

Managing the next step

Donal O'Sullivan discusses how Ireland's role in the global asset management industry must evolve.

As asset managers look to the future, they are faced with challenges that shape business models as well as market opportunities for them to grow their businesses. Ireland's position as a centre of excellence must continue to evolve if it is to move up the value chain.

One of the key market opportunities will arise from the looming pensions' crisis. Increasing life expectancy and the political sensitivity of rising retirement ages are combining to create an explosive issue, as a shift in policy by governments and companies results in the transfer of these longevity risks onto individuals.

The current EU pensions' deficit stands at €1.9trn. To cover this shortfall, compulsory pension schemes will need to be introduced and enhanced over the next 10 years, something that will have implications on both the European and global asset management industry.

With the promise of new money, you might be forgiven for expecting a push for the top or a rush of new market entrants. However, in reality, regulation and increasing investor demands are forcing managers to invest in infrastructure, operations and compliance, meaning an increase in their base business costs.

Market conditions have also been tough and, with lower than expected returns, investors are questioning asset managers' value propositions - and, as a consequence, the fees that they charge. The cost equation needs to be attacked from two sides - cost containment and revenue replenishment. We believe the resultant margin squeeze will force managers to rethink how they operate their businesses.

Business lifecycle

In terms of the 'business lifecycle', the asset management industry is no different to any other. As you grow, your fixed costs rise, your ability to innovate declines and the pursuit of growth takes you farther and farther away from the desires of your customers.

Mid-sized asset managers seem to be most adversely affected by these challenges, as they need to invest to build. Smaller managers tend to have lean operations supporting a single strategy, while larger managers have to scale to best leverage their infrastructure.

Considering these threats and opportunities has influenced my thoughts on



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the central themes that need to be addressed in terms of the future of the asset management industry and how Ireland can plug into this.

Businesses can be blinkered by focusing solely on growth. Often isolated from their clients, businesses develop products that they 'think' their customers want. Top asset managers understand that the customer is central to the product decision and have oriented their businesses around their customers, looking to provide holistic solutions within an integrated service model. They understand that clients want asset diversification, traditional and alternative, income and capital protection and low-cost transparent products such as ETFs and index funds.

With changing customer needs, it is very easy to think about being a one stop shop, and this is happening as we witness convergence between traditional and alternative managers.

Accessing new channels

While managers need to assess their current distribution channels, they also need to open new ones that will aid them in creating products that appeal to a wider range of customers. AIFMD and other forms of regulation can force their hand, as evidenced by Germany recently blocking the

distribution of Caribbean funds within its borders. This will force affected managers to develop European fund products to replenish their loss of earnings.

All things being equal, asset managers survive by their ability to read the market. Operating within an industry that creates wealth through daily/hourly volatility means asset managers are conditioned to gather, digest and make decisions on matters in the present. Otherwise: they lose.

The asset management industry is littered with entrepreneurs who have backgrounds in large investment banks, pension funds and other asset managers. What has made them special is their ability to generate profits on a regular basis.

Being in ultimate control of their own organisation is what lures them to establish their own businesses, but this changes their focus and behaviour, essentially transforming them from an entrepreneur to a business owner/manager. Not only are they responsible for managing money, now they must also build a brand and client base while being distracted by the daily pressures of running a business, including managing a work force, building out operations and ensuring compliance with laws and regulations.

Driving innovation

The funds industry in Ireland has a long history of innovation, building out bespoke solutions and platforms for asset managers, and this is something that we must continue to excel in.

Ireland has already moved significantly along the value chain, offering regulatory, middle office and transparency reporting support, and significant opportunities for evolution still exist. The future should entail the provision of front office, enhanced IT and/or even investor relations support.

Being a destination with such enhanced infrastructure that may enable these entrepreneurs to plug in and play would continue to demonstrate our jurisdiction's value proposition. In addition, in this environment, business is stickier as we look to becoming a manager's strategic partner and a key enabler as they look to build up their businesses. This would allow them to focus on doing what they do best, confident that the operational complexity and infrastructure is being handled by others who also know best. ■