

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 9th edition of EFAMA Asset Management Report

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May 2017

Asset Management in Europe

9th Edition

Facts and figures

*An overview of the Asset
Management Industry with
a Special Section on the
Capital Markets Union.*

efama
European Fund and Asset Management Association

Methodology

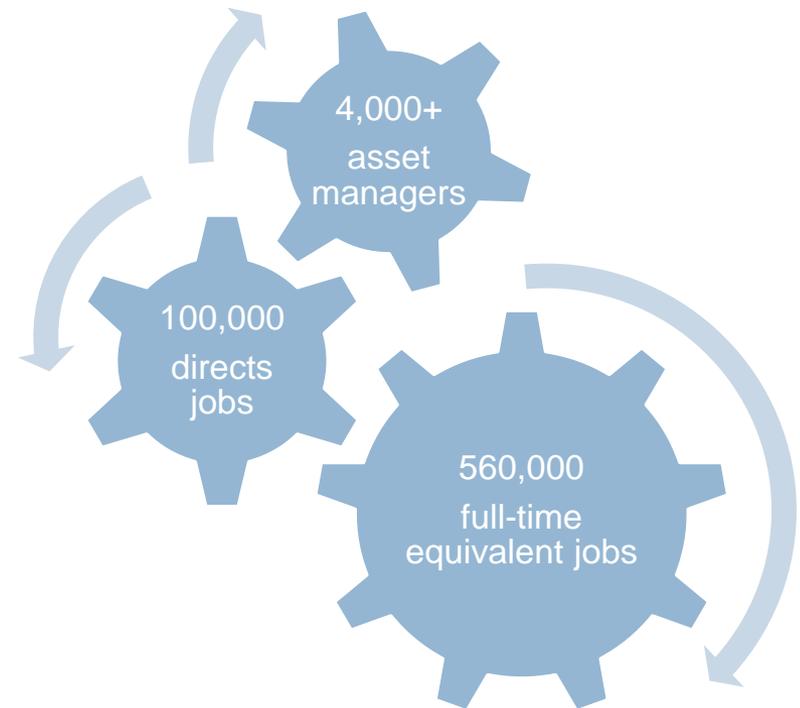
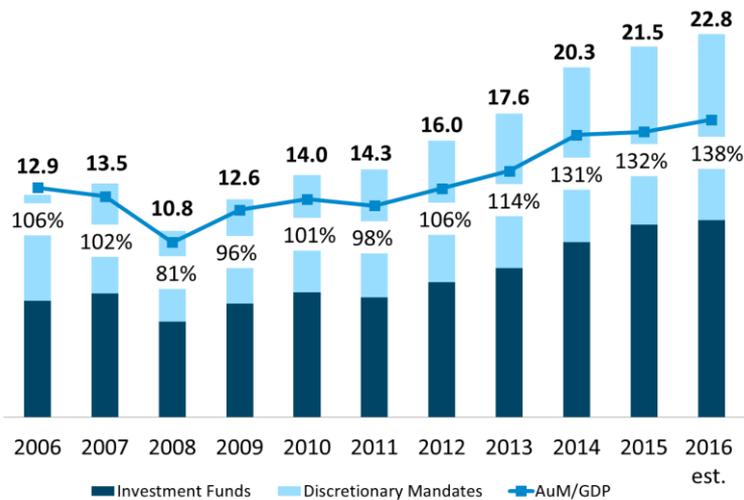
- ❖ Detailed data at end 2015 collected from 17 member associations, accounting for 86% of total AuM in Europe
- ❖ Data from McKinsey & Company and BCG used to estimate assets in other countries
- ❖ Growth in net assets of investment funds in 2016 used to estimate total AuM at end 2016

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)

