Left behind on the journey of life

FUND MANAGERS ARE TRYING TO MOVE CLOSER TO THEIR END INVESTORS BUT, AFTER YEARS OF DISINTERMEDIATION, HAVE LITTLE CUSTOMER DATA AND FACE IMMENSE DISRUPTION. OUR LUXEMBOURG PANEL DISCUSSES TECH AND THE COMPETITIVE THREAT.

PANEL

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***Funds Europe* – How well do asset managers really understand the investor journey? They say that if millennials can't do something in two minutes on their mobile phone, they won't do it ever. Does this also apply to the older generation?**

Noel Fessey, EFA – Asset managers generally do understand this, especially if we're talking about tier-one asset managers. They employ bright people who think not only about the financial markets but also about the distribution market they're addressing. But they don't necessarily show very well that they do understand the customer journey, and they don't necessarily engage with their customers in a way which facilitates the customer to understand and make that journey.

"THE INVESTOR JOURNEY IS EVERYTHING. IT'S THE SEVEN DAYS FROM WHEN YOU WANT TO OPEN AN ACCOUNT BUT CANNOT LOG ON; IT'S THE MOMENT YOUR ACCOUNT IS BLOCKED AND YOU HAVE NO IDEA WHY."

Janusz Lorenc, Metrosoft

Look at tier-one asset managers' websites to see how they engage their customers. The better managers engage their customers in a dialogue. They encourage them to understand their life goals and how to achieve them. Some managers also use behavioural finance to help individual investors understand how and why they think about investing. They also educate their clients on the investment process. In other words, good managers do more than promote their funds. But it is true that some managers are more transactional, promotional, and show less interest in – or understanding of – the investor journey.

When we come to talking about how asset managers engage their customers through digital media in direct-to-consumer mode, asset managers generally do it poorly, even if they have retail arms. They tend to be better at selling into intermediary markets and selling to other professionals.

Rafal Kwasny, Franklin Templeton – Most of the knowledge is on the distributors' side because they deal directly with the customer. Some players like Franklin Templeton, in addition to intermediated distribution channels, also have quite a significant retail base in some markets.

I would agree that asset manager knowledge regarding customer behaviour is pretty decent, in particular for those markets where, apart from intermediated distribution, they deal with retail customers. In some markets, asset managers may also be playing the role of wealth manager and that requires in-depth knowledge if they want to be successful. Asset servicers have less of that knowledge: their core business is obviously to service asset managers and only secondary purpose is servicing clients of their clients – i.e. investors and distributors.

Steve Bernat, ONE group – In an environment of shrinking margins, we've had no choice but to move towards understanding what investors really want. Many, many years ago, people would buy whatever you sold. Over the last few years, whether we've been asset managers or asset servicers, we've all been challenging ourselves to make sure that we add value to our clients' business and that we build products with this added value in them.

"WHEN IT COMES TO SATISFYING THE WANTS OF INVESTOR JOURNEYS, IT SEEMS THAT ASSET MANAGERS KNOW WHAT TO DO IN PRINCIPLE BUT NOT HOW TO DO IT IN PRACTICE."

Noel Fessey, European Fund Administration

Fessey – I think we can agree that it's one thing for an asset manager to understand possible investor journeys and quite another thing to engage investors in a way that helps them to make the journey. The challenges, be they technological or about proper conduct of business, are evident to us as industry insiders and – speaking personally – it's something I can also see as a consumer. It's difficult to design a digital experience that helpfully and legitimately enables an investor to choose the right path. It's much easier to deliver something transactional and, quite frankly, clunky.

Piotr Laskawiec, Metrosoft – First of all, I'm probably the only one representing millennials here. Secondly, I would like to start from the view of the software provider, because we often have limited access to end investors. Of course, we can follow our common sense, knowledge, experience, etc. But without access to the investors themselves, we are unable to provide cutting-edge solutions. So, we need to talk with parties like asset managers who really understand the needs of their clients.

Sometimes people involved in creating digital solutions for investors directly are not investors themselves, so they are living in a bubble.

Digitisation for me is extremely important. I was ready to change my bank if they wouldn't introduce Apple Pay fast enough.

Kwasny – Do you do everything online, or do you still need an adviser when you make investments?

Laskawiec – To be honest, the vast majority of actions I do online without consulting third parties.

Janusz Lorenc, Metrosoft – The investor journey is everything. It's the seven days from when you want to open an account but cannot log on yet; it's from the moment when your account is blocked and you have no idea why, and you cannot unblock it. This all adds up.

