INSIGHTS

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6 INVESTMENT MANAGEMENT TRENDS TO WATCH FOR IN 2017

WELLINGTON
Consulting Group

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Disruptions and challenges rooted in the financial crisis of 2007-2008 will continue through 2017. We expect to see an acceleration of transformational efforts by investment managers to drive client success in a landscape that continues to change.

In this paper, we explore 6 trends for 2017 and beyond: 1) a shift in client behaviour, 2) tightening of regulatory and compliance policies, 3) migration from legacy systems, emergence of new technology and paradigms, and heightened concern over cyber security, 4) new competition in the form of fintechs and the new, digital world, 5) the evolution of global investments and emerging markets, and 6) the democratization of wealth management.

1. A Shift in Client Behaviour

With greater shifts in investor buying, institutional and consumer behaviours are continuing to drive change in the investment management community. Leading firms are investing in big data initiatives to drive further investment insights for their customers while delivering transparency to gain or re-gain trust. This will lead to efforts that also differentiate them from their competitors.

Millennials (born between 1997 and 2000) make up a large and influential up and coming market[1]. For this demographic, on-the-go digital services are quickly becoming the preferred choice for interaction. Even though millennials may not have the wealth of their parents, they cannot be ignored as they will drive future growth as they build their own wealth and eventually inherit their parents' wealth.

As for the aging population, more are considering self-investment and investment firms are making efforts to deliver a more transparent experience, while introducing new lower fee products, such a managed ETFs, and services that drive further value and advice for their clients.

1 *Millennials, Millennial Marketing.*

2. Tightening of Regulatory and Compliance Policies

The regulatory environment has changed rapidly since the financial crisis of 2007-2008 – and the full regulatory impact is still not clear. What is clear is that the regulatory burden on wealth management firms, their advisors and their clients is getting ever more complex and globally integrated.

Much of the regulatory focus will likely continue to be centered on protecting the consumer. The concept of putting the customer first and acting in their best interest is a common theme in the guidance issued by regulators.

The cost of reputational risk is high for those who fail to comply. High net worth investment managers and wealth businesses like private banking may have higher risk due to the breadth and sensitivity of their product offerings and the high profile of their client base.

For example, in just the past few years, wealth management firms of several global banks have attracted significant regulatory action from the US government. This has rippled to wealth firms around the world, highlighting the need to manage new regulatory and compliance policies as part of business-as-usual and avoid reputational risk.

3. Migration from Legacy Systems, Emergence of New Technology and Paradigms, and Heightened Awareness Over Cybersecurity

While 42% of Wealth Managers believe that a mix of digital and offline communicating is ideal, only 17% of high net worth clients (HNW) say technology is essential, but 48% rate cyber risk and hacking as a top concern. At the same time, a significant number (42%) of wealth managers surveyed believe that legacy systems are “somewhat of a problem”[2]. Data like this points to a gap between expectations and reality for both investment managers and clients.

Fueling the gap is the emergence of new technology and paradigms that are going to disrupt business-as-usual. Artificial intelligence is leading the way to provide everything from customer service to investment advice. Blockchain, with its ability to store information on distributed ledgers without a central clearinghouse, could upend a variety of businesses. Digital labour, or robotic process automation, is helping firms to automate things they couldn’t do before, without having to hire an army of developers. And all of this depends on robust cybersecurity, to hold off threats that are coming from multiple directions.

Blockchain. Over the past few years Blockchain has been a disruptive technology, but more importantly it is starting to become a foundational technology. Like e-mail was the first application of the early Internet, bitcoin is the first application of Blockchain today. We are seeing signs that real-world Blockchain based solutions will be commercial over the next 3 years. Blockchain use cases lend themselves to long-running transactions which are well suited to investment transaction processing. Leveraging Blockchain-based solutions can dramatically shorten these transaction processes to drive efficiency, reduce cost and more importantly improve the customer experience.

Big data, artificial intelligence, and machine learning. Leading investment management firms are combining their big data efforts along with artificial intelligence (AI) and machine learning to improve investment service. Applications include investment research and selection by using scalable technologies to drive cost-savings, consistency and efficiency. This trend will continue in 2017.

