

# **STATE OF PLAY IN THE ASSET MANAGEMENT INDUSTRY IN EUROPE WITH A FOCUS ON MiFID II AND CMU**

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**Asset Allocation in Europe:  
What challenges and opportunities lie ahead?  
CEPS – ECMI Task Force**

**Brussels, 14 June 2017**

# A State of play in the asset management industry

# Background

## Publication of 9<sup>th</sup> edition of EFAMA Asset Management Report

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### Methodology

- ❖ Detailed data at end 2015 collected from 17 member associations, accounting for 86% of total AuM in Europe
- ❖ Data from McKinsey & Company and BCG used to estimate assets in other countries
- ❖ Growth in net assets of investment funds in 2016 used to estimate total AuM at end 2016



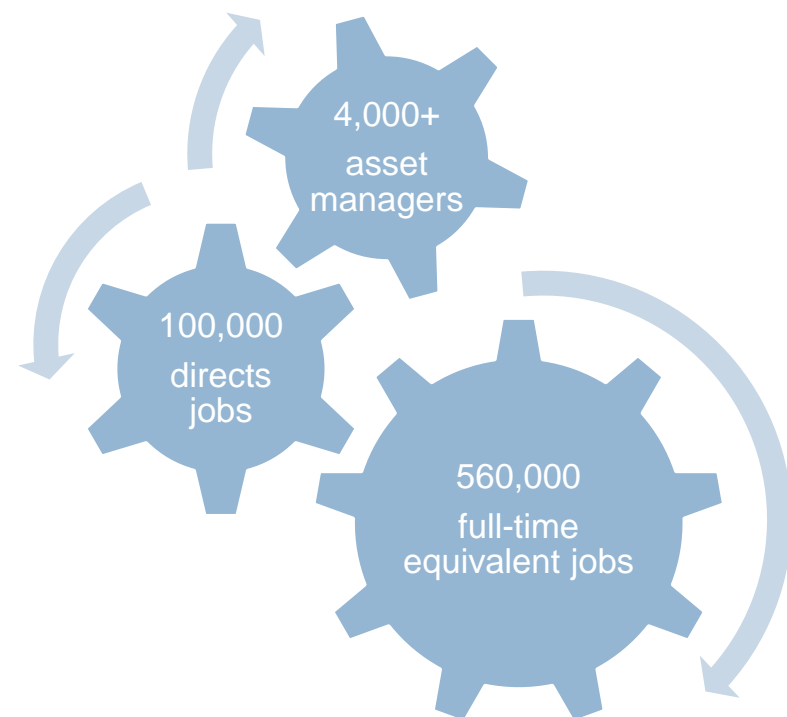
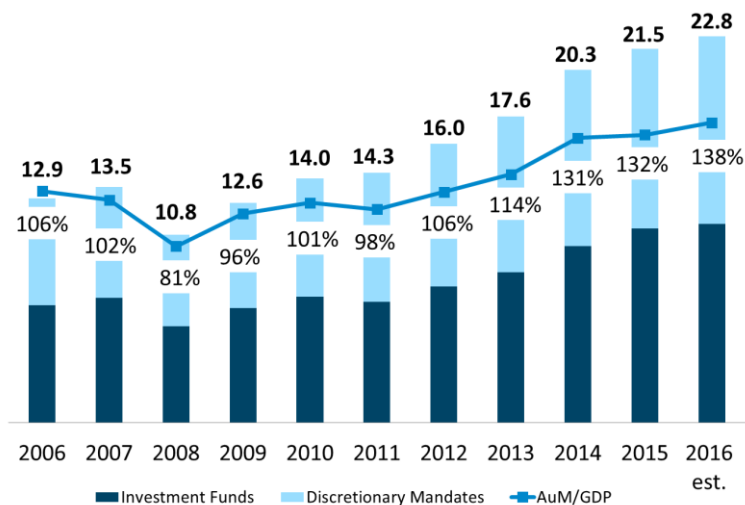
Source: <http://www.efama.org/statistics/SitePages/Asset%20Management%20Report.aspx>

# Size of the industry and recent evolution

Total AuM has grown steadily since 2008

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Assets managed in Europe  
(in EUR billion and in % of GDP)