Lee Godfrey, Intertrust – I'm not a millennial. My wife is, however. If she had access to an online tool where she could engage directly with an investment adviser and have all the information to hand, she would much prefer to do it herself.

I ran a couple of sessions in my previous job with millennials and I asked the question, "If you go and see a doctor, how many of you already pre-diagnosed yourself before you get there?" Almost every hand went up. I then said, "OK, once you've sat there and listened to what the doctor has to say, how often do you agree or disagree or discuss what you've just found online?" Almost everyone's hands go down.

"And which do you believe? Do you believe the guy that's sat there and had 15 years of experience with the red braces and the grey hair, or the thousands of people you don't know online?"

Almost all of them chose the thousands of people online.

I then go a step further. "When you go to the pharmacy, have you already pre-diagnosed or pre-done your research on the drugs that have been diagnosed by the doctor?" And all of them have. They are much more comfortable with the anonymity.

***Funds Europe* – We've just come back from China where insurance companies are rolling out self-assessment medication programmes because China's so huge. The sophistication of these programmes in terms of diagnostics is really quite amazing!**

Godfrey – Aren't they just selecting a number of pre-conditioned yes/no answers anyway? So why couldn't you do it as a self-diagnosis? It's interesting, there's a difference between digitisation and digitalisation. Digitisation is the automation of existing processes; digitalisation is a real change in business processes. Therefore, the way people buy and sell, rather than just giving a veneer over our existing processes, and that's clearly what has to change.

Lorenc – We have been involved in the conversation about digitalisation since 2002. The industry moves very, very slowly.

Fessey – I think in this discussion, we should separate needs from wants. The need in the investor journey is the destination: identifying life goals – the outcomes and how to achieve them. The want is more about the manner of the engagement – the media through which dialogue is conducted, the quality of the interaction, the convenience, the sense of gratification. In that sense, "I want Apple Pay" is a want that tech firms satisfy superbly to meet consumers' daily spending needs.

When it comes to satisfying the wants of investor journeys, it seems that asset managers know what to do in principle but not how to do it in practice, and so a comprehension gap opens up between manager and investor, especially in the engagement with younger people.

"THE QUESTION FOR ASSET SERVICERS IS ABOUT WHETHER THEY ARE BUILDING ON TOP OF EXISTING CAPABILITIES. HOW MANY TAs HAVE YOU SEEN IMPLEMENTING A BRAND-NEW SYSTEM OVER THE LAST TEN YEARS?"

Steve Bernat, ONE group

Godfrey – Is that not down to those tier-one asset managers being disintermediated? Although they have got a good view on how their product fits with different people's lifestyles, and are engaged, the firms are disintermediated.

Fessey – Well, some managers have long engaged directly with customers using their own retail venues. Funds Network is a very good example of that. Other managers are moving back into direct contact with retail customers after having withdrawn previously. They had become product providers to intermediaries, and now they're seeking to assert themselves again, and they're having to relearn how to engage, this time in a digital world where it's really quite difficult to engage well.

Kwasny – We also need to segment clients based on their needs. Being a global asset manager – having a high-net-worth-individual wealth management business, for instance, in Canada – it is necessary to stay very close to the customer. There are financial advisers available, and I think robo-advice put on top of that as a tool for that group of investors and advisers would be a nice and very welcome service proposition.

In the US and India, we are working with our distribution partners, but also with a lot of direct retail customers, engaging them through online channels and mobile devices. In Germany, we have customer focus groups and get feedback about our solutions.

If we look at Luxembourg, that is a largely intermediated business. The customer needs are different to retail customers as there are systems talking to systems more than people talking to people. I think client segmentation is key to understanding and delivering different tools that are needed from us.

Lorenc – But think about something else. Natural human communication means language – this is really how we communicated before we started drawing pictures. A financial adviser with 30 years' experience has served 700 clients with maybe 15,000 products. Amazon Alexa, connected to a database, sees many more products much quicker, and you can drive and talk to Alexa any time.

I have an employee who is in his 50s and he has Alexa installed everywhere. Think about it: humans communicate by voice. It's easier to talk than exchange messages. Like it or not, the digital voice is coming to this industry.

Godfrey – I much prefer to have a person, face-to-face, with me. A person that I trust.

Fessey – As the client's investable assets grow, the nature and quality of the engagement moves from digital robo into personal face-to-face engagement and it becomes much more interactive, exploratory and advisory.