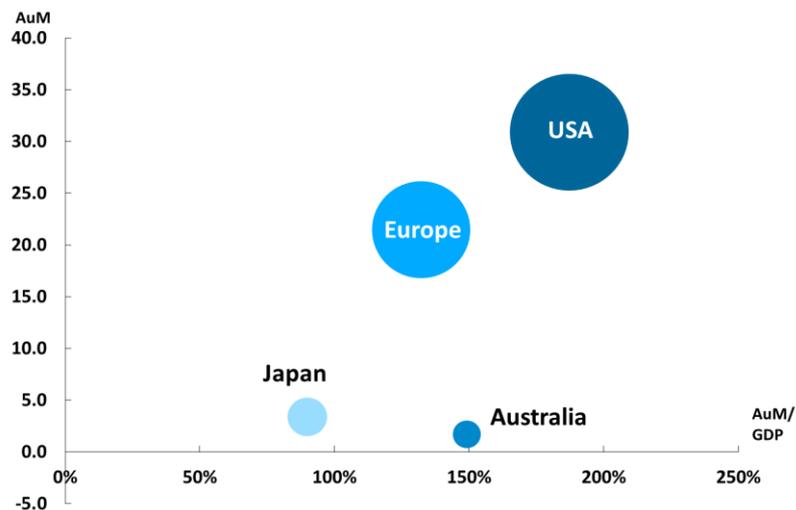


A global comparison

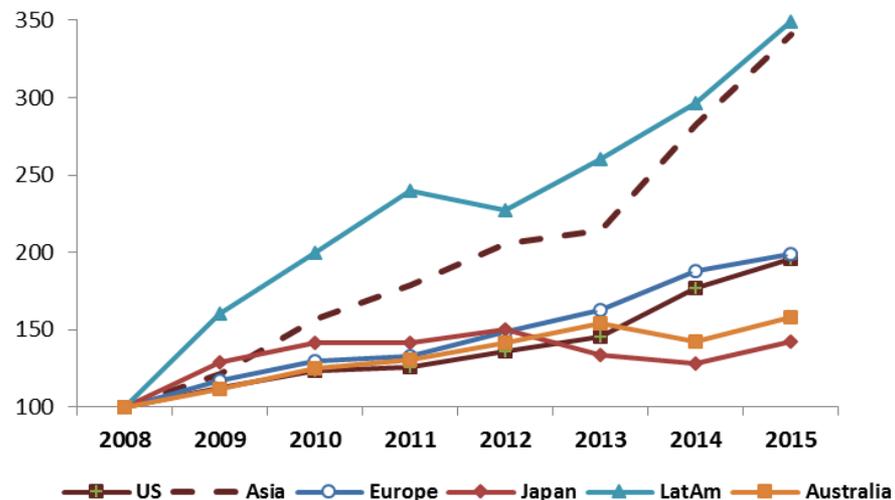
Europe is the second largest asset management market