Robo-advisors. Robo-advisors provide automated portfolio management services using algorithm-based portfolio management advice with minimal human intervention. Robo-advisors are becoming more viable, for both consumer and institutional investors. Some robo-advisor firms may introduce AI-supported investment decisions and asset allocation algorithms in 2017.

Robotic Process Automation (RPA). RPA is technology that automates time consuming and repetitive manual tasks. RPA has the potential to streamline back-office and front-office functions. For example, RPA could be used to support client onboarding and regulatory compliance. Look for more investment management firms to employ sophisticated RPA tools in 2017 and beyond.

[2] *The Future of Wealth Management, Forbes.*

4. New Competition in the Form of Fintechs and the New Digital World

Historically, investment managers and their clients have developed personal relationships based on trust and goodwill. Established firms have been slow to react to new threats and competition, believing their brand and personal relationships with clients were immutable. Fintechs have begun to test this assumption by using new technology and innovation to compete in the delivery of traditional investment services.

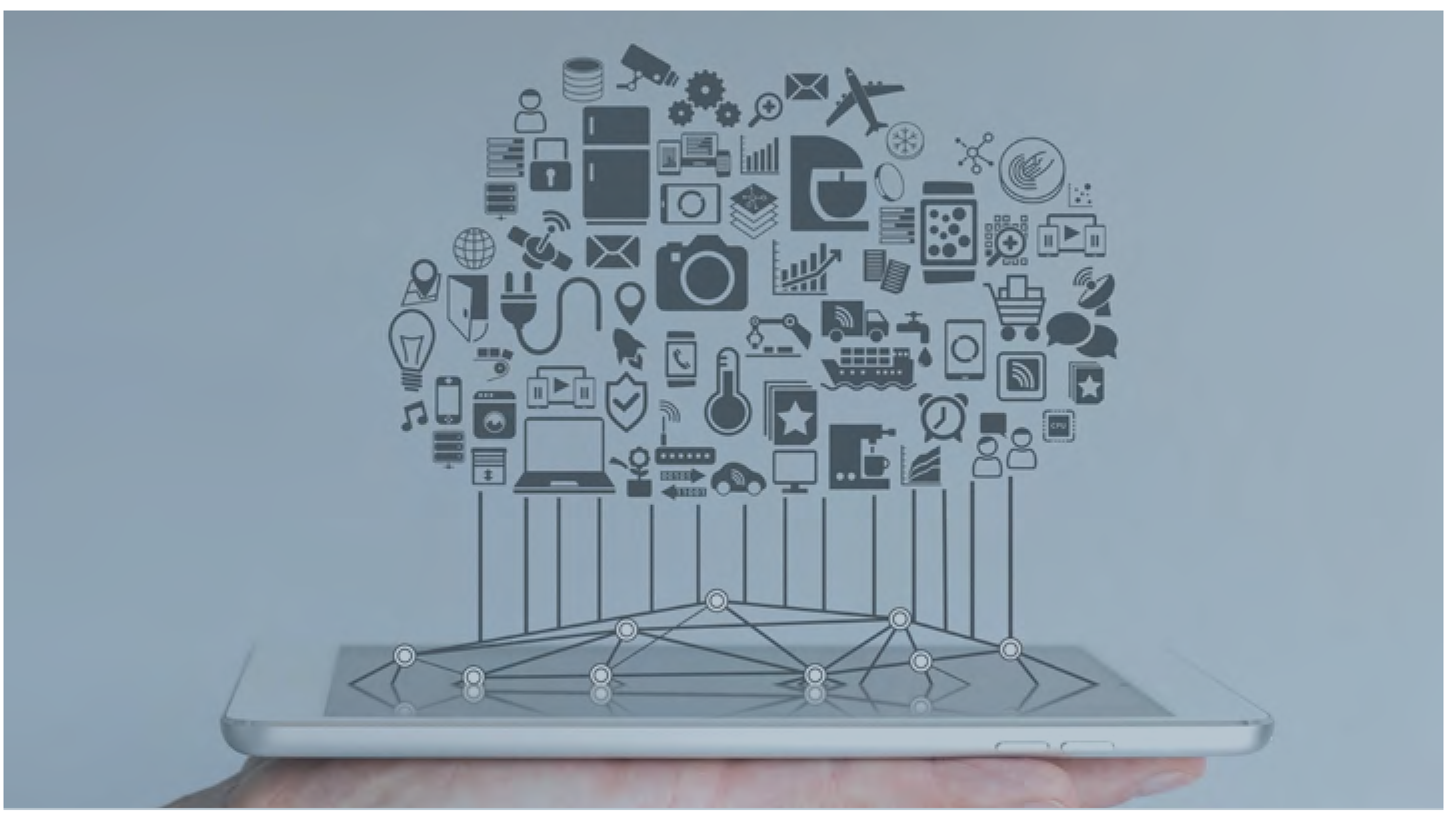
Fintechs saw their opportunity and introduced new offerings such as automated advice platforms and open-investment communities. According to research by Cap Gemini[3], high net wealth investors (HNWI) propensity to use automated advisory services was 66.9% in Q1 2016, compared to 48.6% in Q1 2015. Also, nearly half of HNWI are turning to digital – 47% tap into online networks weekly to research investment ideas, while 25.6% use them monthly or quarterly. The trend will continue to grow.

