





# Customer centric journey within Asset Management

**André Rousseau**  
Director  
Advisory  
Deloitte

**Bhavin Lala**  
Manager  
Financial Services  
Deloitte

**Rashmi Thomas**  
Manager  
Financial Services  
Deloitte

**Mira Atanasova**  
Consultant  
Financial Services  
Deloitte

The asset management industry in South Africa has witnessed significant growth over the last ten years. Markets have generated excellent returns, changing regulations have created new investment opportunities and substantial inflows of foreign money have moved into South African funds.

The South African market is one of the most developed Asset Management markets from both an African and global perspective. However, challenges may be on the horizon due to changing market conditions and legislative implications.

### Challenges facing the industry

Asset management companies in South Africa may face four key challenges:

#### 1. Legislative changes

The South African market is likely to be affected by changes to the legislative landscape in some shape or form, and both the market and asset managers must be prepared for this.

#### 2. Margin Squeeze

Cost and fee pressures continue to have a significant impact on the investment management industry, affecting everyone from financial advisers, asset managers through to administrative companies. Lower fees are no longer a negotiable factor. The asset manager's focus on core activities will be increasingly important in the future.

#### 3. Access to information has changed customer interactions

With information being more readily available through digital channels such as the internet and social media, customers are able to source key information from unbiased, reliable, trusted sources to easily compare performances and portfolio holdings. This is affecting the manner in which investors interact with both the asset manager and the financial advisor.

#### 4. Market performance

Investors are currently experiencing varying returns on investment, due to volatility in global markets.

### Globally, the 'face' of the investor has changed

Globally, the asset management industry has achieved strong growth in the years following the financial crisis and continues to rank among the most profitable industries. However, despite this recovery, asset managers continue to face challenges brought on by turbulent structural changes in the financial industry. To navigate this challenging environment, asset managers will have to take into account increased globalisation, more demanding investors with a growing preference for non-traditional assets, increased competition and regulatory changes.

#### 1. Legislative change has created a more agile and adaptable Asset Management market

- New regulations will affect asset managers, their clients and distributors, requiring managers to continually adapt to new rules in multiple markets
- Greater compliance burdens will increase operational complexity for firms and present strategic challenges on issues including product innovation, international growth and reporting standards

#### 2. Globalisation

- Better informed investors are starting to pull more levers at their disposal
- Demand for greater diversification is accelerating globalisation as investors seek exposure beyond their domestic markets
- The global scale and complexity of a multi-country organisation will require a carefully designed operational model that enables asset managers to adapt product offerings to local regulations, distributors and the needs of local investors

**3. Innovation within digital and data allows for greater company-wide integration and optimisation:**

- Digital technologies and data innovation are rapidly transforming operational aspects of asset management, becoming a valuable source of competitive advantage with an increasing focus on data fluency
- The benefits of more advanced enterprise-wide data management have become an increasingly critical focus for asset managers, particularly in terms of:
  - Single view of the customer
  - Organisation, legislation and governance
  - Analytics and "Next Best Action" capabilities
  - Data fluency and standardisation
  - Infrastructure and processes

**4. Investors' appetite for non-traditional assets:**

- Shifting investor preferences and volatile market factors are boosting the growing appetite for specialty investments
- Specialty solutions include absolute return and foreign large blend funds, multi-asset capabilities, and passive products
- Rather than seeking performance relative to a benchmark, investors are demanding investments specifically oriented to their needs

**5. Increasing competition to satisfy customer's appetite for non-traditional assets:**

- Specialised alternative managers that provide non-traditional assets such as hedge funds, private equity and private debt are increasingly serving traditional clients
- Alternative asset managers are leveraging their client relationships and reputation to expand their product offering into products historically provided by traditional asset managers
- Traditional managers are slowly building these capabilities but that will take time





### African and South African trends in Asset Management

#### 1. South Africa as part of Africa:

- As the African growth story continues, South African asset managers are ideally placed not only to take advantage of the greater flows of assets directed towards the continent, but to serve the enormous potential clientbase north of its borders

#### 2. Population longevity:

- Populations around the world are living and working for longer. This means that traditional asset management models about when people retire and how long they are retired for will have to be reviewed
- Increasing average life expectancy will have a huge impact on the industry where people will have longer investment horizons; the industry needs to migrate from a product-based investment approach with fixed benchmarks to that of a tailored, solution-based approach

#### 3. The mass market:

- Perhaps the biggest opportunity for the local asset management industry lies in the mass market. All of the major banks and insurers in South Africa now offer low cost products for low income earners, but asset managers have done little to attract this sector of the population

#### 4. Changing demographics:

- A more inclusive financial approach is important
- For the most part, the Asset Management industry in South Africa has served a very narrow demographic
- The investor base is becoming broader, more culturally diverse and far more interested in technology-based solutions that are more personalised and immediate
- *"The investor is looking for customised solutions that are easily accessible, driven by the new-era 'savvy investor' who is well-informed and would rather use digital interfaces than wait for physical interactions."* André Rousseau, Director, Deloitte, South Africa

#### 5. Intermediaries:

- The gap that exists between asset managers and the owners of the assets they manage creates a space ripe for disruption. The drive towards the Omni channel experience marks the start of a disruptive market, both in terms of interaction with the client and supporting the financial advisor in their work



#### 6. Regulation:

- Increasing regulation has an impact on all parts of the financial services industry worldwide. In South Africa, the majority of reforms have been positively received as they fulfil the need to protect the client
- However, additional regulation comes with additional costs associated with compliance, and those businesses that are able to manage costs most effectively will undoubtedly be at an advantage