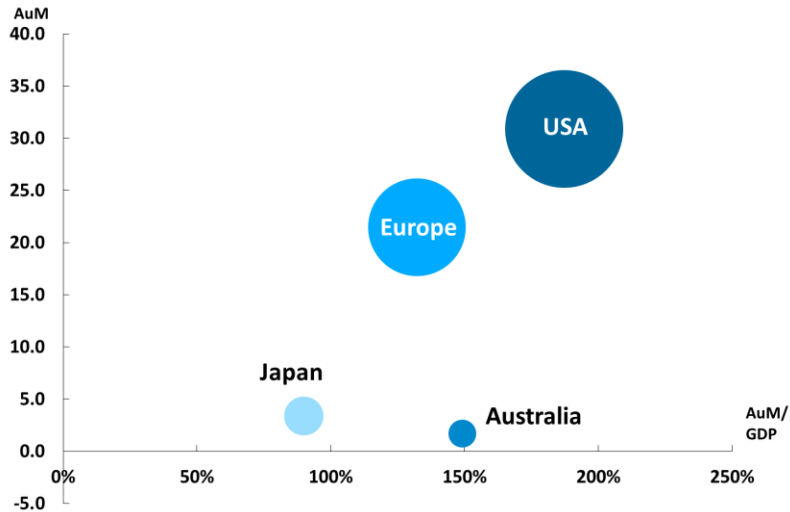


# A global comparison

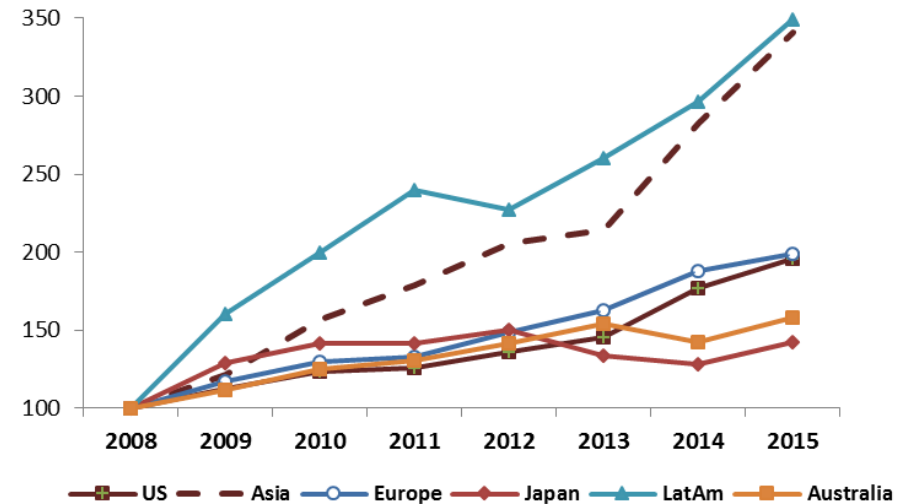
Europe is the second largest asset management market

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AuM (EUR billion) and AuM/GDP (%)  
(End 2015)



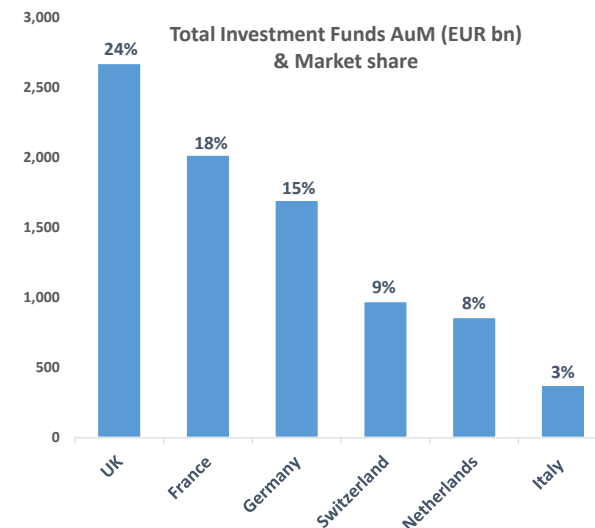
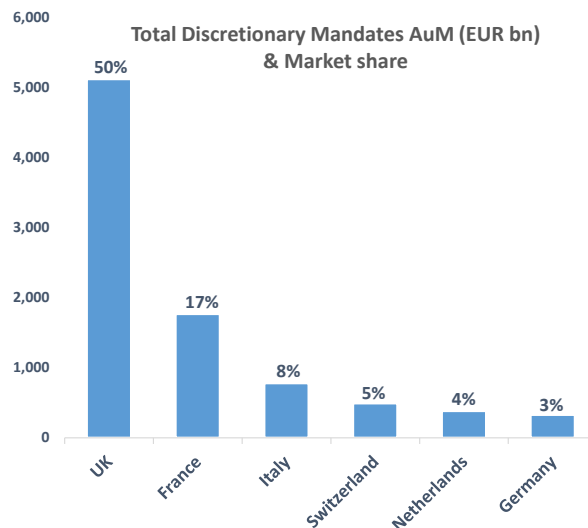
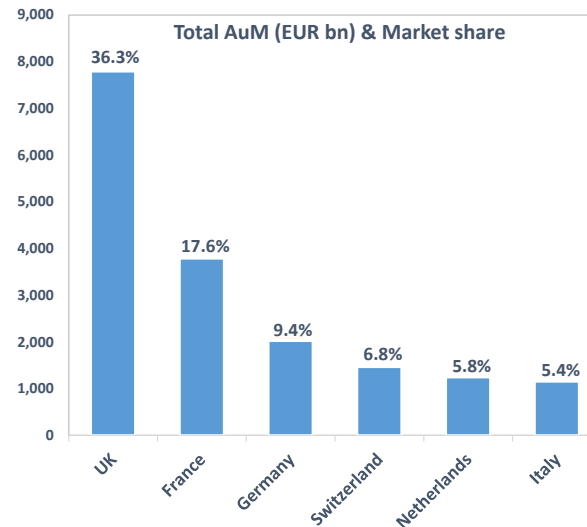
Global AuM Growth Index  
(2008 = 100)



