The Italian asset management industry and the trends impacting its future
Executive summary
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Introduction

Over the last year, the Italian asset management industry has faced a setback after the period of sustained growth that followed the sovereign debt crisis. Political uncertainty and a slowdown in the global economy were two of the key drivers of this downturn.

Over the last year, the net outflow of funds amounted to €68 billion, with fragmented net outflow among the different types of mandate and market player. Old enemies, namely low rates and market uncertainty, and new challenges, such as the growing importance of millennials and numerous tech-based innovations, are forcing the asset management industry toward a structural turning point.

1.1. Figure: Major players in Italy – AuM 2018

<table>
<thead>
<tr>
<th>Company</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Generali</td>
<td>24.6%</td>
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<tr>
<td>Eurizon</td>
<td>15.3%</td>
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<tr>
<td>Amundi</td>
<td>9.7%</td>
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<tr>
<td>Anima</td>
<td>8.9%</td>
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<tr>
<td>Fideuram</td>
<td>4.4%</td>
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<tr>
<td>Blackrock</td>
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The aim of this paper is to outline the main features and peculiarities of the future of the asset management industry. In particular, after carrying out a general overview of the Italian situation, the focus will shift to analyzing the macro- and micro-economic features of the industry. The paper analyses the major trends that will shape future supply and demand in the asset management industry. The research spotlights factors such as the consumption preferences of the new generation, the push for transparency introduced by MiFID II, the emergence of ESG investing, and the impact on cost structure and customer experience deriving from the introduction of game-changing technologies. Lastly, the paper focuses on how such trends are effecting the market.

Market overview

The Italian asset management industry is characterized by investors who, due to the long-lasting tradition of the Italian 10y BTP, are biased toward a specific type of investment. This feature is reflected in the predominance of bonds and balanced funds, which, in 2018, jointly accounted for more than half of total AuM (respectively 25.38 percent and 27.35 percent). Collective managed funds and discretionary mandates shared the market almost equally, representing around €1 trillion assets each. One of the most striking features of this past year has been the outstanding growth of flexible funds, which registered a net inflow of €8.837 billion over the period and grew by 269 percent.

1 Funds with both stocks and bonds in their portfolio
2 Funds without any constraint on held securities
1.2. Figure: Composition of total AuM in 2018

Overall, distribution is highly concentrated, with more than 80 percent of the total fund volume distributed by the 10 largest banks alone. Setting concentration aside, the distribution of asset management services is becoming an increasingly complex activity. The key drivers of this trend are an increased number of actors in the value chain and the availability of specific investment solutions.

Asset managers in Italy provide services and solutions to both retail clients and institutional investors. This second category is mainly composed of insurance companies and pension funds, the former alone accounting for 45 percent of Italy’s total AuM (€2.017 trillion)\(^3\). In relation to products offered, institutional investors prefer discretionary mandates, while, on the retail side, two groups of investors can be identified. Private wealthy investors are provided with a wide and diverse range of products tailored to their needs by a wealth manager. Meanwhile, mass-affluent customers are offered more standardized products resulting from the captive distribution system at banking networks and SGRs\(^4\).

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\(^3\) Assets under management

\(^4\) “Società di Gestione del Risparmio”; asset management company
After an in-depth analysis of the evolution of the industry and the forces that will affect it in the future, four main trends emerged as most relevant for this research. These trends, from both a macro- and micro-economic perspective, influence asset management and shape the way supply and demand interact.

Firstly, we will analyze demographic trends to understand the impact they will have on the AM industry. Secondly, we will provide an outline of the main pillars of the MiFID II regulation and the changes that it will impose upon the sector. Thirdly, we will investigate the way in which technological developments are inevitably shaping the future of the industry, together with the introduction of robo-advisory. The fourth and final trend identified is ESG and its increasing relevance in the investment decision-making process.
Trend analysis

Demography
The world is now in a crucial phase of generational change in terms of the ageing population and the increase in the retirement age, which will eventually lead to different saving decisions linked to generational imbalances.

The impact of these trends will be far-reaching and will pervade many facets of both society and the economy. One of the most obvious aspects of this trend is the fact that people’s life expectancy is rising steadily, meaning that individuals are now part of the workforce for longer. This is resulting in an increase in the total level of savings at the point of retirement. Because of this, the asset management industry is now gaining a prominent role in managing these resources. The asset management industry has a crucial role to play because it is one of the most effective ways to compensate for the flaws in social welfare, and to stimulate the growth and development of the healthcare system.