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



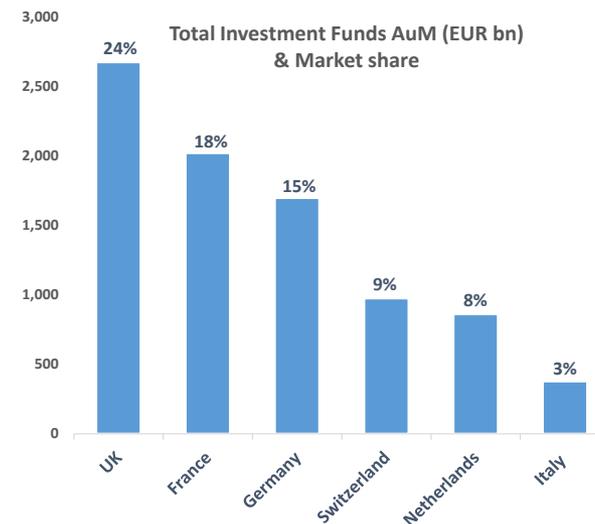
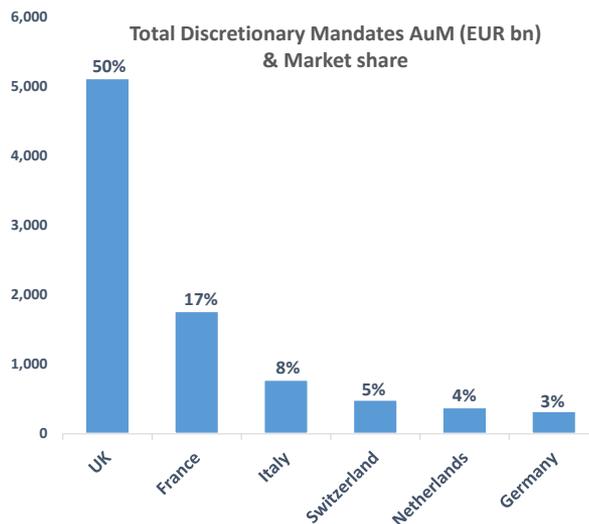
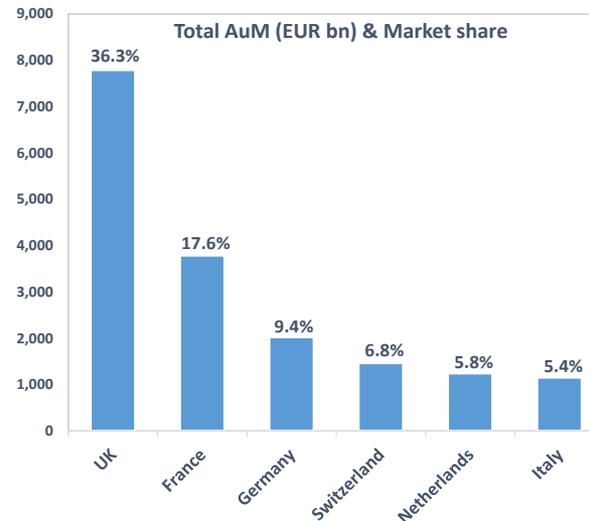
Global AuM Growth Index
(2008 = 100)



Where are the assets managed in Europe?

AuM above EUR 1 trillion in six countries at end 2015

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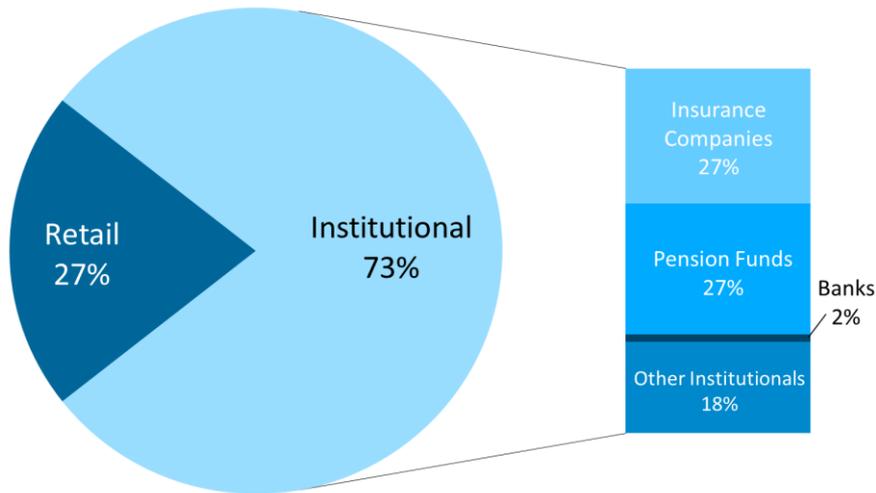


Who are the clients of the industry?