# Where are the assets managed in Europe?

## AuM above EUR 1 trillion in six countries at end 2015

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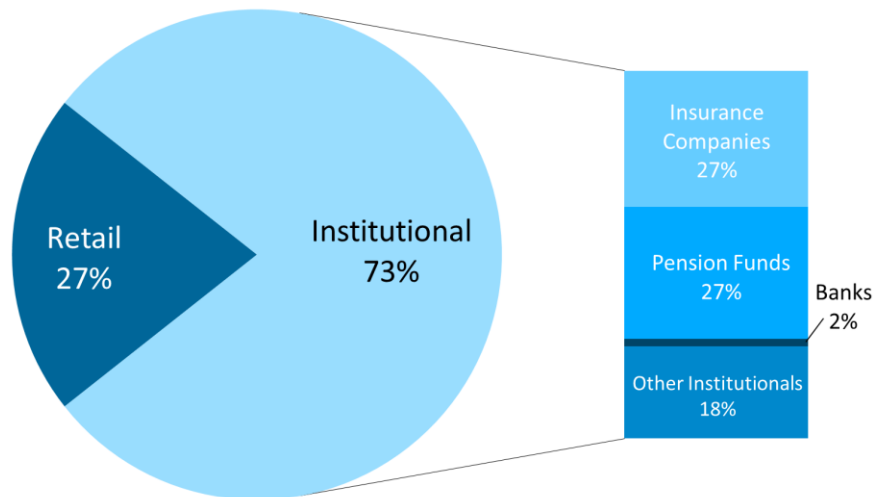


# Who are the clients of the industry?

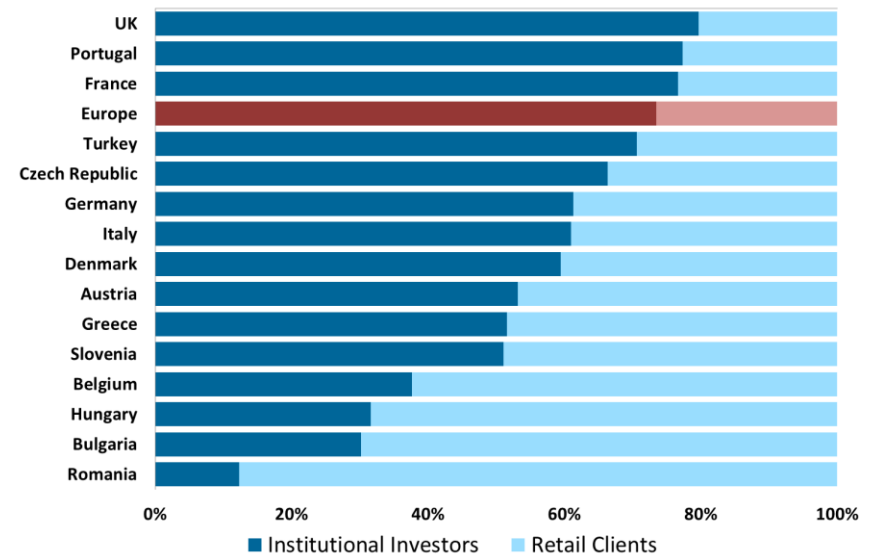
## Institutional clients owned 73% of AuM at end 2015

