HOW ASSET MANAGERS ARE BECOMING MORE CUSTOMER-CENTRIC

- ✔ Product innovation
- ✔ Cloud-based access
- ✔ Portals, data & APIs
- ✔ AI & customisation
- ✔ Targeting social groups

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LEADING ASSET MANAGERS REFOCUS TOWARDS CUSTOMER CENTRICITY

Market-leading asset managers are shifting focus towards customer-centric strategies in a bid to attract more clients, according to the 2019 FIS Readiness Report.

Investment firms are looking for ways to gain market share to counter the increasing stress on margins from pressure on fees, mounting costs and the growing regulatory burden.

Many previously did this through mergers and acquisitions and modernisation of systems to improve efficiency and reduce costs.

But leading managers have already been through these transformations, allowing them to switch focus towards customer acquisition strategies, says FIS.

The focus on customer centricity is also crucial because institutional and retail investors are becoming more demanding, for example, in digital access to investments and reporting, says the report.

Institutional customers are also increasingly seeking more bespoke solutions that can meet their individual, risk-return requirements.

FIS surveyed 376 senior-level respondents in asset management. It defined leaders as top-quartile aggregate performers in the key areas of automation, data management, emerging technology, digital innovation strategy, client value and risk management. These leaders average 3.3% annual revenue growth versus 1.1% among the rest of the industry.

65% of leaders say client acquisition is a top growth goal for the next 12 months, up from 49% in 2018. In contrast, only 38% of the whole industry are set to pursue M&A.

Meanwhile, nearly half of asset managers plan to launch new products to help differentiate their proposition to clients over the next 12 months.

Product innovation is therefore a focus for the entire industry, but leaders are going further, says FIS. They stand apart when it comes to collaborating with clients on investment solutions; responding to client pressure on fees; and in technology-led improvements in user experience. The latter includes the use of portals, robo advice, and artificial intelligence (AI) to tailor products and experience.

Bill Packman, head of wealth and asset management consultancy, KPMG UK and previously chief operating officer at digital wealth platform Nutmeg says:

'I see asset managers becoming more customer-centric year-on-year. They are looking for ways to take more control of their distribution. As part of this, they will either force their traditional distribution arrangements to be more customer-centric. Or they'll [move to multi-distribution channels] and do a bit themselves, running alongside existing distribution mechanisms.'

BILL PACKMAN
PARTNER AT KPMG

NEW PRODUCTS

Asset managers are challenging their existing distribution networks to provide insights about the end customer. The result has been to launch more funds in emerging areas such as ethical assets; alternative assets; passive and fact-based investing; and in multi-asset.

'The biggest changes have been the significant move towards environmental, social and governance (ESG) investments and towards providing customers with more information,' says Packman.

Greater social and environmental awareness has been driving people to invest in a variety of ethical investments that come with different labels including 'sustainable investing', 'ESG' and 'impact investing'. Each takes a slightly different approach, for example, impact investing takes a proactive stance on social and environmental change, rather than relying on screening out companies deemed to be negative.

Sustainable investment in the five biggest global markets - Europe, the US, Canada, Australia and New Zealand, and Japan - grew 34% in the two years to the start of 2018, with assets hitting $30.7 trillion, according to the Global Sustainable Investment Review released in April 2019.

Managers have launched a plethora of funds with general ESG, sustainable or impact criteria, or which target specific ethical values. The latter cover a wide range from anti-fossil fuels to anti-gun crime, medical goals and veganism.

A survey by BNP Paribas found that 62% of asset managers hold at least a quarter of their investments in funds incorporating ESG versus 53% in 2017. 90% predict they will allocate at least a quarter by 2021.

Furthermore, 65% of respondents align their investment framework with the United Nations Sustainability Goals.

Alternative assets are showing a similar growth path. Across institutional and retail, awareness is growing of the benefits of incorporating alternatives such as private equity and real estate into portfolios for reasons such as diversification, inflation-linked returns, and steady income or growth.

Assets in alternative investments hit a record $9.44 trillion in June 2018 with the market set to keep growing to $14 trillion in 2023, according to researcher Preqin.

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--BNP Paribas's ESG Global Survey 2019

ENABLING PRODUCT INNOVATION

FIS says such product innovations will accelerate over the next 12 months as asset managers continue responding to evolving investor demands and seeking more customers.

Technology will enable this through more sophisticated analytics to support strategies; new tools to help improve investment intelligence; and better digital distribution, to name a few.

In response to client demand, asset managers will have to work closely with investors to create highly customised solutions that fulfil their specific needs and meet their individual risk-return targets – but without pushing up fees, says FIS.

To achieve this at scale will require some standardisation within products, alongside other features that can be adapted or customised for individual clients.

They will also need to modernise their IT architecture to support more complex investment strategies and drive efficiency gains that will make reducing fees more viable.

They should also use application programming interfaces (API) to develop a more holistic, front-to-back-office offering that supports cross-asset processing and real-time data access. And they should design applications to deliver information though portals, says FIS.

PORTALS AND CLOUD-BASED ACCESS

FIS research shows that leading asset managers have clear centralised data strategies that enables timely access to accurate data.

They implement open APIs, enabling access to the data they need for clients; and movement away from legacy systems.

They enable cloud-based access to reports for their clients and online portals that offer real-time views of portfolio data.

These data strategies are enabling leaders to differentiate in the way they engage clients.

