

The digital revolution, a challenge of competitiveness for asset management companies

INNOVATION COMMITTEE

J U N E 2 0 1 8

► *Like many other economic sectors, the asset management industry is faced with the surging digital revolution in all areas of its activity. The use of technologies such as Blockchain, Big Data and artificial intelligence represent opportunities in terms of operational efficiency for its businesses and improvement in customer service. In a highly competitive global market, it gives the French financial sector a significant competitive edge.*

The Innovation committee has published a guide entitled *“The Digital Transformation of Asset Management Companies in 3.0 companies”*, and a report entitled *“The New Industrial Revolution of the Asset Management Industry designed to Savers needs”*.

Both these documents are available on the AFG’s website: www.afg.asso.fr

The Association Française de la Gestion financière (French Asset Management Association – AFG) has started looking at the digital impact for a long time, via its Economic Research department in particular. Faced with accelerating developments and the emergence of operational solutions, the AFG stepped up its action in 2017 with the launch of a specific initiative dedicated to innovation, chaired by Muriel Faure. By consolidating its action under this initiative, the AFG is seeking to foster interaction and share expertise in relation to these increasingly cross-disciplinary concepts.

The aim of AFG’s Innovation committee is:

- to raise asset management professionals awareness about the challenges and opportunities offered by this digital revolution,
- to make proposals regarding areas in which the asset management industry could see innovations or dramatic changes,
- to promote an understanding of the technologies and their applications using concrete examples.

The most recent work of the Innovation committee relates to the development of:

- *Blockchain* for asset management, particularly in its ability to provide better knowledge of end investors and better control of the distribution of investment funds;
- an attractive regulatory framework for ICOs (Initial Coin Offerings), i.e. fundraising campaigns that are carried out using a distributed ledger technology (DLT) and result in the issue of tokens;
- digital financial assets as a new asset class in which managers can invest.

As part of the Innovation committee, conferences are held regularly with Fintechs, a combination of the words “finance” and “technology”. These companies are contributing to the digital transformation of the financial sector, and particularly the asset management industry. These conferences, which focus on specific topics, are an opportunity to identify new players whose solutions satisfy a need of the profession, such as Big Data in financial management, marketing and the investor experience, regulatory reporting and communication with investors, financial analysis and research funding, customer knowledge and investment strategies, and so on.

GUIDE: THE DIGITAL TRANSFORMATION OF ASSET MANAGEMENT COMPANIES IN 3.0 COMPANIES

Integrate digital technology into the DNA of asset management companies

EXECUTIVE SUMMARY

The asset management environment is changing at a rapid pace which, with the rise of digital technologies, is driving the emergence of new business models developed by asset management companies (SGP) and new players (Fintechs, Internet companies, etc.).

The asset management industry is the third financial sector – after retail banking and means of payment/money transfers – that stands to be the most disrupted by Fintechs and GAFAM by 2020.

With this guide, our goal is to promote greater awareness among professionals about the disruptive aspects of digital technology. It is also to suggest areas of exploration that allow them to better understand the challenges and opportunities in order to take appropriate strategic decisions.

The guide consists of four parts:

1. A review of the asset management company's activities with an analysis of the value chain;
2. The contribution of digital technology to the asset management company's organisation, with emphasis on the opportunity to reclaim knowledge of the customer, which today is outsourced to distributors and depositaries/account-keepers;
3. Ways in which digital technologies, and particularly regtechs, make it possible to comply with the growing number of regulatory requirements in the industry;
4. Ways in which the industry's digital transformation is a reality, including examples and options for new business models, with a focus on developments at the international level.

The French asset management industry is dynamic and creative and offers a wealth of expertise. French asset management companies, whether independent or subsidiaries of a financial group, are already recognised for their digital innovation, either in terms of their management expertise or their use of digital technologies to attract and serve their customers and prospects.

The digital transformation of the asset management industry is under way. SGP 3.0 is coming.