***Funds Europe* – Are asset managers wasting money targeting millennials, when perhaps they should only become involved with people's journeys when they turn, say, 45?**

Fessey – When they have accumulated worthwhile investible assets? Perhaps yes – and leave digital-only firms like Nutmeg or Moneyfarm to serve investors in the lower wealth bands. This is an economic point. Even though they understand the needs of less wealthy investors, asset managers can't make money meeting those needs in a direct-to-consumer model outside of a digital-only engagement; the cost of service is too high. It's only when the customers start to accumulate, even in largely digital engagements, assets of €100,000 or more, that it starts to become worthwhile to have personal engagement. There is of course a risk that asset managers who neglect investors in the early years of their journeys will struggle to win them later in life.

Godfrey – A lot of people ask how digitalisation could help their business, when actually, you've got to flip it around and say, "How do I need to change my business to engage with the current consumer?" And then ask how could digital help. Digital transformation is more holistic, whereas in our industry I think we're still at that digitisation stage. We're trying to look at how we do things today better by using technology rather than asking how the whole thing can be changed.

What's to stop technology completely replacing the distribution side of what we're buying today? We've spoken about how digital can help the distribution side, rather than help the asset allocation side. Asset allocation is already being massively disrupted with AI [artificial intelligence] and other kinds of investment criteria. The mix of human and technology is the best scenario.

Hugely successful businesses are often ones that didn't exist before. They are primarily platform-based and I think the biggest winners in our industry in the last couple of years and probably in the future are those that can create a new platform-based model. It's hard. You're trying to build the asset allocation, the regulatory reporting requirement, the distribution, all end-to-end. But it's a challenge to join up all these pieces. And by changing the model and providing a digital solution, you don't even own the whole process – nobody owns that whole process!

***Funds Europe* – The industry is segmented in terms of what experience you want, depending on how much money and how much**

interaction you've got. You've also got the fact that more people have a self-help mentality. A lot of the people in the US say they can't believe the funds industry's going to survive. It's going to go to separately managed accounts, it's the most efficient way of doing things rather than having these complicated fund structures. And that comes back to the point about the digitising there already. Is the industry creating true digital solutions or just building a nice digital interface to what's there already?

Godfrey – Information technology is not the driver. It's the customer experience. Digital is about how do you engage with what you want to achieve. What you are trying to save for – perhaps the kids' university, or mortgage – should be a life-stage question and the answer might not always be a fund.

Kwasny – Yes, it's more driven by clients. The way I see things developing, it's about meeting needs which are very individual. On top of that, we have different markets and different regulations, and then the customers or distributors coming from those markets have different needs. There is no one-size-fits-all solution in this business, and customisation is still growing.

***Funds Europe* – But asset managers have always done that. Whatever the client wants, the client gets.**

Kwasny – Agreed and these days, technology helps us to cope with that customisation. That's why people invest in a technology such as RPA – in other words, the really tactical and not strategic solutions.

Bernat – Most don't have the luxury to start something from scratch. So the question, specifically for asset servicers, is about whether they are building on top of existing capabilities. For example, how many TAs have you seen implementing a brand-new system over the last ten years?

"I FULLY AGREE THAT THE INDUSTRY IS BUILDING AN ADDITIONAL LAYER ON TOP OF EXISTING PROCESSES. IT'S BECAUSE WE RARELY HAVE A CHANCE TO IGNORE EXISTING CAPABILITIES AND PROCESSES."

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Laskawiec – I fully agree that the industry is building an additional layer on top of existing processes. It's because we rarely have a chance to ignore existing capabilities and processes. There is always a context and that's why a new company starting from scratch can move a lot faster.

Technology can help, but we are focusing mainly on specific technologies, like blockchain or big data, say. What we forget about is that with those technologies come new processes and new methodologies that we completely ignore right now, and those processes with the addition of new technologies can also change the business model.

Fessey – If we focus on novel technology, we'll miss the point. It may be perfectly legitimate to use a combination of new and old technology – legacy systems, even – but the threat to incumbent asset management isn't a question of architecture or implementation. It's a question of engagement. Firms who build compelling digital engagements with consumers – as the likes of Facebook and Amazon do – will have an edge over asset managers. Don't think of them as tech firms but as masters of consumer engagement. They are already present in our digital lives in so many ways, and they are starting to think about engagements that meet our financial needs.

