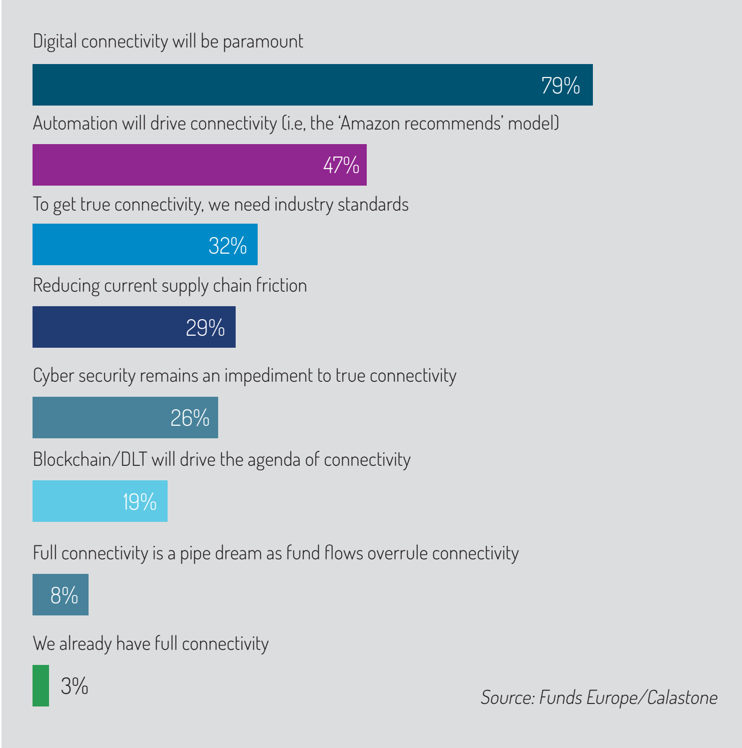
Of the possible distribution partners that asset managers envisage themselves dealing with in future, those that feature most commonly are fund platforms, tech companies such as Google and Microsoft, and banks – at least according to our survey (table 1).

> “ASSET MANAGERS UNDERSTAND WHAT DIGITALISATION OFFERS THEM AND KNOW WHAT THEY WANT TO ACHIEVE. THEY CLEARLY SEE THE OPPORTUNITY IN DIGITAL BROADLY, HOPING IT WILL SIMPLIFY TASKS SUCH AS THE ONBOARDING OF NEW CLIENTS AND HELP FIRMS TO CREATE MORE TAILORED PRODUCTS.”

If we focus on the opportunities rated first, a significant gap exists between these three channels and the others that respondents selected, including online retailers (such as Amazon) and social media. However, we should not discount them entirely, as their scores increase noticeably when asset managers give us their third, fourth and fifth-rated channels.

When we turn to perceived threats, the biggest – by a wide margin, it seems

Fig 5. How do you see connectivity (the use of technology to connect with your target market) changing?



VISION OF THE FUTURE – Fund platforms and tech companies look set to form a significant part of the fund distribution landscape.

Table 1. Please rank the following company types in terms of their potential to be OPPORTUNITIES for fund managers looking for distribution partnerships (1 = highest)

Company types	Ranking							
	1st	2nd	3rd	4th	5th	6th	7th	8th
Fund platforms (Allfunds, insurers, etc)	46%	22%	18%	3%	6%	3%	1%	0%
Technology companies (Google, Microsoft, etc)	22%	21%	18%	15%	6%	6%	4%	3%
Banks	12%	3%	12%	10%	13%	10%	13%	1%
Online retailers (Amazon, Alibaba, etc)	1%	21%	18%	18%	10%	12%	9%	6%
New entities we don't know about	4%	3%	15%	13%	13%	16%	19%	6%
Social media (Facebook, Twitter)	1%	19%	7%	19%	27%	10%	15%	6%
Traditional retailers (Carrefour, M&S)	1%	1%	9%	7%	12%	22%	25%	13%
Don't know	1%	0%	1%	7%	1%	9%	3%	48%

Table 2. Please rank the following company types in terms of their potential to be THREATS for fund managers (1 = highest)

Company types	Ranking							
	1st	2nd	3rd	4th	5th	6th	7th	8th
Technology companies	42%	15%	10%	7%	1%	6%	6%	6%
Fund platforms	9%	21%	15%	18%	13%	3%	3%	3%
New entities we don't know about	15%	12%	19%	10%	13%	7%	7%	0%
Online retailers	4%	16%	18%	10%	22%	7%	7%	6%
Social media	4%	10%	16%	12%	15%	18%	18%	10%
Banks	4%	7%	9%	15%	3%	30%	30%	7%
Traditional retailers	0%	3%	3%	12%	22%	15%	15%	13%
Don't know	7%	1%	0%	4%	3%	4%	4%	48%

– is what the survey terms 'technology companies': 42% of respondents in this question cited them as a number-one concern (table 2). The table also reflects some of the uncertainty about the future of distribution, with the second-biggest threat coming from as-yet-unknown entities (15%).

Again, under the surface of these primary rankings, we see online retailers and social media score more strongly. At best we can say the responses to these questions were mixed, but fund platforms and tech companies do have a significant place in the fund distribution landscape of the future.

The next destination

Arguably, our survey shows that asset managers understand what digitalisation offers them and know what they want to achieve from it.

They clearly see the opportunity in digital and hope that it will simplify tasks such as the onboarding of new clients and help firms to create more tailored products.

Although data as a topic has been reverberating around this issue for some years now, it is a topic that does not appear to have diminished. Challenges still persist in terms of how asset managers and providers handle data provision.

A question mark hangs over third-party providers too. From the perspective of fund manufacturers and promoters, confidence in operational partners to take firms to the next level could be lacking.

And connectivity – that is, the infrastructure needed to bring about the future of distribution as currently envisaged – is central to all this. **f**e

The *Funds Europe* Future of Distribution Survey sponsored by Calastone was conducted in Q2 2021 and received 96 responses. The number of respondents to each question varies. All of those taking part were from fund management businesses. Respondents were given multiple choice questions. Some scores do not add up to 100% because respondents were allowed to select more than one answer/statement.

KEY LOCATIONS WHERE ASSET MANAGERS WORK INCLUDE:

• Australia	15%
• Luxembourg	5%
• Singapore	3%
• Spain	4%
• Switzerland	5%
• UK	35%

BY ROLES, OUR SURVEY COHORT WAS:

• Management/C-level	27%
• Senior manager	23%
• Manager	12%
• Team lead	9%
• Vice president	9%
• Other	8%
• Partner	5%
• Regional manager	5%
• Owner	1%