a meeting of MINDS

owenjames

Asset Management

The Findings

Thursday 19 September, The Berkeley, London

1. SUMMARY

The fifth Meeting of Minds Asset Management took place on Thursday 19 September at The Berkeley Hotel, London. This document summarises the key issues raised in the topics discussed during the roundtables that took place on the day.

A Meeting of Minds Asset Management is a biannual strategic forum organised by Owen James in association with Lansons.

The day is a blend of roundtable sessions addressing a pre-researched and pre-agreed agenda with open discussion led by objective and professional moderators; keynotes provided by external speakers whose remit is to spark debate and encourage fresh and original thinking; plus substantial networking both structured and unstructured.

To find out more about taking part, please contact John Hall at johnhall@owenjamesgroup.com or call him on 01483 862696.

1. THIS REPORT

The Roundtable Sessions were facilitated by Lansons. This report captures the headline outputs.

2. THE SPONSORS

We would like to thank all our sponsors, without whom the event would not have been possible. The following groups took part in the Meeting and their motivation for taking part is threefold:

- To be, and to be seen as being supportive of the industry
- To understand the stresses and strains being placed on the industry and, where possible, respond to them
- To talk openly with these business leaders with a view to ensuring that their businesses are strategically aligned

3. AGILE LEADERSHIP – STAYING RESILIENT IN A VOLATILE WORLD

Experts: Tessa Sharp & Keith Jones, Alchemy Worldwide
Facilitator: Ralph Jackson, Lansons

Key message

As leaders, it is difficult to maintain equilibrium in a world of exponential change. As well as significant changing megatrends, such as globalisation, artificial intelligence, and changing socio-economic trends, leaders are also pressured by the daily demands on their own time. Overall, staying resilient can be very challenging. This session provided an open forum in which business leaders could discuss their experiences of combatting business change, passing on lessons and discussing how best to future proof their businesses.

Headlines

- Whilst the internal definition of resilience and agility differs amongst business leaders, overall the common thread is MANAGING CHANGE.
- Building better resilience often comes from within a business. Leaders need to take the time to listen to colleagues from across the organisation and ensure a range of voices are heard.
- Business resilience is ultimately linked to the personal resilience of business leaders

Key themes

The roundtable opened with a discussion on the definitions of agility and resilience amongst business leaders, specifically: *what do we mean by resilience and agility?* Delegates overwhelmingly focused their discussions on the theme of managing business change. Two strands of thought stood out: the decision-making process itself and the role of the new generation in shaping those changes.

All delegates agreed there is a pressure within the industry to be seen to be "keeping up". However, one delegate noted the tendency to be *too agile*: to go along with trends, despite the reality not being beneficial in the long term. One delegate highlighted the issue of *when* to implement change, giving the example of a business undergoing an extraordinary period of growth. In this circumstance, there was internal pressure to continue with the status quo, as this had led to the business growth, however in practice many of the systems in place, such as the leadership model, still reflected the old business model. It was therefore not futureproofed, nor resilient.

The second area of focus was the mindset required for agile growth. Delegates overwhelmingly stressed the benefits of encouraging graduates to innovate, giving them a voice through specific forums or working groups. There was agreement that younger generations have agile characteristics: younger workers are more willing to fail and fail again in the pursuit of a better way. They are braver and have a growth mindset, as opposed to older generations who are more likely to have a fixed mindset.

By contrast, employee retention proved to be a topic of concern for workforce resilience, specifically amongst employees of 4+ years tenure. Delegates agreed that, particularly in contrast to graduates, teams in their late twenties and thirties were the 'least satisfied', often feeling stifled and impatient. As leaders, this led to the question of combatting this, noting the tendency to focus on the enthusiastic new intakes and overlook this middle set, who are often at a pivotal time in their careers, learning how to become *accountable*.

This cultivated in an agreement about staying 'match fit', creating an infrastructure which is prepared for change, responding workforce concerns, taking small, realistic, progressive steps to achieving change and accepting as a company that change is an ever-present state. Part of this is taking time to focus on personal resilience. Delegates highlighted the need to seek counsel, take advice, use that advice and then pass it on, as well as the importance backing yourself.