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Breakdown of Clients by AuM



Breakdown of Clients by AuM across Europe

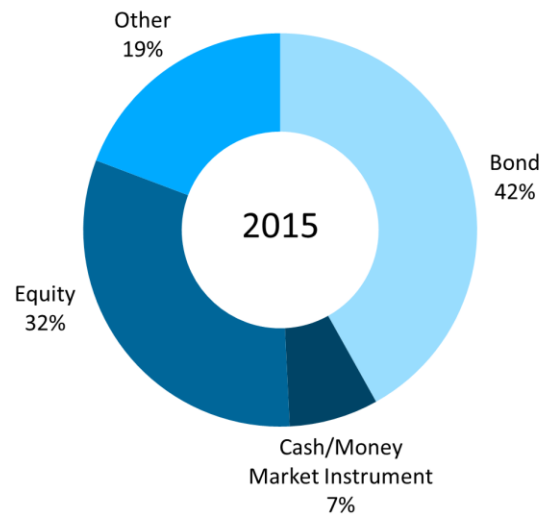


# Asset allocation in total AuM

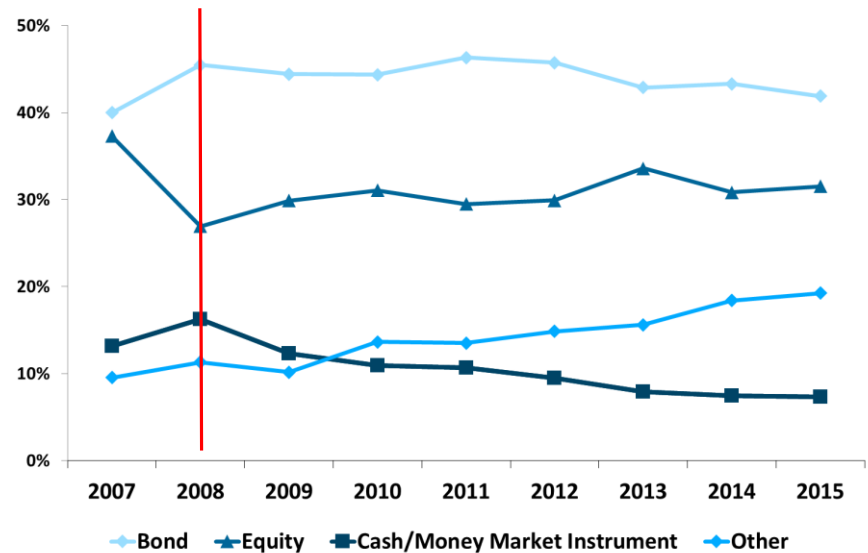
Bond is the preferred asset class

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Asset Allocation



Evolution of Asset Allocation



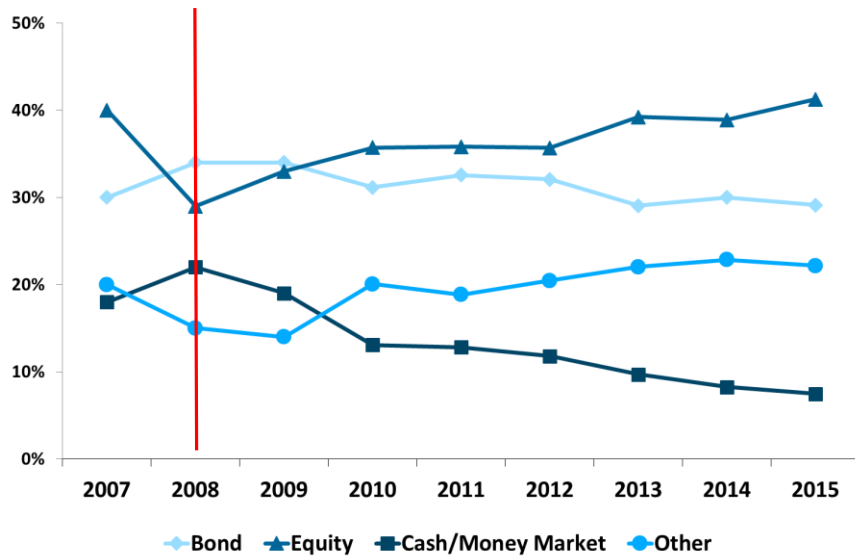


# Asset allocation in funds and mandates

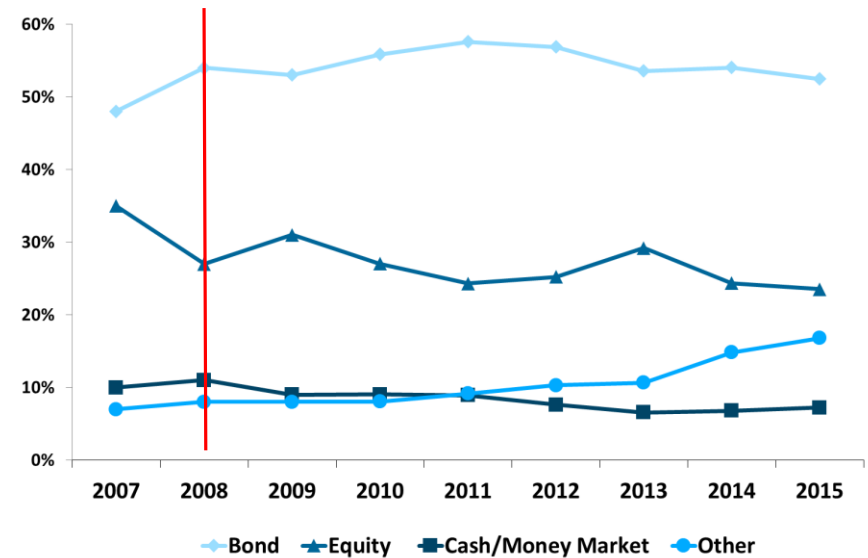
