Asset managers face five headwinds: Casey Quirk

By Editorial Staff *Thu, Dec 8, 2016*

Except in the Chinese market, the rate of organic growth in global assets will likely fall below one percent in the near future, according to a new report from the unit of Deloitte Consulting.

Unprecedented fee compression and slow growth will force many asset managers worldwide to cut costs and transform their business strategies to survive, according to a new white paper from Casey Quirk, a unit of Deloitte Consulting LLP.

In “Survival of the Fittest: Defining Future Leaders in Asset Management,” Casey Quirk defines the characteristics of the industry today:

- Lower capital market returns
- Shrinking growth in assets to manage
- Widespread portfolio de-risking
- Increasing government regulation of investment advice providers
- Disruptive technologies that circumvent traditional asset managers

Organic growth—new assets for managers to win—already has slowed from an average rate of 3.5% annually worldwide before the 2008-2009 financial crisis to 1.7% from 2009-2014, and will likely fall below 1 percent in the near future, the report said.

The exception is China’s asset management market, which will likely grow as fast as the rest of the world combined, according to the Casey Quirk analysis.

Additionally, near-zero interest rates and the end of a secular surge in growth worldwide could slice future returns in half. Asset managers and advisors will need to slash fees to maintain the same long-term ratio of fees to returns, which historically has hovered around 25%. Casey Quirk predicts median profit margins for asset managers will drop from 34% to 28% in five years.

Eighty-one percent of the $44 trillion in retail assets in the United States and European Union are expected to be subject to a fiduciary standard by 2018 versus only 33% in 2015, according to Casey Quirk’s research into the effect of the U.S. Department of Labor’s (DOL) fiduciary rule and similar legislation passed in the European Union under the Markets in Financial Instruments Directive (MiFID).

“Asset managers face the strongest headwinds yet as an industry,” but “one-third of asset managers are still growing their market share by embracing new, differentiated strategies that reflect changing realities, as well as supporting products and services that appeal to skeptical investors," said Ben Phillips, a principal at Casey Quirk, in a release.

The four key characteristics of leading asset managers are:

- A broader investment toolkit that has transitioned from legacy benchmark-oriented products to in-demand actively managed capabilities
- A strong brand with well-regarded fiduciary and consumer attributes built on trust, investment leadership, and an ability to regularly meet investor expectations about outcomes
- A customer experience that highlights the firm's value-added services for the investor
- Data about customers and markets that fuel proprietary analytics

According to Casey Quirk, successful asset managers should:

- Allocate resources to new growth initiatives and away from outmoded product lines and client segments that are experiencing outflows
- Streamline operations for efficiency; acquire new skills and technologies through M&A
- Diversify investments with a broader array of active capabilities and strong product development processes
- Digitize distribution
- Build a consumer-oriented fiduciary brand