Conclusions

- As leaders, we would not have reached our current positions without being resilient. It is therefore important to think about how to teach it, not necessarily always providing a solution, but giving employees the space to find a solution for themselves.

- Don't mistake building a resilient and agile business for simply "keeping up" with industry trends. Make changes which are specifically right for your business.
- A leader is only as good as their followers: a resilient business is built by listening to teams across the broad spectrum of the business.
- Create an infrastructure which is prepared for change and accept that change is an ever-present state.

4. ARE YOU PROVIDING "VALUE FOR MONEY"? THIS IS AN AREA OF GROWING REGULATORY INTEREST. HOW DO YOU GO ABOUT CREATING A CONSISTENT FRAMEWORK TO ASSESS?

Expert: Stephen Dowds, Hay Hill Wealth
Facilitator: Danny Calogero, Lansons

Key message

Asset management should work together to agree a consistent framework to understand and interpret value for money. At present, there is a lot of confusion and many interpretations about the concept.

Participants agreed that evaluating value for money is useful to assess clients' satisfaction. It gives a common framework to scope and contextualise services to investors

There are three parts to the framework:

- Generating risk adjusted returns
- Cost
- Additional services provided

Headlines

- Value for money is not just about generating returns. Good overall service is what keeps clients happy and prevents them from leaving.
- There is no industry wide understanding of what value for money stands for – the FCA should play a bigger role in defining this.
- The framework gives asset managers an incentive to evaluate how they deliver value for money to their clients.
- Value for money will put further pressure on fees which will impact boutique asset managers most.

Key themes

The roundtable discussion opened with a statement from the expert "Assessing value for money is useful to assess clients' satisfaction and as an industry we should get ahead of this in front of the regulator and clients". He also explained that there are three key parts to the framework focusing on returns, costs and other services delivered to clients measured over a certain time period.

The discussion moved on to establishing what value for money stands for and how to interpret it. One participant questioned whether it is all about returns. Participants agreed that good overall service is what prevents clients from leaving, contributing to client retention. There was also an agreement that the FCA's value for money prompted fund managers to update their client documents – some of them (in terms of structure) have not changed in 15 years.

Participants agreed that there will be further pressure on fees – though participants pointed out that, as an industry, asset managers aren't good when it comes to defending their fees. An example of St James's Place was given which is expensive yet continues to attract clients as the level of services is high enough and justifies the fees. Satisfaction with the service is key.

The conversation subsequently shifted to a discussion on how there is a fragmented view of the asset management industry amongst the general public and that the industry has a siloed approach to issues including value for money. Participants agreed that the FCA needs to establish what "value for money" means and that

there is a need for a joined-up approach from the industry to establish what is expected and what should be delivered to clients. *"We have to be able to speak about the outcomes we have promised"*.

The conversation moved on to a debate on value and ESG. The main concern raised was around greenwashing and how many players in the industry are jumping on the bandwagon but are unable to demonstrate their ESG credentials. There is a possibility of a mis-selling scandal if asset managers do not manage to agree a joined-up framework on the measurement of ESG and the value it delivers.

The session ended with a debate on ETFs and whether they present a good value for money in terms of cost. Participants debated whether ETFs are a benchmark when it comes to fees. The discussion focused on whether a large part of the comparison will be against ETFs. The debate concluded with a mention of factor investing and ETFs. Participants agreed that it would be possible to establish which factors are delivering the best results / which ones are responsible for which level of returns and the best "value".

Conclusions

- Clarification is needed on what value for money stands for and how the FCA interprets it. Asset managers have a lack of clear understanding of the criteria they will be assessed against.
- Value for money refers to both the fees and costs but also other factors like ESG and services offered.
- A joined-up approach is needed across the industry to ensure consistency in reporting.

5. FASTER, LOWER COST, JUST AS ACCURATE – HOW ETFS ARE SET TO TRANSFORM WEALTH MANAGEMENT

Expert: Mark Fitzgerald, Vanguard
Facilitator: Danny Calogero, Lansons

Key message

There has been tremendous growth in ETF products over the last 15 years. With the increasing complexity and range of ETFs there has been increased take-up by investors of all kinds.

Headlines

- ETFs do not differentiate their fee based on client types; a sovereign wealth fund will pay the same as a person on the street, unlike some traditional funds.
- ETFs/index funds are scalable, more assets should be able to bring costs down in the future.