Other asset managers still have legacy technology that makes it hard to use APIs and web services that can get the right usable data out at the time they need it. This is where a lot of work is focused, says FIS.

AI AND CUSTOMISATION

Asset managers need to deliver more customisation. But they cannot afford to let costs spiral as a result. So they must use new technologies and standardised operating models to customise as efficiently as possible.

Embracing cloud and automation to manage standardised requirements at scale and embed greater functionality within core systems will give firms the agility to respond to more customised needs.

Leaders will bring AI solutions into client-facing tools to improve the experience. 24% of leaders already have applications enabled by AI, compared to only 2% in the rest of the industry, according to FIS. Of the firms deploying AI, 38% of leaders are developing chatbots - computer programs that conduct conversations with customers.

Anybody who has encountered chatbots will know that they do not necessarily endear themselves to the customer. But they could improve the client experience, as they become more sophisticated, by providing speedier responses and access to information.

Asset managers must also respond to investors' growing interest in different products by taking a holistic approach that integrates technology; embraces open APIs and normalised data; and enables front-to-back processing across all asset classes for a superior client experience, adds FIS.

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--2019 FIS Readiness Report

CHALLENGES

KPMG's Packman says the shift towards customer centricity generally has been slow because of several barriers to change.

'Asset managers are cautious,' he says. 'They have sat on big piles of cash generative assets and don't want to rock the boat unless they have a major driver for change.

'So, they are innovating at arms-length. For example, sometimes they buy a minority stake in a financial technology (fintech) firm. They want to pick a fintech winner, but they also want to gain insight, so they can plan how to make their business customer-centric, without committing too much.'

Others are trying to upskill their existing in-house technologists to work on customer experience projects – for example, training their staff to configure direct to consumer (D2C) offerings.

Companies such as UBS and Investec have developed digital investment platforms, sometimes known as robo advisers, with great fanfare, only to drop them two or three years later.

'Robo advice is part of the future,' says Packman. 'But these companies are still experimenting with how to be involved. It is a challenge to do it in-house because chief investment officers and technology officers are currently busy running big, business-critical middle and back-office systems. They are not used to designing customer-facing apps and websites.

'However, I can't see any asset managers moving solely to D2C, which is a daunting new departure for many. Besides, there will always be a need for institutional distribution. In 10 years, I think the balance will be 80% distributing through existing networks, and 20% going direct.'

The other challenge is that return on these supposedly game-changing investments has so far been questionable, which makes executives nervous, he says.

TARGETING SOCIAL GROUPINGS

Asset managers are also attempting to become more customer-centric by tailoring products and services to increasingly wealthy social groups such as Millennials and women.

Increasing transparency, mobile technology and D2C products have all been important in attracting these demographics.

The move to ESG is important to all demographic groups, but particularly younger people and women, who are generally more socially-minded or values-led, according to most research.

Social media trends play into this. For example, a plethora of funds aimed at promoting corporate diversity have launched in the last few years, partly in response to the #metoo and #blacklivesmatter campaigns.

Some asset managers are going even further. For example, UBS Global Wealth Management launched its Women's Initiative in 2017 to provide a more customer-focused service for wealthy females.

This included the creation of a female majority advisory board to help change mindsets and develop female-friendly products, services and branding.

INSTITUTIONAL AND WHOLESALE CUSTOMERS

Customer centricity is not just about individual, retail investors. Institutional and wholesale investors are also important and demanding customers for asset managers.

These investors do not just care about performance, they also care about customer experience. For example, 76% of such buyers say client experience contributes to manager terminations, according to research by Deloitte Casey Quirk.

2019 research by Deloitte identified seven drivers of client experience among institutional and wholesale investors.

The first is around asset managers taking a broad strategic partnership approach by, for example, offering bespoke solutions and relationships; and transferring knowledge to clients.

One insurer who took part in the research said:

'Finding a partner who is willing to work with us is key. We like investment managers with credible experts who can speak on topics of interest - anything from factor investing to public policy.'

A well-executed, transparent, long-term partnership approach is a particularly strong positive for client satisfaction, says Deloitte.

The next driver is clarity of purpose and communication. This includes explanation of products and processes; articulation of differentiation; and transparency of fee structure.

Differentiation has the greatest potential for improving the client experience, but it is the hardest to execute, says Deloitte.

A participating wealth manager said:

'Managers can struggle to define their edge or differentiation and it dents the client experience.'

The fourth point was knowing the client well, including their business and end investors; and understanding senior client-manager relationships.

One pension provider said:

'Managers have been very in tune with what we are trying to achieve. This is positive for client experience.'

Another customer experience driver involves attentiveness in responding to information requests quickly, proactively sharing information and resolving issues quickly.

One wealth manager said:

'Sometimes I ask for data at the last moment. There is a big dispersion in the speeds with which asset managers respond. Turning it around quickly helps me pitch to my firm. That plays a big role in client experience.'

The sixth driver is speedy and accurate operations. One wealth manager said:

'On the operations side, don't surprise us. I just want it to work.'

The final driver of client experience was doing basics well, including timely and accurate reporting and co-ordination across client touch points.

The Deloitte report concludes that asset managers should invest to ensure they do the basics well and avoid operational friction.

Its research shows that operations, client service and sales may impact the customer experience, but other less visible areas such as technology also underpin the client relationship. Asset managers therefore need a cultural, whole-firm approach to excel in client experience. It should permeate everything they do. Only then can it have a lasting influence.

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