During our investigation, we identified a compelling new need for accurate savings and investment forecasts to guarantee long-term stability and make pension funds more attractive for young workers. Specifically, we have focused on the shift in demand produced by the growing prominence of the millennial generation. Understanding the consumption patterns of this generation is becoming essential, especially considering that a quarter of the population now belongs to this generation and the cohort’s wealth will dramatically increase when they start to inherit their parents’ assets.

The emergence of long-term trend funds is a clear signal of the relevance of phenomena such as the longer work-life period and the growing impact of millennials’ needs on the economy. The real estate market is one of the targets of the long-term trends funds: the urban population is expected to increase, at global level, from 3.9 B in 2014, to 6.9 B people in 2050, due to increased national urbanization and international migration flows.

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5 Long-term trend funds target securities related to the forces perceived as most relevant in the market in the long run.
MiFID II
One year on from the introduction of the MiFID II regulation, the main impact perceived by market players was the increase in transparency requirements. The purpose of the regulation was, in fact, to minimize the presence of asymmetric information between the asset manager and its clients. In addition, it is expected that the heightened transparency imposed by the regulation will result in more pressure being put on pricing and margins. The most potentially negative effect is the fact that AM fees are now fully visible to the client.

The introduction of new trading venues has shifted the focus from regulated markets, which were the center of the entire market structure, to alternative multilateral venues (which now have the same transparency standard and are subject to the same information and communication obligations). Additionally, due to product governance policy, which has led to the birth of the concept of the target market, the asset management industry’s main focus is now on the characteristics and the needs of the individual investor. Overall, what has emerged clearly is that implementing this new regulatory framework is a medium-term process whose effects on the industry are not yet fully known.

Technology
Technology is undoubtedly one of the most pervasive features of our lives. In the current economic environment, we are at an important turning point. The benefits of integrating services based on Artificial Intelligence (AI), technology and sophisticated algorithms may make the difference between long-lasting profitability and being driven out of the market. Moreover, due to the increased transparency requirement imposed by MiFID II, investments in technology may pay off in the long run in the form of both an increased capability to distribute products and solutions to the mass market and a decrease in the cost associated with creating and distributing funds. AI technologies, robo-advisory and HTF will have a major impact on the industry. The first two will enable firms to target a broad range of less wealthy investors thanks to the reduced cost structure and enhanced customizability of the solution delivered. HTF, which is the ability to perform trades with minimal latency between the input and the execution of the order, is most relevant to asset management firms that seek to exploit market inefficiencies through algorithmic trading. Another peculiarity of this trend is that it is fostering the development of passive strategies. The core reasons behind this are the ability of AI technologies to manage products distributed through ETF vehicles, and their appeal to less wealthy investors.

1.7. Figure: Global FinTech VC investment, in US$ billion

ESG
When we analyze the new tendency to invest in a sustainable and socially responsible way, it becomes clear that this change has mainly been brought about by a shift in mentality that does not concern only the asset management industry, but that is part of a worldwide revolutionary macro-trend. Looking at the bigger picture, ESG—i.e., investing based on environmental, social, and governance factors—is becoming a standard request and an expectation on the demand side. This trend is only expected to increase in future. In this sense, asset managers will have to integrate these factors into their portfolio to ensure that their growth
strategy keeps pace with market norms. It is important to outline the double meaning of the G in the acronym. In fact, it refers to both the passive and the active role of asset managers. On the one hand, asset managers create portfolios of firms with a corporate governance structure designed to ensure 360-degree cleaner and more transparent governance and, on the other, they work to ensure that the target companies are in compliance with the aforementioned requirements. All in all, as described in detail in the paper, investing in ESG-compliant instruments is already generating superior returns compared to the non-ESG benchmark. In order to better exploit this phenomenon, it is important to note that the market is beginning to offer the first ETFs and index-linked funds that only track companies that have passed through the ESG filter.

1.8. Figure: What feature is most important for investors?

A series of criteria that are used by major providers to determine whether the business is respecting the environment and society as a whole.