Key themes

There is some money going into ESG, but most money is still in large, liquid, vanilla funds. However, small and niche strategies are on the rise.

Running an ETF is not hugely taxing on the portfolio managers, perhaps this explains why it is cheaper than active management.

There was some discussion about the growth of sophisticated, retail and wholesale investors investing in ETFS. Different markets have very different levels of engagement with EFTS. For example, in the US, ETFs are set to dominate over mutual funds, whereas some European markets are much further behind e.g. Italy. This is partly because in Europe, investors tend to be locked into an institution from a young age and not move between providers. The UK has a huge range of advice on offer, the advice is where money is made.
In fixed income there is a long way to go in terms of ETF adoption in Asia and Europe. Fixed income managers could use ETFs to express views rather than, as they do now, choosing and indexing them using CDS or duration.

There are disruptors in the market which people seem to be getting overly excited about. If they are going to offer a very similar service, they will need to be regulated in the same way as traditional financial institutions are.

How people receive advice will change. For example, some companies will track people's behaviour online and give them a digital nudge to encourage them to question their investment decisions. Not all clients can be served by human interaction.

Conclusions

Everyone is a long-term investor and over the long-term costs add up. The cost of ETFs is one of their key selling points. When active managers are analysed, very few make money for the underlying clients when costs are removed.

Institutional investors and pension funds have many uses for ETFS, for example sometimes they use them when transitioning between fund managers. Pension funds can use them for liability matching. For retail investors ETFs offer cheap access to asset classes.

Liquidity in both the primary and secondary is key to ETFs. Diversification is key to managing liquidity. Niche assets do end up with less liquidity.

6. INSTITUTIONAL AND RETAIL: IS THIS SIMPLY A QUESTION OF SEGMENTATION?

Expert: Magnus Spence, Broadridge Analytics Solutions
Facilitator: Louise Marriott, Lansons

Key message

There is increasing overlap between wholesale and institutional clients and sales and distribution teams need to be structured to reflect this. The ways in which asset managers categorise clients is evolving. There is no one clear answer, but increasingly, it depends on the complexity of their needs and overall revenue, scale.

Headlines

- Clients are increasingly defining themselves as institutional, this might be because their needs are becoming more sophisticated or complex, or because they believe it changes the way they are serviced.
- Client behaviours vary depending on type of client (e.g. insurance, pension fund, wealth manager), however it is extremely difficult to segment clients based on behaviours.
- Sales and distribution teams need a wide range of skills to build deep relationships with clients and service their needs. Bringing previously segmented teams together could potentially require investment in upskilling.

Key themes

The roundtable discussion opened with a brief outline of how traditional and institutional clients can be categorised with examples of how clients with these labels aren't necessarily behaving in the way that they traditionally have. Sales and distribution teams do not always keep up with these changing behaviours. Institutional and retail are similar in AUM scale, however patterns vary, for example since Q1 2017 retail/wholesale flows have consistently outweighed those of institutional investors. But there is a case to be made that perhaps institutional money is 'stickier'.

The average size of a defined contribution pension scheme is £2m. Although this would be considered an institutional client, in terms of size alone, this is traditionally more on the retail/wholesale side. In comparison, a private bank might have £20-30bn of assets and be a sizeable user of third-party asset managers and could therefore be considered as an institutional client.

Insurance companies tend to have particularly complex needs, whereas pension funds might have less multifaceted investment needs, but more demanding reporting needs. However, regardless of client type, clients are asking the same questions around process, transparency and portfolio construction.

Distribution and client servicing teams must adapt to change, as the market becomes more dynamic - teams within teams is not hugely beneficial to clients or asset managers. Teams which are large enough in size with a shared culture and common interest are the future. Servicing clients based on revenue generated can lead to a difference in servicing. For example, a digital servicing model can be more appropriate for lower revenue generating clients. There is a danger however that asset managers put a new digital interface on top of outdated infrastructure which leads to poor outcomes.

Conclusions

- It is advisable to segment clients by size as categorisation by client type is outdated.
- Sales and distribution teams need to be equipped to service wholesale and institutional clients - upskilling and communication are key. The language for wholesale and institutional clients is interchangeable and the focus should be how each audience wants to engage (channel).
- Clients want lower fees, fewer providers and deeper relationships.

