What can Institutional and Retail Learn from Each Other?

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Setting the scene

- Most marketers regard brand as a driver of growth in retail asset management, but some view it as less important in the institutional investment space.
- Meanwhile, factors such as having solid, rather than spectacular performance and a stable fund management team often carry greater weight in the institutional world.
- What lessons can institutional and retail marketers learn from each other?
- Along with the growth of DC pensions, how can the approaches support each other?

The expert panel debated these issues:

Perspective from *Christian Zeinler, Partner, McKinsey & Company*

- In the broader perspective, the Asset Management industry is a growth industry with approx. EUR 40 trillion of untapped investments.
- In product terms, these are low cost with efficient implementation in the retail space. In the institutional space, traditional active equity products have been squeezed out by regulation and replaced by an increase in the passive space.
- There has been a greater demand for alternatives in the wholesale market because of interest rates.
- There has been good growth on the institutional side seen by an increase in more sophisticated products and greater concentration of products.
- In the retail market there has been a retreat from guided architecture.
- Regulation has made it harder for distribution due to RDR and Mifid.
- The margin pressure seen in the UK will spill into Europe.
- Due to changes, the institutional space has seen a move to more focused models experimenting with D2C, targeting Asia and M&A activity.

Perspective from *Heather Hopkins, Director of Research, Platforum*

- The retail market = £785 billion broken down into 81% advisers, 10% D2C and 9% direct propositions.
- There has been a rise in the number of / use of platforms since RDR with ¾ of new business going through a platform.
- There has been a shift in investment selection. Advisory firms are taking over 1-man-bands and these advisory firms have agreed centralised investment propositions.
- The increase seen in outsourcing has plateaued. This has been replaced with an increase in investment insourcing through investment committees / DFMs.
- There has been an increase in passive investment. These products now make up 18% of platform assets.
- Lower take up in D2C platforms.
- There is a potential to return to more 'tax return' focused strategies (e.g. offshore bonds) and because of the shift in demand we may see changes in how advisers advise customers.
- In the industry there has been a consolidation of platform markets, e.g. Cofunds / Aegon, Standard Life / AXA, Aberdeen and Parmenion. This M&A activity has not been so much about scale but more about 'smart consolidation'. Aegon saw a need for diversification into the advisory space and the collaboration with Cofunds enabled them to reach a different customer set. The acquisition of Parmenion by Aberdeen enabled them as an active fund manager to get into the distribution arena and target intermediaries.
- Advisers are very brand conscious. It is important that their customers can recognise a brand.

Perspective from *David Walker, Senior Writer, Insurance ERM & Insurance AssetRisk, Field Gibson Media*

- Insurers are looking for asset managers and in particular for non-mainstream products. In the current environment, core investments are not yielding enough. The insurers need more income and yield.
- 16-20% of insurers use independent managers for skills and expertise. There are somewhere between 20-30 asset managers that manage substantial insurer assets. The relationship is based on 'trust' and the trend is for insurers to hone their focus on fewer and fewer asset managers. As a result, some asset managers are now focusing products on insurance groups – i.e. creating a strong brand for insurance. Brand is important here as these relationships are formed by word of mouth and built on trust. If the Board of Insurance Groups recognises the brand, it is a lot easier.
- There is a blurring of lines in insurance between institutional and retail spaces. They are struggling to get their investments to yield enough which has seen a shift in products. There is a greater focus on Asia and Infrastructure or on index-linked products where the guarantees are less. There is less of a separation now – an asset that backs a life policy also now needs to play a part in returns for retail. Therefore there needs to be a blurring of the marketing and distribution of products.

Snapshots from the *Q&A* session

Sophistication

- The institutional industry is classed as sophisticated because they are looking for solutions and more advanced products. The wholesale market consists of fund selectors who have a similar level of sophistication. Customers have a lower level of knowledge and are therefore seen as unsophisticated
- Sophistication lies in 'fund selection'. Advisers are financial planners and the sophistication is held by the fund pickers. Advisers use experts for fund selection which adds sophistication to the industry. At the same time, however, there has been a rise in Multi Asset Funds, and advisers say these are for the unsophisticated client.

DC

- DC sits in the middle of institutional and retail. There is a need for marketing and distribution to work together a bit more across different channels, and not to separate as has been happening.

Pricing

- Platform prices are coming down. Focus on asset allocation and asset management means a move towards institutional pricing. Will platforms start to offer guided architecture? Some platforms see this as part of their role e.g. creating a select list of funds.
- General consensus that marketing doesn't really lead on price or performance and that these aspects are dealt with by Sales.
- Advisers do mention pricing – however, there are diverse points of view on this between different regions.
- Institutional price and performance may be talked about at the product level as proof points but not for broader marketing purposes.

Active vs. passive

- There has been a move towards passive because of the lower fees. Governance issues have also instigated a move towards passive funds.

Brand

- Retail / wholesale are influenced heavily by brand; institutional not so much.
- For the wholesale market, brand is the top criteria for selecting fund managers – trust and notoriety. For theinstitutional market, performance and track record is top and brand is bottom criteria.