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Capturing the multi-trillion dollar asset management opportunity in Southeast Asia

Foreword

Against the backdrop of shifting market dynamics, the asset management opportunity in Southeast Asia (SEA) remains significant and is expected to grow to USD 3.5 to 4 trillion in assets under management (AUM) by 2025, with more than half of it being sourced from the institutional segment. Asset managers who want to win in this region need to be prepared for the challenges emerging from market trends while focusing their strategies on unlocking and capturing new opportunities.

Three trends, specific to SEA, have been identified as key for asset managers in the region: emerging demographic trends indicating growth potential (specifically, the rise of digital natives and rapidly aging Asian populations), the opening up of new pools of AUM and the growing investors' demand for product differentiation. These trends threaten to disrupt the traditional model of growth for asset managers, namely a product-centric strategy, and call for a more holistic and innovation-driven business model.

While several models of innovation exist, it is increasingly critical for asset managers to integrate multiple types of innovation, beyond just product innovation. Specifically, the Ten Types of Innovation® can be leveraged across offerings, experience and configuration in enabling asset managers to effectively capture new opportunities and mitigate challenges posed by emerging trends in SEA.

As growth opportunities globally become progressively narrower, SEA with its mix of mature, emerging and frontier markets could be of interest to asset managers. It will be imperative for asset managers to augment their business models through innovation to take into account the big shifts expected in this region, to achieve sustainable growth and to position for market leadership.

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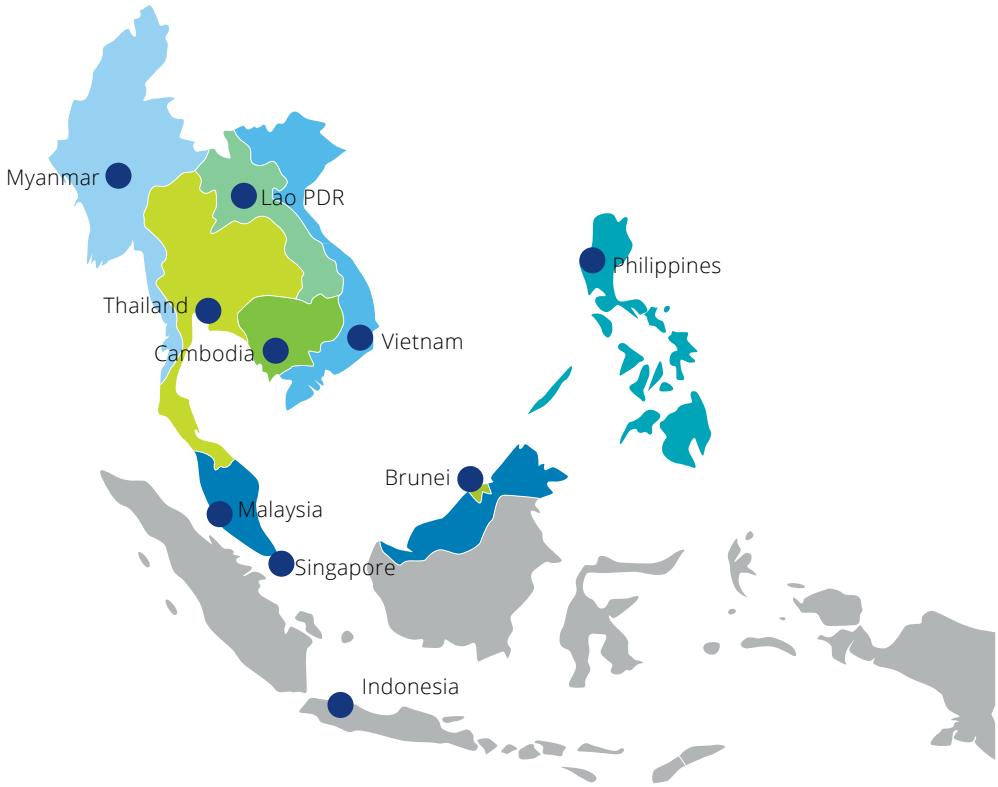
Executive summary

The ten markets that make up the Association of Southeast Asia Nations (ASEAN) form the 6th largest economy in the world and is projected to become the 4th largest by 2025.

There are emerging trends in the region that asset managers need to be cognizant of, including new pools of assets under management (AUM) opportunities totalling USD 3.5 to 4 trillion by 2025, across the institutional, high net worth (HNW) and retail segments.