7. IS ESG INVESTING A CASE OF "FIFTY SHADES OF GREEN?" AS WE RACE TO JUDGE A COMPANY ARE WE IMPACTING THE WORLD BALANCE? IT IS A BIG QUESTION

Expert: Jamie Broderick, Government sponsored Taskforce on Social Impact Investing
Facilitator: David Masters, Lansons

Key message

Investors continue to increase their allocations to ESG – however, due to a lack of criteria and an industry-wide framework to measure ESG, it remains unclear what sustainable investing stands for. Different interpretations of ESG are widespread across the asset management world which increases the risk of greenwashing.

Headlines

- Lack of a common framework to assess and measure ESG leads to confusion and greenwashing.
- Active management plays an important role in engaging with companies on ESG matters.
- Striking the right balance between different components of ESG and how to assess their importance is important.
- Investors are increasing their allocations to fixed income as issuance is on the rise.

Key themes

The roundtable discussion opened with a brief outline of what leading experts consider ESG to be and the shift from investing in equities to fixed income. Delegates agreed that ESG in fixed income is not just about green bonds, but also e.g. social housing issuance. There was a consensus that ESG has been present in fixed income for some time but perhaps has not been labelled as such.

The discussion moved swiftly on to the specific letters in ESG and how to ensure equal attention is paid to them. Delegates agreed that regulation is broad enough to allow investment managers to make their own balanced decisions. E.g. one may invest in fossil fuels in emerging markets but then the proceeds will go to helping local communities. Delegates pointed out that divesting isn't always the answer as when you divest you can't influence.

Furthermore, participants discussed the importance of active management to help companies address their ESG issues and to ensure these are managed in line with agreed criteria. There was a consensus that you can engage with companies better through active management and that investing in an index prevents investors from making well informed judgements. A couple of participants noted that passive companies are increasingly implementing more active approaches providing LGIM as an example. The debate also covered the importance of investing in low ESG scorers to help them improve and to make a bigger impact.

The conversation subsequently shifted to a discussion on how the lack of a common framework, classification and consistency on ESG leads to confusion amongst investors and leads to greenwashing. A couple of participants noted that not many are aware of the European Commission Action Plan on sustainable investment. The action plan adopted by the European Commission in March 2018 has 3 main objectives:

1. To reorient capital flows towards sustainable investment, in order to achieve sustainable and inclusive growth;
2. To manage financial risks stemming from climate change, environmental degradation and social issues; and
3. To foster transparency and long-termism in financial and economic activity.

Finally, the conversation shifted briefly to the issue of how ESG is currently predominantly associated with institutional investors. Delegates agreed they see the demand coming from this group of investors.

Conclusions

- A common framework is required for the industry to understand what ESG stands for, how to measure and implement it.
- There is a consensus that fixed income is playing an increasingly important role in ESG.
- Participants agreed that active management plays an important role in ESG and impact investing as it is possible to engage with companies on ESG-related issues more effectively.

8. THE MEANING OF LIFE: WHAT IS OUR PURPOSE? WHAT ARE OUR CLIENTS PAYING US FOR?

Expert: Chris Chancellor, Broadridge Analytics Solutions
Facilitator: Ralph Jackson, Lansons

Key message

Considering MIFID II and the requirements for transparent client reporting, revenue dynamics in asset management have changed. The importance of demonstrating value for money throughout the chain has become ever more important, not just through to wealth managers and intermediaries, but also the end customer.

Headlines

- Asset managers are failing to effectively communicate their products' purpose and value for money in a language needed for the end investor
- Whilst asset managers question whether this burden of responsibility lies with them as the manufacturer or with the distributor, the issue is ultimately linked with value for money and so will need to be addressed as part of the regulatory process.

Key themes

Through annual interviews with 1,000 fund selectors, Broadridge's Key Drivers of Success research distinguishes three building blocks to demonstrate client value: proposition, partnership and presentation. The most influential factor remains the asset manager's proposition, which covers their prices vs value of money, alpha vs outcome and capital accumulation vs the manager's goals for risk management, income, inflation protection and values integration. Yet presentation and partnership are becoming increasingly important factors to fund selectors. Fund selectors want to see asset managers effectively and transparently communicating their value to clients, whilst also demonstrating why it is in their best interests to work with the asset managers themselves rather than working on their own. Overall, this comes down to service, with 22% of fund selectors now saying that service is a key selection criterion when choosing an asset manager.

