Press release

Alarming margin erosion in asset management—focus rather than breadth promises success

Zurich, March 14, 2019—Faced with shrinking margins, the European asset management industry needs to become more focused and cost-efficient to ensure profitable growth. A new study conducted by the strategy and management consultancy zeb as data provider reveals that after decades of continuous growth the asset management industry is confronted with major structural challenges, particularly where innovation, product design and sales management are concerned. The study analyzes 46 European asset managers with a strong footprint in Europe who are looking after a total of EUR 29.3 trillion—and thus roughly one third—of global institutional assets under management.

Small is beautiful

On a more detailed level, the study shows that apart from specialized asset managers who stand out from the crowd due to focus topics or asset classes, especially smaller players within the international context who are part of a strong, independent sales network were successful during the period of observation. The weakest development was seen among mid-sized players offering both active and passive investment strategies who were struggling with a comparatively high cost-income ratio and the lowest level of net new money inflow which was significantly below average. Especially companies trying to cover nearly all investment topics or asset classes without being able to achieve any significant economies of scale showed below-average results. This is confirmed by Norman Karrer, zeb co-author of the study: “Over the period of observation, only few asset managers achieved profitable growth, i.e. an increase in profitability while at the same time acquiring new clients. Top-ranking asset managers are characterized by above-average growth and profitability as well as a decreasing cost-income ratio.”

Myths in asset management

Due to the higher fee levels compared to institutional business it is often assumed that an expansion in retail business in itself will result in a more profitable business model. This could not be confirmed by the study as it did not reveal any significant correlation between the share of retail business in a player’s total assets under management and their profit margin. Neither was there any evidence of a significant correlation between the share of higher priced, non-traditional investment strategies in the asset base of asset management companies and their profit margins.

Margins under pressure

The absolute costs of asset managers have continuously increased in recent years. The industry's cost issues were, however, mostly hidden by the strong performance of the capital markets over the period of observation which meant that the cost margins remained largely constant. A significant decrease in assets as in 2018 and simulations conducted as part of the study and based on differing assumptions regarding market growth reveal asset managers' vulnerability. By contrast, asset management product prices have dropped across almost all asset classes both in retail and institutional business within the same period. The reasons for this are obvious and will, according to the authors of the study, further increase the price pressure: apart from the persistent low yield environment, especially the below-average performance of active managers; higher cost transparency, for instance due to MiFID II; and increasing competitive pressure, mainly driven by low-cost passive investment strategies.

It pays to be passive

The shift from active to passive asset management has become ever more apparent in recent years. The strong growth of ETFs in particular shows just how attractive passive strategies have become for investors. While passive investments offer access to market performance at virtually no costs, active strategies often come with high product fees and show below-average performance overall. This gives passive strategies a competitive edge and will continue to put fees for active products under pressure. "Many players now offer passive strategies and will participate disproportionately in their growth, provided they are able to produce them at low costs," says zeb co-author Carsten Wittrock.

Detailed information on zeb's 2019 Asset Management Study is available at www.zeb.ch.

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zeb was founded in 1992 and is one of the leading strategy and management consultancies for financial services in Europe. More than 1,000 employees work for the zeb group at 18 office locations in 14 countries. zeb operates offices in Amsterdam, Berlin, Copenhagen, Frankfurt, Hamburg, Kiev, London, Luxembourg, Milan, Moscow, Munich, Münster, New York, Oslo, Stockholm, Vienna, Warsaw and Zurich. Clients include European large-cap and private banks, regional banks as well as insurers. Several times already, zeb has been classed and acknowledged as “best consultancy” for the financial sector in industry rankings.

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