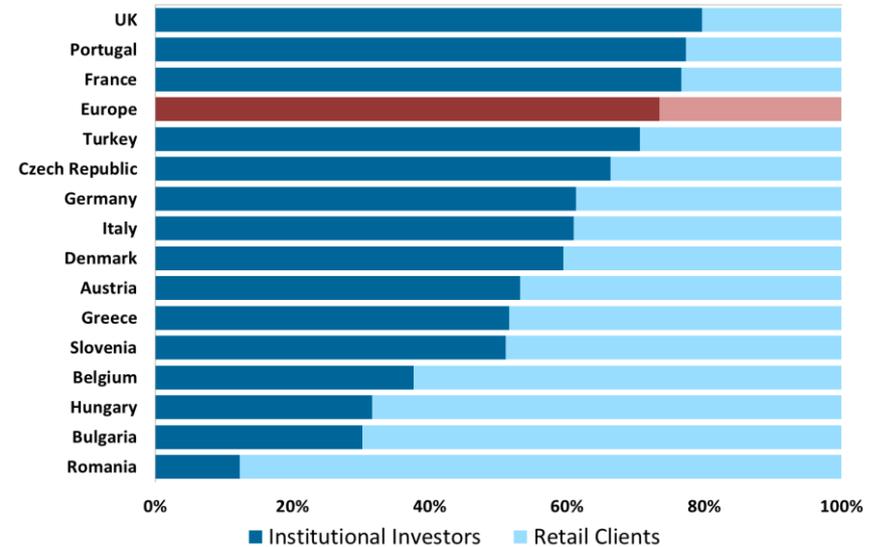
Institutional clients owned 73% of AuM at end 2015