Opening this discussion to the floor, conversation focused on the role of asset managers in educating the end client. Broadridge's research shows that this is an area intermediaries and advisers are struggling with, with many noting that unless investors have the necessary level of financial knowledge, then whenever markets are hit by an adverse event, they will not have the patience to stay invested.

Delegates largely agreed that asset managers are failing here, especially when it comes to their ability to describe products in simple terms and effectively communicate what the product does and how it provides value for money. They agreed that use of expert jargon is a massive problem here (and one which the industry is being very slow to address), with customers being provided with endless jargon about their investments as opposed to a coherent narrative covering the risk and return profile of the products they are buying. Nevertheless, the room was not unanimous on this. Whilst many agreed that, as a manufacturer, the burden of responsibility still lies with the asset manager to provide effective product descriptions for use across the chain, some questioned whether communication with the end client was best kept with the intermediary distributors. For these, the disconnect between the end client and the asset manager, which is always two steps removed, is a serious challenge.

Looking more broadly at the value for money asset managers provide above the investment proposition, delegates also noted greater difficulties with larger institutions who are forever improving their internal capabilities and vertical integration. Combatting this will require increased innovation and looking outside the box for solutions to better add value.

Conclusions

- The asset management industry needs to combat industry jargon in all our communication – even for our advisers – and think about innovative ways of spreading this educational message across the chain.
- Overall, there is a burden of responsibility across the industry to improve this, no matter how far along the chain you are from the end client.
- Regulation will only put further pressure on asset managers to address this, particularly in terms of value for money.

9. HOW DO YOU CONSUME YOUR DATA? DO YOU DEVOTE ENOUGH TIME TO REVIEWING YOUR MI REPORTS AND, MORE IMPORTANTLY, DO YOU ACT UPON THEM? ARE THERE LESSONS TO BE LEARNED FROM OTHER INDUSTRIES?

Expert: Paul Poletti, FundsLibrary
Facilitator: Louise Marriott, Lansons

Key message

Data needs to be presented and used in a way that clearly benefits on the retention and gaining of new clients.

Headlines

- Data is clearly important, but there is no accepted usage or presentation style
- The use of data needs to fulfil the aim of gaining and retaining clients
- Asset managers need to improve their knowledge of their end clients

Key themes

The discussion began with a recognition that legacy tech is a big issue, with lots of different parts of data floating around within companies. As a result, people don't know what data they need. It was acknowledged that one of the hardest things to achieve is making sure a company's data structure is right.

This led onto a discussion on how data can be formatted and made useful to clients. For example, firms need to consider what differentiates their data, and clients continue to want factsheets and similar content. There is a need to link the data to a way of presenting it effectively. Part of the difficulty of this is that there is a lack of communication between the data and salespeople.

It was agreed that data can be an effective client retention tool (with a view given that use of data is all about attracting clients, retaining clients, and saving money). However, asset managers have little visibility of end user date, making accuracy in some areas difficult. It was noted that asset managers want to know who is on their share register (or fund register), and there is a fundamental problem with the structure of platforms in this regard.

This led to an acknowledgement that asset managers often do not know how their products are distributed. If an asset manager has a 10-year view, they need to 'own' the consumer and engage with end clients, which has been made more important by fee compression. To do this, they need to be D2C or partner with someone like Amazon.

Improving the use of data has been made difficult by several factors. CEOs are often unconvinced of the need to invest heavily in this area, with US firms seen to be ahead of UK counterparts in this area. It was mentioned that companies need to have a Chief Data Officer. There is also a perception that anything can be achieved using data, but little consideration of the time/cost benefit.