The role of the AFG as a professional association that represents all asset management companies in France is to help its members play an active role in their transformation by offering them areas of exploration.

Throughout the guide, we have developed areas that are summarised in 12 points broken down into four themes: **Organise, Invest, Pool** and **Serve the customer**.

These areas of exploration can only really be developed if the regulators and public authorities take it upon themselves to adapt the regulations to the disruption caused by digital technologies. Pooling, in particular, can only really be developed under this condition. These areas of exploration will enable **digital technology to become part of asset management companies' DNA**, making them agile and profitable next-generation 3.0 companies.



THE NEW INDUSTRIAL REVOLUTION OF THE ASSET MANAGEMENT INDUSTRY DESIGNED TO SAVERS NEEDS

EXECUTIVE SUMMARY

Throughout its history, the asset management industry has not undergone dramatic changes and is coming out of a particularly favourable 15-20 year period. However, this does not mean it is immune to “revolutions”.

That is why we had no reservations about entitling our report “*The New Industrial Revolution of the Asset Management Industry designed to Savers needs*”. This title is meant to raise questions, but when an industry does not fully meet its customers’ new requirements, when fundamental changes have occurred in the financial markets, when the models that worked so well in the past are in difficulty, when the younger generations must start saving earlier and earlier – but now want to do it mainly via the mobile digital interface of their financial institution or Fintech – and when digital and new technologies make it possible to do everything differently and less expensively, **there is every reason to talk about an industrial revolution.**

An industrial revolution is a shift from an industry in which investment funds packaged to beat or replicate a market index are produced to a service industry capable of offering each saver an investment solution tailored to his or her savings goals, at the lowest possible cost, in a permanent dialogue, using new digital technologies.

It is a dramatic change that affects our entire industry, including its management, distribution, customer service and communication infrastructures. It also affects regulators, which have historically been too focused on products and on eliminating all risks, at the expense of any expected returns in a world where “risk-free” interest rates have become negative. Lastly, it affects savers themselves, who must start saving earlier and in a much more informed way than in the past.

The aim of this report is to suggest ways in which to respond to this challenge and to outline a few areas that everyone can explore on their own. This report is based on the most recent academic studies in the area of investment allocation, which we will compare with the studies conducted by managers and the proposals made by Fintechs.

It provides an analysis of the challenges for individual savers, for whom one of the key objectives is to have additional alternative resources when they retire. It shows how digital technology can be used to understand each saver’s situation and monitor it over time by creating a permanent dialogue with the saver in order to support his or her savings goals, and proposes an action plan and projects that can be launched by the AFG.

We are convinced that it is an industrial revolution for the asset management industry, but also an extraordinary growth opportunity given that savers’ unmet needs are immense. To ensure its success, we believe that the following four topics need to be explored in depth by the AFG and its members:

- **Improvement in customer knowledge approaches and tools** while respecting the confidentiality and ownership of private data and ensuring its proper use
- **Building a dialogue with savers** using new digital technologies
- **Financial education** of individual savers
- **Development of a regulatory framework consistent with this industrial revolution**, with a shift from a standardised product to an individualised investment solution that allows greater risk-taking over the long term.



RAPPORT



The French Asset Management Association (*Association Française de la Gestion financière, AFG*) is the professional organisation representing the French asset management industry.

Asset management is about helping retail and professional investors to provide for their future and achieve other long-term goals. Individuals and organisations entrust their savings to asset managers, who seek to increase their value by investing in the real economy via companies' shares or bonds, government bonds, and infrastructures' assets.

The French asset management sector is the largest in continental Europe: 630 asset management companies employ directly and indirectly 85,000 people and invest on behalf of their clients up to 4,000 billion euros in bonds, shares and other assets.

More than 50% of the management companies distribute their funds abroad. More than 30% of the assets managed by our members are issued by corporates or states of the Euro zone (excluding France), which makes our industry a key source of funding for the European economy.

AFG is an active member of EFAMA and PensionsEurope.