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Breakdown of Clients by AuM



Breakdown of Clients by AuM across Europe

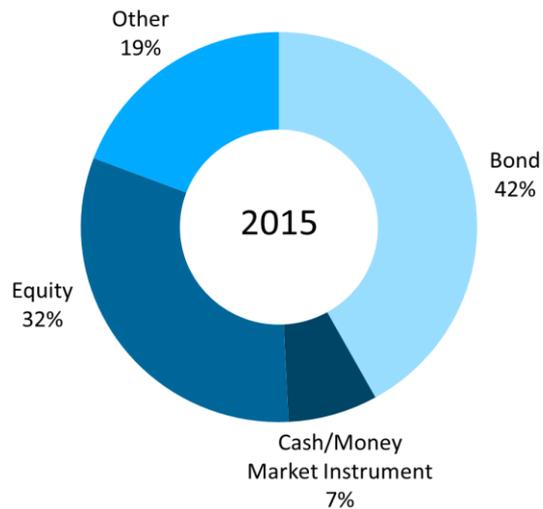


Asset allocation in total AuM

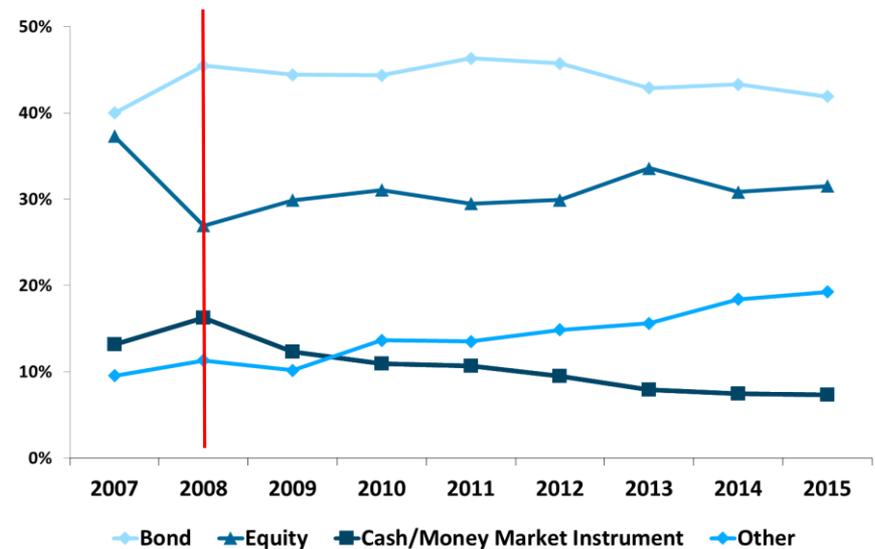
Bond is the preferred asset class

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Asset Allocation



Evolution of Asset Allocation

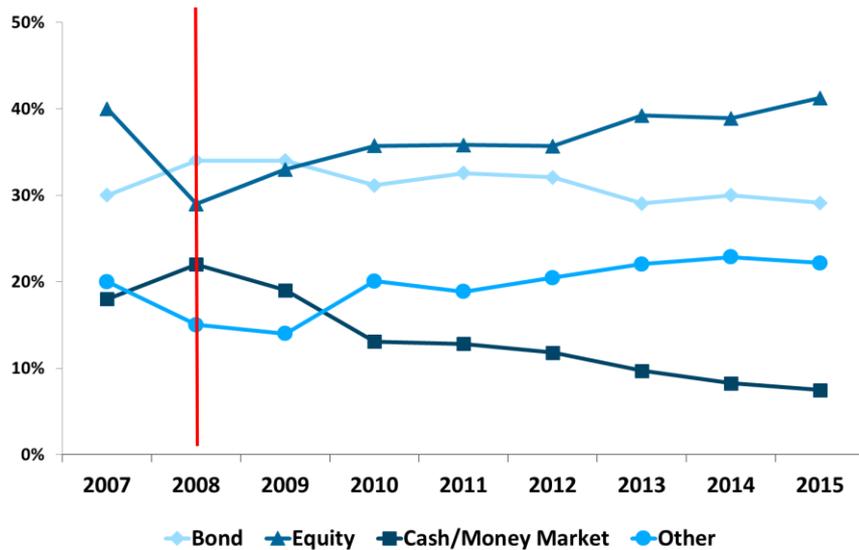


Asset allocation in funds and mandates

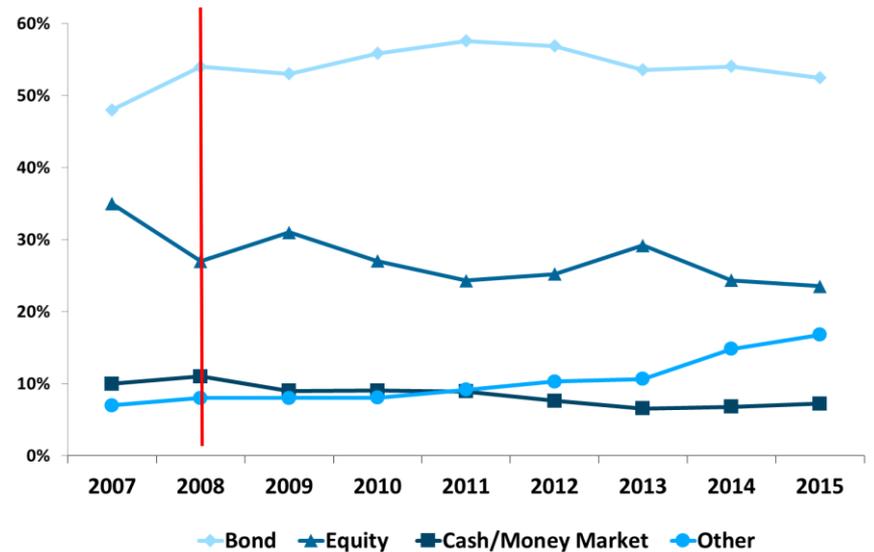
Relatively high equity exposure of investment funds

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Asset Allocation in Investment Funds