1.9. Figure: What feature is most important for asset managers?

1.10. Figure: Cumulative Index Performance—Gross returns
Consequences

Demand
From the analysis of the above-mentioned trends, what emerges is an increase in the importance of the customer in the AM industry: most of the present and future developments that are being introduced are the result of specific investor needs. For example, technological applications are being implemented to satisfy investors’ need to have access to comprehensive information at the click of a button. Robo-advisory and similar services seek to address the needs of millennials, who are not only familiar with technology but also generally more price-sensitive and less wealthy than the previous generation. New financial products, such as ESG products, are being introduced to the market in order to meet potential customers’ latest requirements. Moreover, MiFID II itself focuses on ensuring a satisfactory degree of transparency in the market, thus providing a safer financial environment for investors. As a result, the industry is undergoing a process of renewal, moving from a traditionally supply-driven setting to a more demand-driven one.

Supply
Given this shift, the supply side of the market has to evolve and adapt in order to best exploit new opportunities. This means modifying approaches towards customers, as well as offering a broader range of products. The traditional role of the asset manager is currently facing a series of challenges, from regulations requiring a full disclosure of the charged fees, to new technologies that might constitute a valid competitor if not included in the AM strategy, at least as regards some segments of the market. Thus, asset managers will have to partially modify their behavior and skills in order to best fit into the evolving environment as required by MiFID II. On the one hand, financial advisors and managers will have to learn how to work with new technological developments in order to allow their firm to best exploit these new opportunities; on the other hand, they will also have to develop specific soft skills differentiating a personal approach from an automated system. Therefore, the ability to build strong bonds with customers—especially particularly wealthy customers—creating a relationship of trust while offering them products tailored to their investment needs, will play a major role. All in all, in the future we expect to see a shift in the figure of the financial advisor. Indeed, we expect that the prominence of the traditional asset manager will be progressively substituted by either a wealth-manager-like figure or robo-advisory services. The former will be able to deal with a more complex and integrated relationship with their clients by drawing on their experience. The latter will target the mass market of investors who have fewer specific needs and, more importantly, less financial wealth to be managed (and who are therefore more price sensitive).

Products
Given the trends that are reshaping the figure of both the investor and the asset manager, products are expected to change as well, in order to adapt to these transformations.

Particular pressure will also come from robo-advisory and some major changes in the financial markets. Specifically, the former ability to efficiently operate with passive investment strategies and the currently low market’s returns are pushing asset managers to look for new solutions. One of the answers, offered by the largest fund distributors, is the creation of passive investment products which, by relying on low commissions and high diversification capabilities, provide attractive mass-market risk-reward solutions. At the opposite end of the spectrum, asset managers rely on their ability to identify positive alpha securities. This has been pursued and will be pursued by opening positions on mispriced securities and investing over the long term. In recent years, it has been possible to witness the emergence and growth of products such as ESG funds, Long-Term Trend Funds, PIR, ELTIF, and Private Markets (which refers to all funds whose assets are not publicly traded), as well as comprehensive categories such as private equity, private debt, and real estate funds. Further development is expected in the future.
Private Market investments have often been considered complicated and risky for traditional investors. However, they are gaining momentum as an attractive investment to both diversify a portfolio and achieve higher returns. In Italy, 2018 was an important year for Private Markets, with a portfolio value amounting to €33 billion, allocated to 1,254 companies.

Looking to the future, we expect that Private Markets will become increasingly important for Italian asset management companies. However, several possible downturns and barriers to their diffusion are still present. Some experts claim that private equity and debt funds are currently overheating and therefore they are forecasting a bearish period. Among the obstacles to the growth of such funds, the most important range from pessimistic economic forecasts and geopolitical uncertainty to the expansion of new emerging markets that could push the flow of investment out of the Italian peninsula. This results in expectations for Italy to be one of the European countries with the lowest expected growth of Private Market transactions in 2019.

Finally, we conducted a comparative analysis of the main features, similarities, differences, and achieved results of two different products designed with the same objective of driving investment towards the real economy: PIRs and ELTIFs. These two investment instruments fared differently on the market and it recently became evident that PIRs had exhausted their initial momentum in the Italian financial marketplace. The space left behind could be filled by the ELTIFs, which have been introduced among the Italians’ investment options. The two instruments share some common features, such as a tax shield in the form of tax exemption on the return generated and on inheritance taxes for PIRs, and a reduction in the effective tax rates for ELTIFs. While already in place for PIRs, the introduction of tax incentives on ELTIFs is currently being discussed by the Italian government.
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