## Relatively high equity exposure of investment funds

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Asset Allocation in Investment Funds



Asset Allocation in Discretionary Mandates

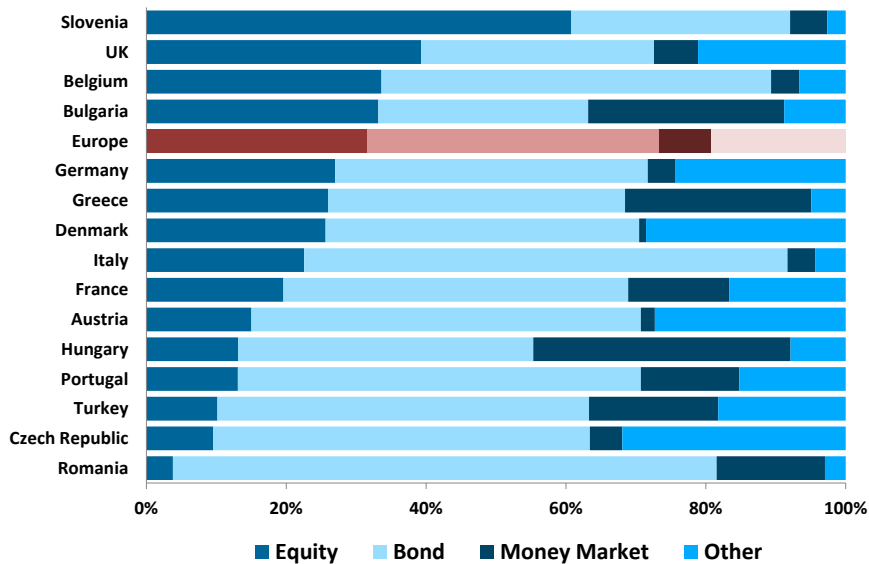


# Asset allocation by country

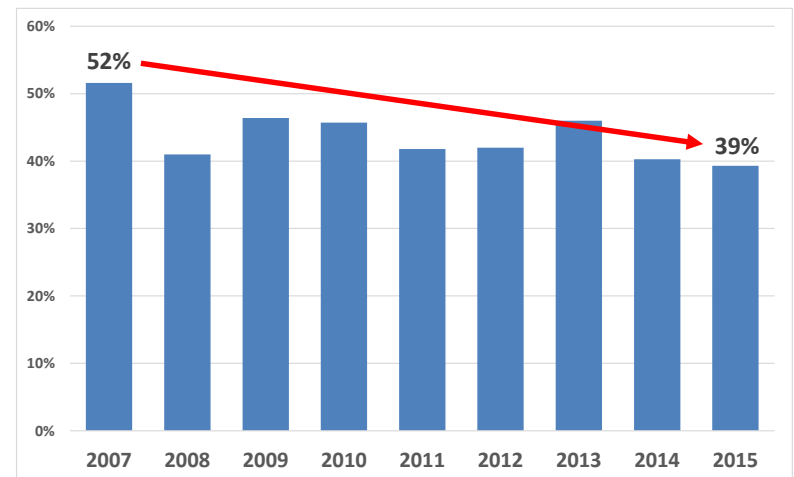
There are big differences between countries

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Asset allocation at end 2015