Asset Allocation in Discretionary Mandates

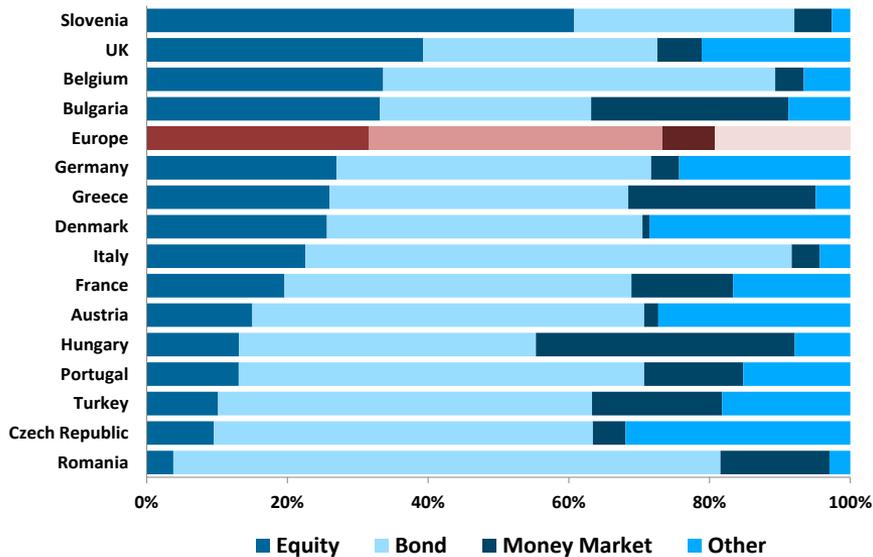


Asset allocation by country

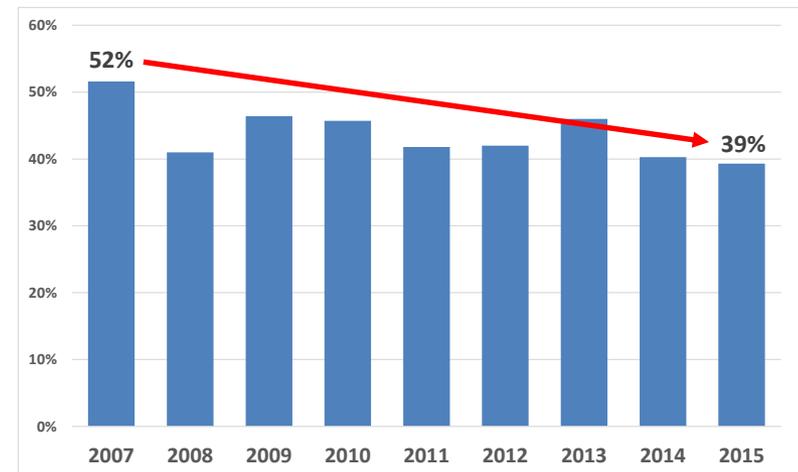
There are big differences between countries

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Asset allocation at end 2015



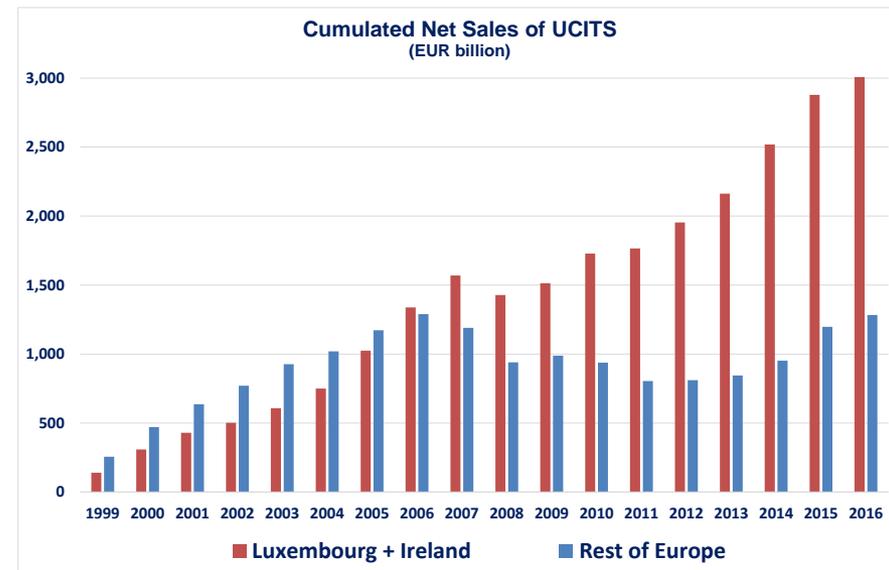
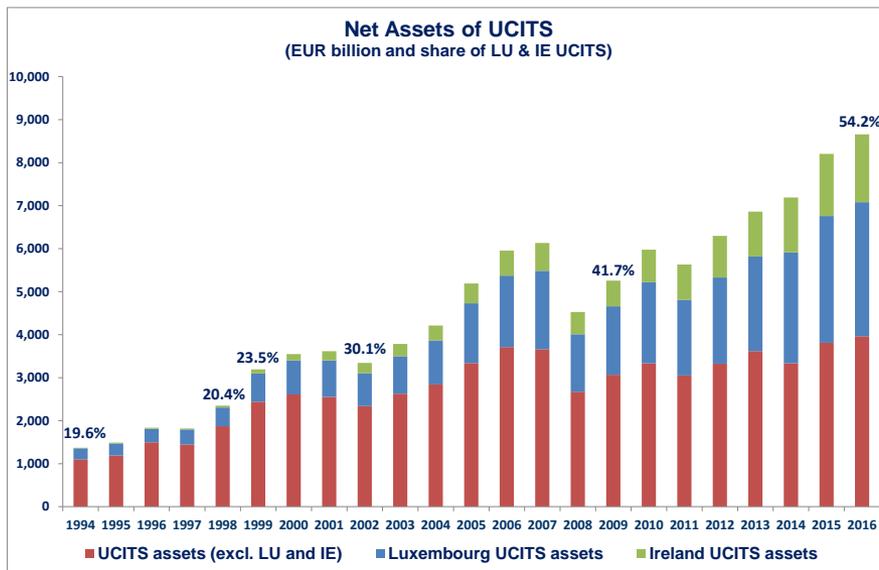
Share of equity in AuM managed in the UK