Look at it this way: these firms win consumers when they're young. They're well placed to offer financial products that are simple and appropriate to young people – basic payment services, for example. They can then build out that engagement – perhaps with checking accounts, interest-bearing deposit accounts or short-term investment funds. As young consumers mature, so will their needs and wants, and it's hard to imagine that digital life firms won't develop more sophisticated products to meet them. Digital life firms aim to win clients for life, and you can see how classical asset managers might get into difficulty, squeezed out of consumer engagements, maybe at best reduced to being a component supplier, stuck in a new form of intermediation.

This is happening now but it's very early stage, and there are several reasons why digital life firms are not pushing harder. The first is that they have so many other things beyond financial services they could profitably do with their capital and talent. The second is that financial services exist in a highly regulated, fragmented industry, so it's very difficult to build the global operating models that appeal to them if they're to maximise their investment. But they will find a way.

Lorenc – If it really comes to that, do you think asset managers would even be needed?

Fessey – It's a good question – and the answer is that there will still be a population of clients with significant wealth who have needs we shouldn't seek to satisfy with simplistic, building-block answers in digital engagements.

Lorenc – Might that approach die out over time?

Fessey – No, it won't. I don't believe that wealth will be less concentrated in the future than in the past. Wealth distribution may vary over time but there will still be people with significant financial assets. And I simply don't believe that face-to-face engagement in wealth management will be supplanted by machine-led engagement, even as wealth managers improve their digital services.

Kwasny – I like to compare the funds industry to the airline business. At a recent Alfi [Association of the Luxembourg Fund Industry] distribution conference, a person from Lufthansa compared the distribution of airline tickets with the funds business. To me, asset managers are producers of airplanes; asset servicers are providers to the producers of airplanes.

But there is a huge and diversified distribution space, which is often market-specific. If we speak about Facebook, Amazon and other large disruptors, they are more to expand in that part of the value chain, as their core business is customer experience.

I don't see them building aeroplanes, or engines for aeroplanes in the short or medium term.

Lorenc – Ray Dalio founded Bridgewater Associates, one of the largest hedge funds in the world. He started using computers very, very early and said, "If you can have all the data in the world, the algorithm can make the right decisions." It's maybe an overstatement, but why do we think that today, an extremely sophisticated asset manager who is already using algorithms to support investment decision-making would be better than Alibaba that knows a zillion times more?

Godfrey – Our industry needs to fear change. Ten years ago, Hilton was comparing itself to Marriott; today it will be comparing itself to Airbnb. The funds industry probably doesn't know who its competition is now. Amazon has not gone into hotels, they might not go

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into funds, but it's someone that has a different platform model that will disrupt the way we do business today.

***Funds Europe* – In terms of changing the dynamic, it's going to be interesting to see what happens with Facebook's cryptocurrency, Libra, and how they get through global security issues.**

Fessey – The response of central banks, politicians and regulators will be fascinating.

Lorenc – How many financial products do you need to be satisfied that you have enough choices? I would say thousands. There are tens of thousands of products out there. Why? Because some of them have brand. Brand matters. Fund ranges are repeated within the brands. Now, think about Amazon. They sell shoes, they sell everything. Do you know that close to 100 brands they sell were launched by Amazon and they also sell now under the Amazon brand? They know what consumers want and sell a lot of stuff they manufacture themselves.

The Wall Street Journal recently reported that Amazon allegedly has changed search algorithms at the end of 2018 to rank Amazon goods over other manufacturers' products that Amazon sells. The change is invisible to the consumer.

***Funds Europe* – Amazon could easily offer passive investing and take on Vanguard because passive substantially is the replication of an index. But when you get into active, poor performance can severely damage brands.**

Lorenc – Correct, but being a technologist, I read Ray Dalio's book and see a super-experienced asset manager that has got as much information as he wants, but he cannot possibly analyse it all on his own. So, he uses computers to help him make decisions.

"I AM VERY EXCITED ABOUT THE FUTURE. THOSE WHO DEVELOP A BETTER CLIENT EXPERIENCE WILL WIN. THERE WILL PROBABLY BE FEWER PROVIDERS: SOME WILL CONSOLIDATE AND THE REST WILL MOVE TO SERVICE NICHE CLIENTS."

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Fessey – You're ignoring the human component. The computer algorithm is, at the end of the day, still a human construct. The world does change, and people have got models wrong in the past.

Lorenc – These are not models built by humans.

Fessey – I don't buy the *deus ex machina* thing. I do agree that there is a significant advantage in data-driven insights and machine learning to inform investment decisions, and I also agree that a significant amount of active asset management is being disrupted by these technologies. It's a long-term trend, which is why passive is often an intelligent choice for an individual investor, particularly if they don't need a broad, diversified investment portfolio. If they've got relatively simple needs, then Vanguard's funds are just fantastic.