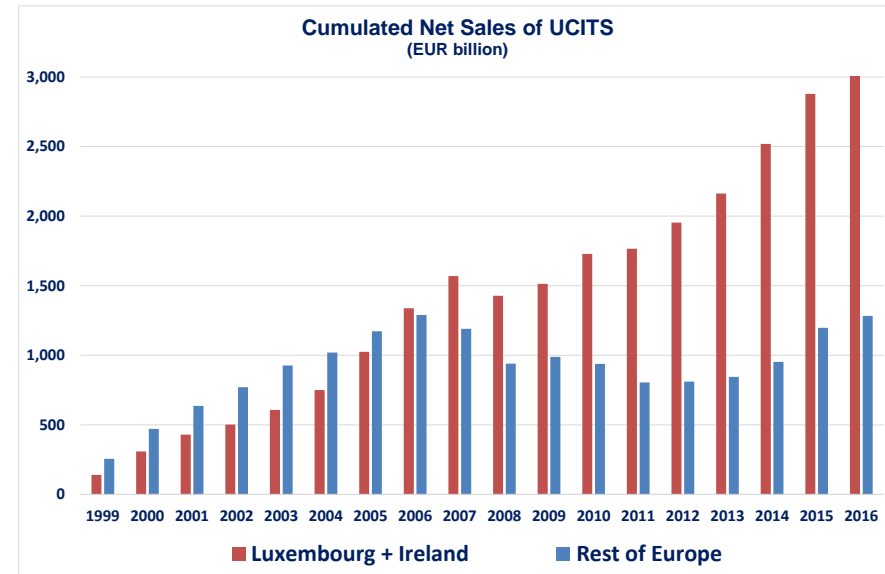
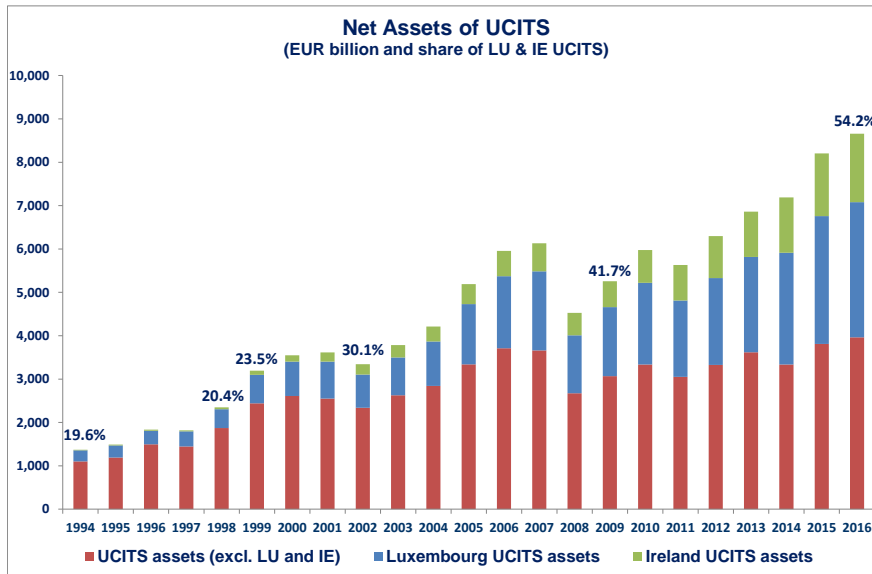
Share of equity in AuM managed in the UK



# Focus on UCITS

## Growing importance of cross-border UCITS

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**B**

Major drivers of change in the industry:  
Focus on MiFID II

# Key drivers (re)shaping asset management

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# Post crisis financial reforms

Huge changes in EU legislation

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# EU agenda for asset management

More work remains to be done

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## Upcoming workstreams

Cross-border distribution of investment funds	Assessing the EU retail investment product markets distribution channels (advice, costs & fees)	Action Plan on retail financial services	MMF Regulation Level 2
ELTIF Level	AIFMD review	EMIR review	CRR2 / CRD review
UCITS V review	ESAs review: governance and financing	Review of the EU macroprudential framework	Benchmark Regulation Level 2

## Emerging themes

EU strategy on sustainable finance

Fintech/Digitalisation

# MiFID II

## Importance for asset managers

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### Asset management services

Asset manager managing segregated mandates (i.e. portfolio management)

Asset manager managing UCITS

Asset manager managing AIF

MiFID

UCITS Directive

AIFM Directive

### Distribution of financial products (i.e. PRIIPs)

Distribution of financial instruments (e.g. UCITS and AIFs)