Focus on UCITS

Growing importance of cross-border UCITS

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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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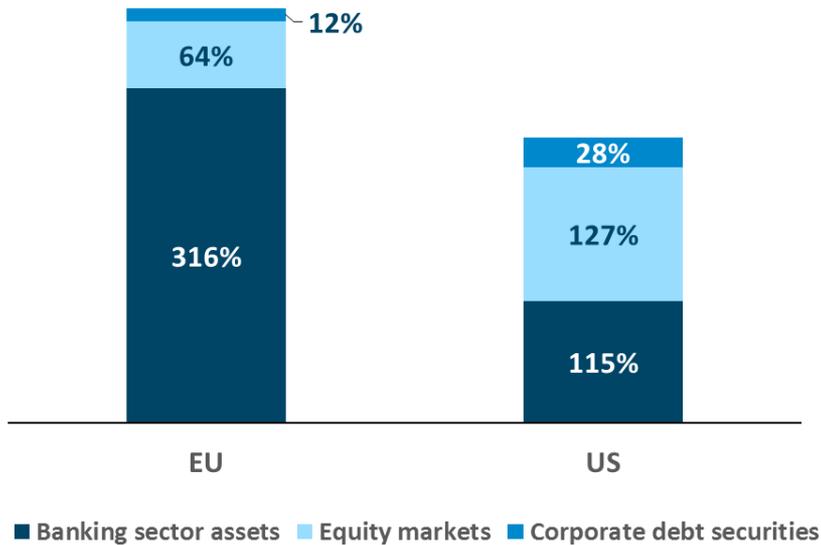
Major drivers of change in the industry:
Focus on CMU