#### 7. Consolidation:

- There is growing consensus in the industry that the number of products available to investors has ballooned to the point where it is difficult to make an informed selection
- There are now over 1,000 collective investment schemes registered in South Africa, making it increasingly difficult to identify the best options
- If, as is widely expected, investment returns decline in the coming years, this may inevitably lead to the closure of funds that do not offer an attractive value proposition
- At the same time, some larger players have spoken about reducing the number of funds they offer in order to make their product ranges simpler and more attractive, which will help in providing tailored solutions that will serve the specific needs of the customer

#### 8. Faith-based and socially-responsible investing

- There is already growing demand in South Africa for products that comply with Shari'ah principles, and asset managers that offer these solutions may also be positioning themselves to take advantage of opportunities beyond borders
- Environmental, social and governance principles will become a lot more mainstream and part of the investment process rather than a specialist area, especially with younger investors

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### The Customer-centric Journey

A clear understanding of the investor's needs and behaviour will help drive growth strategies that are profitable within the Asset Management (AM) company. It is imperative to understand the customer journey as this will lead in the Asset Management company having an endearing relationship with the investor who will evolve from being indifferent to an advocate of the organisation. This will result in the AM company forging a relationship with the investor, who will become more responsive to the organisation's representatives.

The investor will not only prefer to purchase more products and services from the AM company that they trust but will also refer other potential investors to this organisation. In order to build both a profitable and sustainable business, asset managers, Exchange Traded Funds (ETF) providers and insurers need to deliver both an exceptional and personalised experience to the investor.

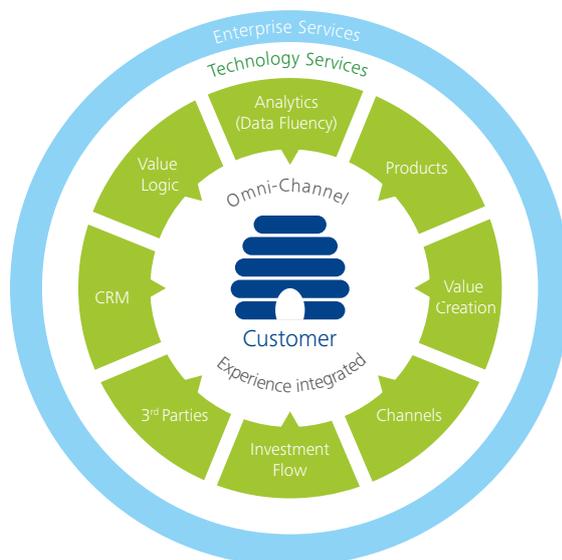
To enable the investor to make informed choices, the products need to be simpler and more transparent (e.g. through education and real-time reporting in

a mobile App environment). To achieve this, the operating model of the AM company needs to change to become more customer-centric. This will mean that the following key pillars (including both internal and customer-facing pillars) within the AM company need to develop in line with the investor's requirements:

- Marketing & Communication
- Sales & Service
- Product
- Customer Experience
- Customer Intelligence
- Innovative Processes
- Strict Governance and Controls
- Ethos/DNA of the organisation
- Optimised IT landscape

This will ensure that the organisation is able to align their value proposition to meet the investor's needs and expectations, especially in terms of transparency and information. A customer/investor-centric focus within the AM company will also allow for easier adherence to new regulations, which will in turn, provide a competitive advantage over other organisations within this industry.

### Deloitte - Customer Centric View



The goal is to evolve from a product-centric to a customer-centric operating model that will fundamentally disrupt the existing Asset Management industry.

In essence, analytics will be used to understand the value logic in terms of identifying the investor's needs to create the expected value (tailored solutions), which will be communicated and enabled in real-time through the investors' preferred channel.

Understanding the lifetime value of an investor will provide the asset manager or advisor with the ability to identify high value investors to ensure that they are provided with exceptional servicing. AM companies need to introduce contextual servicing to build an enduring relationship with the investor – this encompasses the following elements:

- Tailored solutions at Moment of Truth<sup>1</sup>
- Product customisation
- Real Time experience
- Proactive risk management

An example of contextual servicing includes the use of analytics per customer segment to build real-time insights so that tailored solutions can be offered proactively to the investor/customer. This will encourage the building of an interactive relationship between the asset manager/advisor and the investor.

The journey towards becoming customer-centric needs to start with an assessment of the current landscape of the AM company's key customer capabilities and identifying the target state that it would like to achieve. This will pave the way for customer centricity and will facilitate the identification of critical milestones along

this journey. It is important to understand that this journey may take a few years to achieve, due to its complexity (i.e. total redesign of the operating model, culture, customer experience & relationship) and the level of investment required. In addition, it is equally important that this journey be supported by the senior management of the AM company, which will need to promote this strategy to the rest of the organisation so that the transformation meets little or no resistance. It is important for the Asset Management industry to keep up with the fast-changing environment and evolving investors/customers if it is to achieve sustainable top-line growth. Embarking on this customer-centric journey will become a crucial game changer in building investor loyalty and confidence for an AM company.

The 'New Age' customer demands a full service suite from the asset manager. This includes competitive pricing, being well-informed, interactive communication and access via a digital platform to allow for faster access to products or specific asset classes. A strong and efficient back office, strengthened by analytics with the asset manager, is crucial as it allows for a quicker turnaround and lower fees, which will translate into a more personalised experience for the investor.



<sup>1</sup> *Moment Of Truth: In service, the instance of contact or interaction between a customer and a firm (through a product, sales force, or visit) that gives the customer an opportunity to form (or change) an impression about the firm.*