N.B.: Distribution of insurance instruments (incl. investment-based insurance products)

MiFID

Insurance Distribution Directive (IDD)



# MiFID II

## Importance for distributors

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Fund promoters



Financial  
intermediaries



End investors



MiFID II will reshape the distribution landscape

# MiFID II

## Key features of the new distribution landscape

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### □ Main goal

- ▣ Improve investor protection by increasing fee transparency and removing conflicts of interest

### □ Key measures

- ▣ **Inducements**: forbidden when the distributor is providing independent advice
- ▣ **Quality enhancement**: non-independent distributors must enhance the quality of the service to the client
- ▣ **Transparency**: both independent and non-independent distributors will have to inform their clients about product and distribution (ex-ante and ex-post) costs
- ▣ **Target market**: fund promoters must define the target market for their products

# MiFID II

## Overall preliminary assessment

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### □ Increased disclosure, reporting and compliance costs

- ▣ Higher market-entry costs for asset managers
- ▣ Complex reconciliation between the PRIIP KID data and the MiFID II requirements (imperfect alignment)
- ▣ Both independent and non-independent distributors will have to find ways to control costs to maintain profitability

### □ Power shift from asset managers to distributors

- ▣ Fund selection and asset allocation driven by distributors
- ▣ Pressure on fund managers to offer low-cost, high-quality funds
- ▣ Increased pressure on distributors to offer passive funds to contain costs

### □ Overall impact on retail investors

- ▣ Investors will benefit from greater fee transparency and focus on “quality enhancements”
- ▣ Given the low levels of financial literacy, not all retail investors will benefit from increased disclosure
- ▣ Non-alignment between MiFID II and IDD will create level-playing issues between investment and insurance products
- ▣ Special attention needs to be given to emergence of an “advice gap”
  - Independent distributors will focus on higher-end clients ready to pay for advice
  - Investors with limited assets will need to rely on non-independent distributors
  - Non-independent distributors are likely to enhance their services by offering automated “robo-advice” to reduce costs

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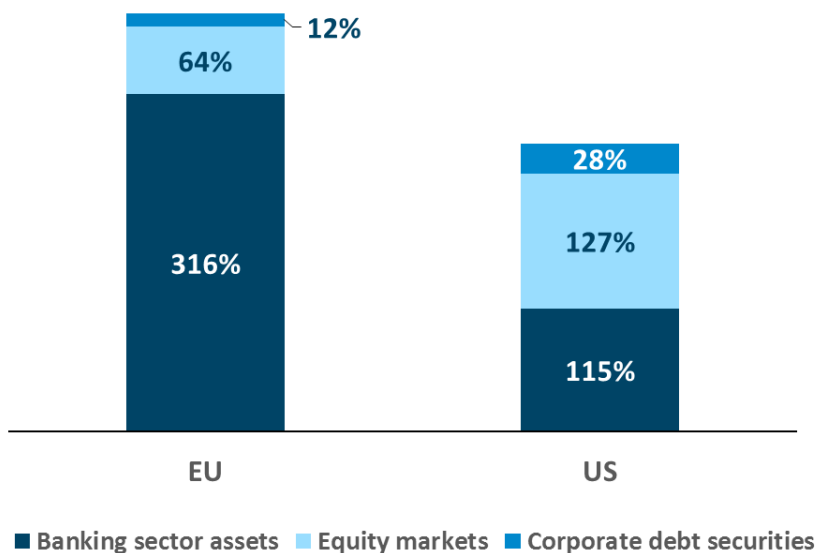
Major drivers of change in the industry:  
Focus on CMU

# CMU: a twofold problem

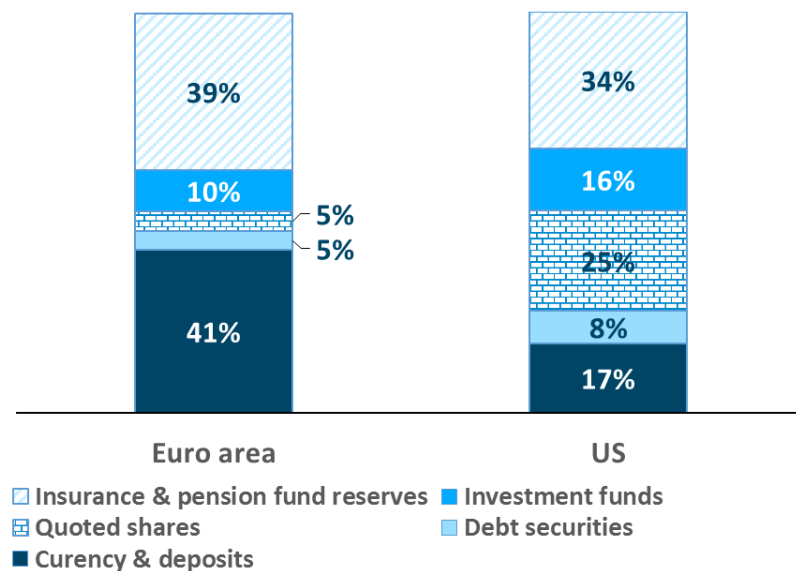
## Excessive reliance on banks

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Financial Sector Simplified Structure <sup>1</sup>  
(% GDP, average 2010-2014)