CMU: a twofold problem

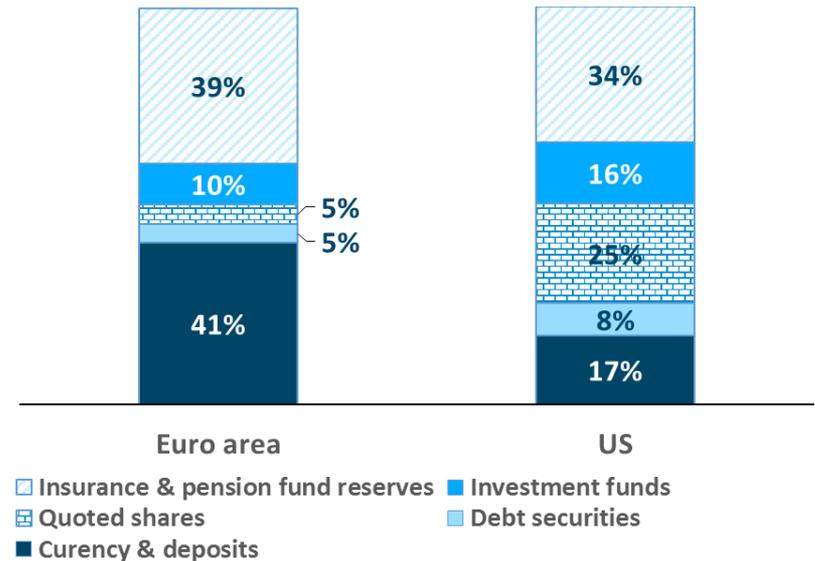
Excessive reliance on banks

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Financial Sector Simplified Structure ¹
(% GDP, average 2010-2014)



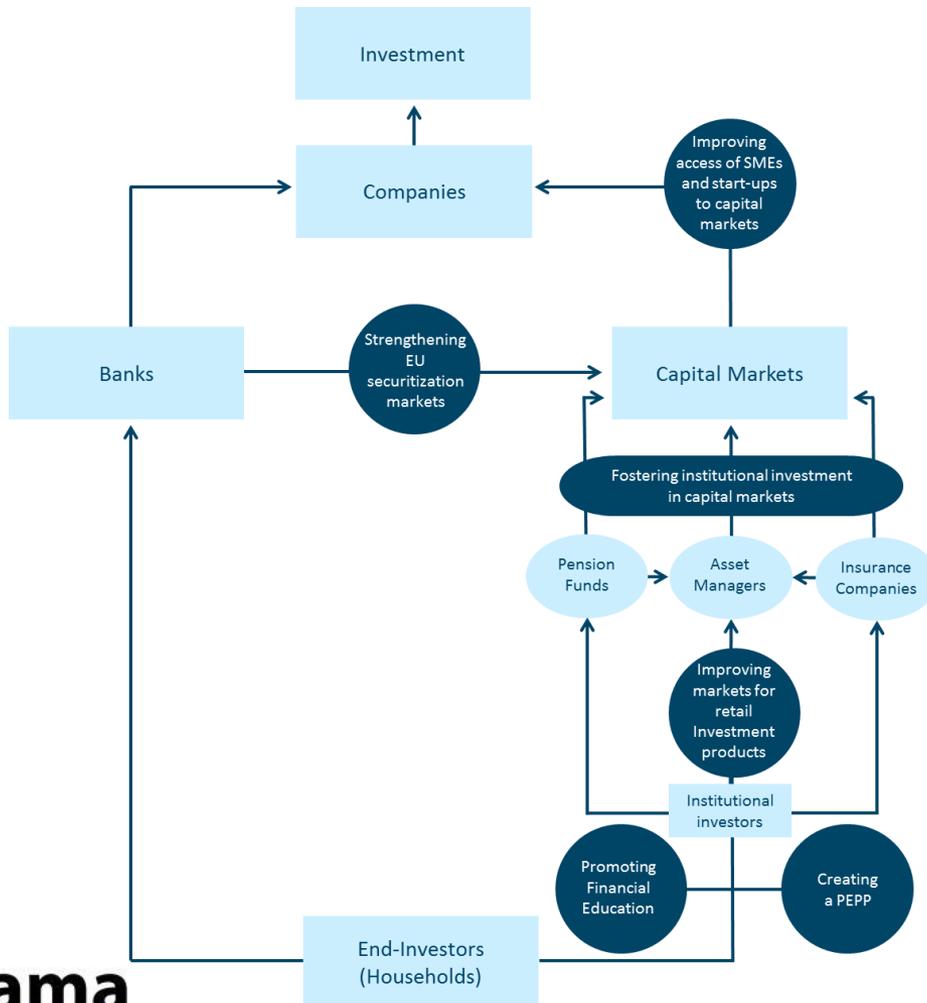
Household Financial Assets ²
(Share in total, end 2015)



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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