Conclusions

- There is a need to invest more in ensuring that companies have the right data structure, and are using data appropriately
- Data can be useful with retaining clients, but asset managers need to better understand how their products are distributed, and get to a place where they can better engage with end client

10. LIQUIDITY? IS IT CURRENTLY THE MOST USED WORD WITHIN ASSET MANAGEMENT?

Expert: James Crossley, Legal & General
Facilitator: David Masters

Key message

Woodford scandal has prompted a discussion on liquidity and affected the way money managers communicate with clients. RFPs are now focused on liquidity which is the top priority for investors. Asset managers must provide detailed information on what is liquid within their portfolios and how liquidity is delivered.

Headlines

- Asset managers are required to change the way they communicate with clients to address liquidity concerns.
- It is now more important than ever to have honest and transparent conversations with clients about liquidity of different asset classes.
- Structuring less liquid products to ensure a continued flow of capital from investors poses a challenge to asset managers and the regulator.
- Regulation is expected to become more rigorous to prevent liquidity mismatching.

Key themes

The roundtable discussion opened with participants agreeing that the scandal has changed the way asset managers communicate with clients. Elaborating on that point, participants noted that RFPs are now focused on liquidity with asset managers having to provide detailed information on liquidity dealing and pricing of different asset classes and how these would behave in times of market stress.

The discussion moved on to participants commenting on how investors need to balance their need for liquidity and the returns / yield they seek. Liquidity is now a point of concern even to investors who do not require daily liquidity like institutional investors or high net worth individuals. Participants agreed that the scandal caused an industry wide panic.

To tackle this challenge, participants stressed the need for honest and transparent conversations with clients about the liquidity of different asset classes. It is important for asset managers to explain to their clients that if you are invested in e.g. real assets, 90% of the time the asset class will deliver what it's meant to, but that certain risks persist due to the illiquid nature of the asset class.

Participants then discussed the structure of different asset classes and whether long-term vehicles for a fixed term could be a possible solution. ETFs were also debated, and participants agreed that broadly speaking ETFs offer good liquidity – however an economic downturn followed by mass fund outflows could still present a challenge.

The conversation moved on to a debate on concerns around how platforms and internal systems would cope with any proposed new long-term structures. Platforms have no preference for weekly (never mind monthly or quarterly) trading and are also more geared to UK registered funds. Participants also highlighted that platforms should accommodate illiquid assets.

The session ended with a debate on the future of regulation (and what the regulator should have implemented before Woodford) which will be focused on more rigour around daily dealing and liquidity mismatching. Some agreed this will also lead to a greater scrutiny of smaller asset managers who are already under a lot of pressure to meet regulatory requirements.

Conclusions

- Communication with clients should be more open and transparent to address their liquidity concerns.
- Regulation needed to ensure clients investments are protected.
- Structures are needed to prevent liquidity mismatching that can be distributed widely through platforms.

11. HOW TO CREATE REAL CUSTOMER RELATIONSHIPS IN THE DIGITAL AGE

Experts: Chris Cattermole & Andy Creak, InvestCloud
Facilitator: Ralph Jackson, Lansons

Key message

Digitising clients remains a major issue for asset managers, in both the institutional and retail space. Whilst asset managers often talk about 'digital risk' and the overheads needed to get clients online, as an industry we are not talking enough about the risk of NOT digitising when it comes to futureproofing your business.

Headlines

- Progress in digitalisation differs between asset managers in the retail and institutional space. The value for retail customers is stronger, but the ROI is questionable.
- There is responsibility on the asset management industry to show intermediaries the value of digitalisation, in terms of profitability but also relationship building.
- Financial services companies spend so much time incentivising clients to go online, however the best success comes from simply providing clients with a code and effectively communicating with them exactly what to do and how to do it.

Key themes

In the retail space, there is a massive opportunity to digitalise the investment journey, particularly when it comes to retaining clients. With the advice gap growing, easy access solutions are growing in importance and delegates agreed that whoever can get their clients on a sustainable digital journey will be the long-term industry winners. However, institutional asset managers are much less incentivised to make the change as the incremental cost saving in the short term is less profound.

This is an important distinction, as ultimately the larger share of income for asset managers comes from the institutions. Looking at the challenges faced by the likes of Nutmeg, part of the issue is that, while the platform

is popular with individual investors, each client brings no more than £12K to the table. Given the massive overheads required to effectively digitise, the value this brings is not always substantial enough to sway management teams to change tack. As there is not a guaranteed ROI, digitalisation is not sitting high enough on the agenda.