Similarly, the retail financial services industry is adding competitive pressure by leveraging their digital channels, such as smartphone banking and new payment technologies (i.e., Apple Pay). This disruption is driven by changing client needs and behaviours driving more mobile on-the-go services.

Some investment firms have lagged in their response to the benefits of and investment in digital technologies. In particular, the need to develop and retain trusted advisor status is changing as digital technologies reduce the frequency required to meet wealth managers in-person for advice, portfolio management and trading. On the other hand, some investment management firms have been significant players and agents of change, investing in this digital 'disruption' through the advancement of client portals, electronic trading venues, and automating foreign exchange.

In 2017 and beyond, we see advancement where digital introduces a more holistic client-centric user experience employing web portals that aggregate information and services across investment banks. Digital experiences will improve data transparency and insight and provide better self-service to clients. Firms will benefit by reducing costs and increasing margins, creating a more engaged client experience, and will move closer to real-time services that will enhance decision-making and investment monitoring.

[3] *Cap Gemini Wealth Management Trends 2017*.



5. The Evolution of Global Investments and Emerging Markets

PwC has reported[4] that the long-term growth plans for assets managed by the industry will continue to grow from $63.9 trillion assets under management (AUM) today to over $100 trillion by 2020, based on a compound growth rate of 6%. As global economies become increasingly integrated, interdependent and regional, AUM is influenced by GDP growth in other regions. For example, changes in AUM in China can be caused by changes in US GDP. With these integrated economies, regulatory policies will also create challenges during this growth in the global economies.

With this growth, there will be a rising importance of the South American, Asian, African and Middle Eastern markets. Assets under management in these economies are set to grow faster than in the developed world in the years leading up to 2020, creating new pools of assets that can potentially be tapped by the asset management industry. However, most of these assets will still be concentrated in the US and Europe.

6. The Democratization of Wealth Management

Increasingly, retail clients and the mass affluent are demanding the same products and services as HNWI, but want the same for less. The term “democratization” describes the phenomenon. The idea has its roots in the financial 2007-2008 financial crisis, but has started to gain more prominence in the last couple years.

Adding to the mix is an increasingly skeptical demographic – millennials, Generations X and Y – and prefer a more do-it-yourself approach.

What it all means is more competition and offerings from fintechs and new digital product offerings, downward pressure on fees, and a general need to drive efficiency and effectiveness by investment managers while still offering the human touch.

The good news is the investment industry is adapting. Those ready to embrace change and transform their business will be positioned to succeed.

[4] *PWC Asset Management 2020 - [A Brave New World](#).*

ABOUT WELLINGTON

At Wellington, we understand that most business transformations fail. Our business model is built with one single purpose: The successful implementation of your strategy.

We pride ourselves on having a long list of clients that understand that first and foremost we are there to make them successful as they implement their strategies and to prepare them to work without us when the implementation is done.

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