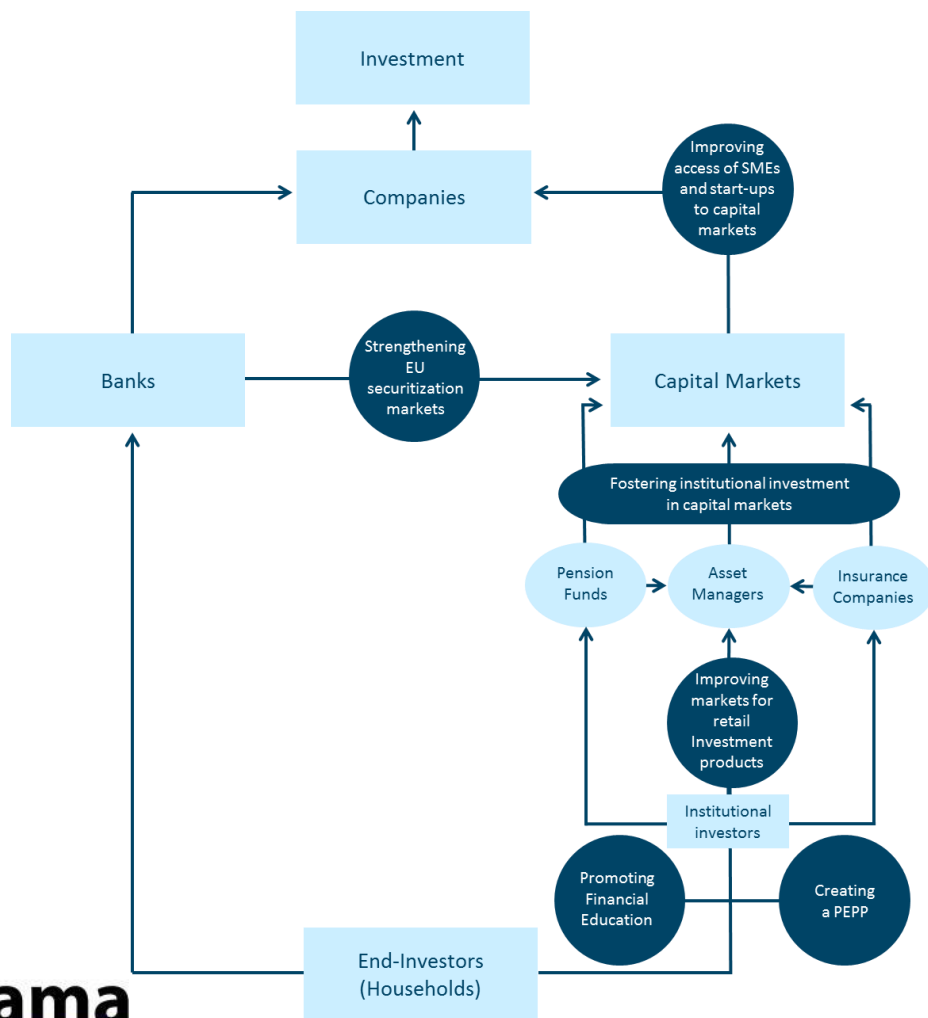
Household Financial Assets <sup>2</sup>  
(Share in total, end 2015)



# CMU: an overall goal

## Strengthen capital markets

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The key challenge is to encourage EU households to adjust their **asset allocation** towards capital markets instruments

### What can be done?

- ❖ Promote financial **education** to explain the impact of population ageing, the law of compound interest and the benefits of asset diversification
- ❖ Improve the functioning of **markets** for retail investment products to reinforce trust
- ❖ Strengthen tax **incentives** to save retirement
- ❖ Create a **PEPP** to encourage people to save more for retirement by rebalancing their savings from cash deposits towards capital markets instruments.



The share of asset managers in financial intermediation is likely to increase

***Thank you  
for your attention***

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