InvestCloud believes digitalisation will become a more prominent topic for institutional managers as we move away from defined benefit. Delegates in this space reported that their largest issue is getting the institutions and intermediaries themselves online. The industry is ultimately still a "people business" and advisers report that when they don't get as much facetime from their clients it makes it harder to understand and empathise with investment goals, as well as demonstrate their value for money. Yet some advisers are tackling this through secure digital messaging and other solutions.

Delegates agreed that there is responsibility on the asset management industry to show intermediaries the value of digitalisation, in terms of profitability but also relationship building. Fund selectors are telling us that they want faster and simpler access to information, and so asset managers should consider how they can use digital to convert this and show selectors that they are listening to their needs.

When it comes to converting a paper client to a digital one, InvestCloud's advice is: just tell them. Financial services companies spend so much time incentivising clients to go online, however the best success comes from simply providing clients with a code and effectively communicating with them exactly what to do and how to do it. Furthermore, asset managers should use big data to look at their customer journeys and break down their findings by different customer groups. What prompts might each group respond to, and when?

So, what can asset managers do better? Delegates agreed that as organisations, they were not taking a long enough view – thinking about the benefits of digitalisation over five years, not 20, and this was why digital solutions were not getting the investment needed. Experts from InvestCloud added that when starting on the digitalisation journey, it's important to address the cultural shift needed and not to let perfection be the enemy of good. Organisations need to stress that it's okay to get it wrong and implement a test and learn approach. Too many organisations becoming paralysed in the decision stage, wasting millions by leaving their digital solutions sat in development, as opposed to getting them live and addressing issues as they come.

Conclusions

- The biggest challenge when it comes to digitalisation in asset management is getting intermediaries and advisors to also move online. To combat this, asset managers need to better communicate the benefit to their clients in term of efficiency and access to better resources.
- Many asset managers are put off by digital risk, as there are too many reasons why they shouldn't invest in the infrastructure systems to fully digitise their businesses. Not enough companies are thinking far enough ahead to foresee the risk of NOT digitising.
- Asset Managers need to shift their culture to not let perfection be the enemy of good. Digitalisation requires a 'test and learn' approach.

12. WHAT ABOUT THE CHANGES FROM WITHIN THE INDUSTRY?

Expert: Dorian Hughes, Independent (ex Blackrock)
Facilitator: David Masters, Lansons

Key message

The industry has failed to become properly diverse, by gender, ethnicity, and age, and is still failing to properly appeal to women, ethnic minorities and younger people.

Headlines

- Diversity is still a huge issue in the industry.
- The industry is failing to appeal to young people.
- There will be continuing divergence, between the larger 'vanilla' products, and the higher margin, specialist products.

Key themes

Two themes dominated in this discussion: diversity in the industry, and how the industry appeals to younger people.

It was acknowledged that women are still unrepresented throughout the recruitment pipeline, despite evidence the presence of women can make companies safer and more successful. Businesses' makeup should reflect 2019, regardless of sector or client base. It was mentioned that it is "tragic" we're still talking about gender and ethnic diversity in 2019. On the subject redressing this, it was noted that employment targets, rather than quotas, can be an effective tool.

The discussion then moved onto the need to educate younger people about the industry and what it does. The industry cannot afford to alienate them, with it being mentioned that unlike in the past, investment advisers no longer 'inherit' their clients' children. It was agreed that millennials and Gen Z are savvy, and advisers and asset managers are not appealing to them. Instead, app-based challenger banks are picking them up. Advisers therefore need to adapt to appeal to young people. While the apps and tech platforms are appealing now, it was suggested they will need a face to face proposition at some point.

On the future of the industry, it was mentioned that there will be a divergence. The big, large cap trackers will be 'supermarketed'. Higher value, specialty services will be kept separate. For example, there is a drive toward private equity, as it is more profitable.

On the role of the adviser, it was suggested that IFAs should avoid largely talking about investment as people want more holistic advice, such as pension planning, etc. Around regulation, there was a view that IFAs can't be regulated as there are too many of them. This has resulted in the FCA focusing regulation on product providers.

Conclusions

- The industry urgently needs to do more to become more inclusive and more appealing to women and young people.
- The future of the adviser business model is in question, partly because so few young people now choose it as a career.