



CLEARSTREAM EVENT

BRINGING EUROPEAN INSIGHTS TO ASIA

THE RESULTS OF THREE RESEARCH PROJECTS WERE PRESENTED TO LOCAL AUDIENCES IN HONG KONG, SINGAPORE AND SHANGHAI BY *FUNDS GLOBAL ASIA* IN PARTNERSHIP WITH CLEARSTREAM.

MANY OF THE TRENDS that are shaping the funds industry are not local but global. The rise of passive funds, the ever-growing demands of regulatory compliance and the challenge of managing ballooning quantities of data are just three examples of the issues that are facing asset management companies worldwide.

Funds Europe, the sister publication of *Funds Global Asia*, has explored these and other topics in a series of research reports based on surveys of its readers. These projects, which have been carried out in partnership with market infrastructure provider Clearstream, have sought to establish the ways in which the funds industry is changing. They are meant to provide insights for

professionals working in the business.

This year, audiences in Asia were able to share in the fruits of the research at three summits organised by Clearstream in Hong Kong, Singapore and Shanghai. *Funds Global Asia* was there to present highlights from the projects and chair a series of panels to discuss the relevance of the findings to the Asian marketplace.

Getting smarter?

The first finding concerned investor education. When asked if they thought investors had become more sophisticated in the past five to ten years, the majority of respondents to the *Funds Europe* survey answered that they had (of which 11% held the view strongly). The panellists at the Asian events generally agreed that this view was true of Asian investors too. In general, investors in the region had become more aware of investment options and techniques, they said; however, there was still work to be done to increase their knowledge.

Of course, many individuals do not make their decisions alone but rely on advisers. As technology advances, many investors are choosing to rely on algorithm-based “robo-advisers” rather than human beings for this purpose. The *Funds Europe* survey discovered a significant level of scepticism about these services, however. Fewer than half of the respondents thought that robo-advisers would become the industry standard for distributors and financial advisers to deal with retail clients and a significantly lower proportion thought the same about high-net-worth clients.

Panellists in Asia shared some of the respondents’ concerns about robo-advisers. These services were deemed to be less sophisticated than they appeared (for instance, many robo-advisers rely on very simple algorithms and may be incapable of giving detailed advice on issues such as tax). Some robo-advisers did not appear to be commercially viable, added the panellists. However, there was some faith that investors in Asia would continue to experiment with such services, given their high level of engagement with technology and the very high rates of smartphone penetration in the region.

Passive panic

Funds that passively track an index, as opposed to traditional actively managed funds, have grown in popularity in recent years. Exchange-traded funds (ETFs), which are typically though not exclusively passive, have gathered a large proportion of this new business. Respondents were asked if they thought ETFs could take over from mutual funds as the most popular investment products in Europe. Slightly less than half agreed with the statement (of which 12% held the view strongly).

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Respondents were also asked what was the main factor attracting investors to ETFs. They gave a clear answer: low fees. For most investors, the main attraction of ETFs is that they are cheap.

ETFs are likely to get cheaper, too. That, at least, was the view of a majority of respondents in the survey who said the total cost of investing in ETFs (total operational costs and fees) was likely either to fall slightly or fall sharply. Panellists in Asia agreed with this outlook. As asset gathering continues in the ETF market, the major players are realising ever-greater efficiency gains, allowing them to cut their costs even further. A price war has been underway for some time in the ETF market and that means costs will fall further. That is good news for investors but less good for asset managers, whose revenues are under threat.

These lower prices are helping to expand the market. The most popular estimate for ETF market growth

was “between 10% and 20% a year”, according to the survey.

The Asian panellists agreed with this broad trend but added a caveat relating to the local markets. Unlike in the US, where ETFs are routinely sold to retail investors, Asian fund distributors are not typically in the habit of promoting ETFs to their customers. Instead, the banks that dominate the market for fund distribution in most Asian countries prefer to promote actively managed funds and are incentivised to do so by the structure of commissions and retrocessions.

Until the distribution model changes, said the panellists, ETFs are likely to remain principally an institutional product in Asia.

Data dilemmas

One thing funds industry professionals can agree on is that regulatory compliance is taking up an ever-greater amount of time and effort. The view of the respondents was that more efficient processes could help matters. Only about a quarter felt that existing know-your-client and anti-money-laundering procedures were generally efficient and not in need of improvement.

The panellists in Asia said these concerns were shared by fund companies in the region. Compliance departments have to take a global view because so much regulation is cross-border. The difficulties of onboarding clients in Hong Kong or Singapore are similar to the challenges involved in doing so in Luxembourg or Ireland.

Connected to the regulatory burden is the question of how to deal with the growing quantities of data that is being generated by the funds industry. A majority of respondents took an optimistic view, agreeing with the statement that “the growth of ‘big data’ will transform fund distribution by

showing fund companies precisely who buys their products". However, a larger majority agreed with the following statement, that "Fund companies should be careful about how much customer-level data they receive because each piece of data incurs regulatory responsibilities."

The panellists in Asia said there is a trade-off here. On the one hand, fund companies can benefit from knowing more about their customers; on the other, the risks of mishandling data increase with every layer of information that is received and stored. Sometimes, ignorance is bliss.

Discussion

The above subjects were discussed at the Singapore event by Steven Billiet, chief executive of JP Morgan Asset Management in Singapore; Mostapha Tahiri, head of asset and fund services, Asia, for BNP Paribas Securities

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Services; Armin Choksey, partner at PwC; and Neil Wise, global head of sales and relationship management, investment funds services at Clearstream. Wise took the opportunity to explain about the extension of the Clearstream Distribution Intermediation service to include trailer fees and fund research and information.

At the Hong Kong summit, Wise was joined by Stewart Aldcroft, chairman of Cititrust; Richard Tang, chief executive of ICBC Credit



Suisse Asset Management; and Sébastien Chaker, head of sales and relationship management, UBS Fondcenter Asia-Pacific.

In Shanghai, the panellists included Dong Wang, chief executive of HSBC Jintrust, and Tian Ren Can, chief executive of UBP Investments

Management (Shanghai).

Other speakers at the events included Philippe Seyll, chief executive of Clearstream, Aidan Yao, senior emerging Asia economist at Axa Investment Managers, and Zhou Hao, senior emerging market economist at Commerzbank. fg