But asset management is a fundamental activity and allocating capital where it can best be put to use in order to achieve a reasonable return, at its heart, at its most valuable, is still a human activity.

I think asset management therefore will survive in the long term. Active asset management will survive in a different shape, maybe diminished in terms of relative market share because passive will continue to grow, but it has a place for those who have money that needs to be invested that way. I don't think it will be extinguished.

Lorenc – But it will be minimised.

Fessey – Asset management customers – individuals – seek a particular outcome, they seek to meet a life goal. Active asset managers' greatest service to their customers and to society is to satisfy that goal by taking the customer's capital and allocating it intelligently to another human need, which is an investment need. That allocation of capital to serve human needs is not a zero-sum game. We cannot succeed if all we do is seek arbitrage. There's a fundamental purpose to it and that's one of the reasons why I'm optimistic about asset management's role in our society. I don't think that can easily be disrupted, but I do think that it can be augmented by technology.

Godfrey – In a book called *Ultra Hedge*, the idea put forward is if you have all the data in the world and you're applying intelligence to it, everyone would come to the same outcome and therefore all markets will become homogeneous and no one will make any money. You need the human element to disrupt.

***Funds Europe* – How important is a digital solution and can it be global for your brand?**

Godfrey – It depends what you mean by digital. Every firm in the world will improve their UX/UI, so the customer experience will be dramatically improved, and that's an ongoing learning process. What you won't see is digitalisation, because I don't think we are able to change the business model. Why? Because we don't own it. There's not one company that owns this end-to-end, so you can't change the whole chain.

Kwasny – You need a local customisation for your digital solution, because of different regulations, cultures, client behaviours, etc. There will never be a global one-size-fits-all solution, there will always be local customisations needed.

Lorenc – So maybe Amazon – which owns the cards – will start playing the game wrong.

Godfrey – I think they will eventually.

Fessey – It's someone we don't know yet. The big digital life firms are active in finance already. Facebook Libra clearly is this summer's news, and Facebook has got a long way to go before regulators, central banks, authorities, legislators accept Libra as a benign digital thing. It is potentially world-changing, and therefore it will not be unregulated and uncontrolled by state actors.

The digital life firms know the life of the consumer in a way that no one else does. People who are on Facebook: in so many ways their life revolves around their connections with their friends, the way that they get their news, and it would be a very natural fit that people's financial lives go there as well.

I think that that is where the disruptive power will come for asset managers, which is why they are so intent in some markets on re-establishing direct communication with their customers, digitally and face-to-face. In other words, re-entering the consumer business. If they don't, then they are certain to be disrupted.

***Funds Europe* – Looking ahead, what new developments are you anticipating in the use of digital technology?**

Laskawiec – I really believe in the post-PC era, a term coined by one of the MIT scientists and popularised by Steve Jobs. The post-PC era is the shift towards mobile devices as the main computers, and right now I do the majority of my money transfer using my phone and iPad because it's so much easier to do. I can log in into my bank in seconds instead of minutes, and this is the most personal electronic device we have.

I think that the future is the digital identity, and our phone will be a passport for that digital identity. Today we have all the biometrics built into our phones. I can log in everywhere by my fingerprint or the 3D scan of my face. So, I really believe in the post-PC era, which will help us to manage a lot of digital processes, like the KYC [know-your-customer] process.

Bernat – I'm very much looking forward to the future because I know that I'll have more time to spend at the beach! There are digital solutions that will make it very easy for me to invest, or Facebook will make decisions on my behalf because they know exactly what I like and how I behave. So, if I have those solutions, I'll be at the beach!

Lorenc – The phone will tell you it's time to get up to go to the beach. You will be an actor that's driven by your phone and artificial intelligence, and you will come home, and your dinner will be reheated because the sensor will know you are approaching.

Fessey – Technology is going to lead to massive change, not just in asset management, but in everything we do. It's very difficult to predict the extent of disruption but our ability to adapt is also remarkable and I think our industry, although it will change shape, will continue to exist.

Kwasny – Both customer service and investment processes are very important and are differentiators. I am personally very excited about the future and the opportunities it brings thanks to technology. Those who develop a better client experience, and will be better at meeting client needs, will win. There will probably be fewer providers, some will consolidate and the rest will move to service niche clients. **f**e