To address these trends and be successful in the region, asset managers need to:

- Redefine the asset management business model with a set of strategic choices such as identifying where to play and how to win
- Build capabilities required to move from being product-centric to being innovation-driven in catering to the complex customer needs across the region
- Make it an imperative to integrate innovation levers such as developing strategic partnerships to penetrate local markets, and delivering digital value-added services to enhance customer experience

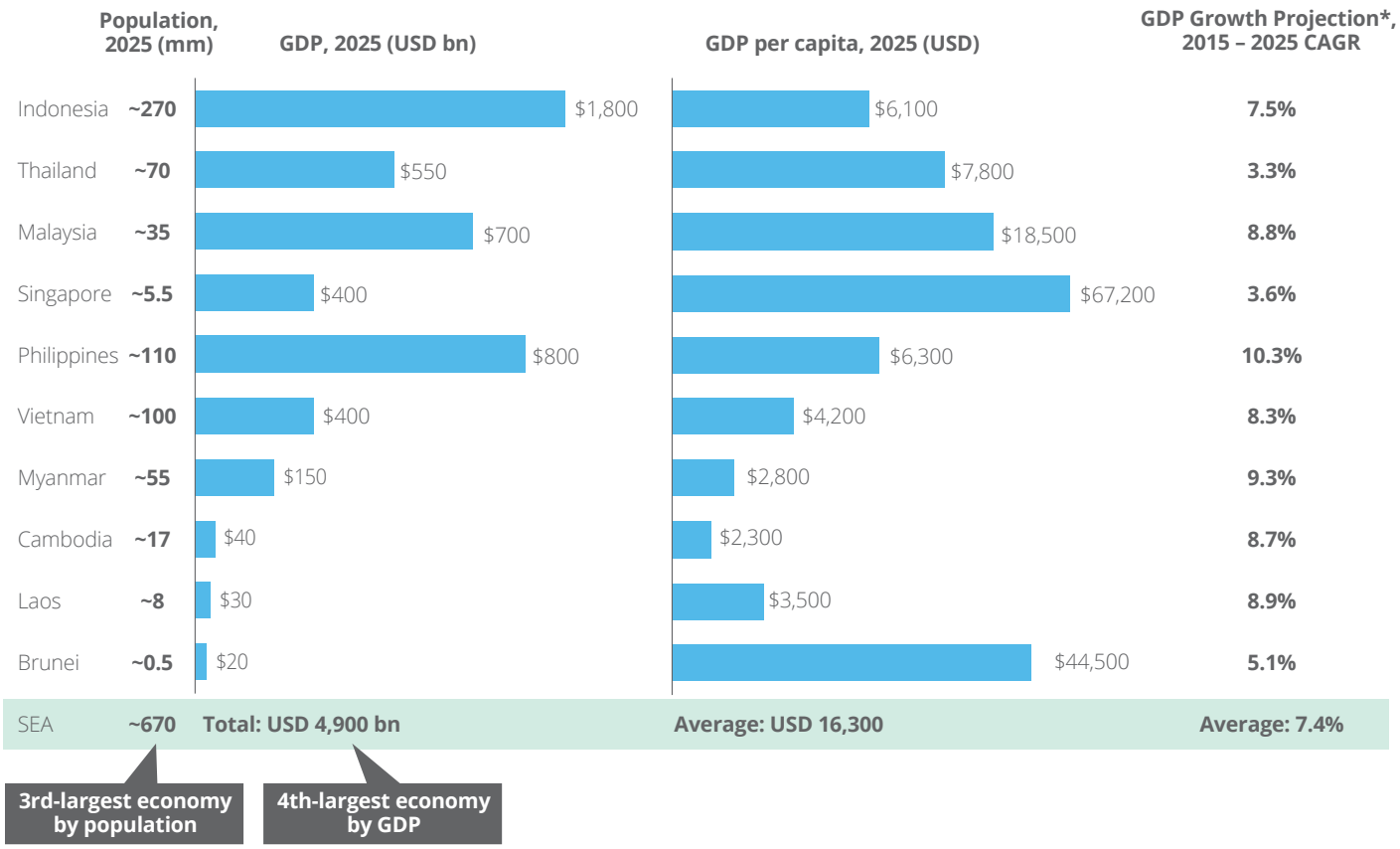


Southeast Asia's economic growth story

Southeast Asia (SEA) is widely acknowledged as the world's next growth engine after China. Currently the 6th largest economy globally in terms of GDP, the ten economies that make up the Association of Southeast Asian Nations (ASEAN) is projected to continue on its growth trajectory to become the 4th largest economy in the world by 2025, behind the U.S., China and Japan.

A large part of the region's growth story stems from the diversity and dynamism of its ten member countries. From an economic perspective, the differences are distinct – from the GDP per capita in Singapore being more than 50 times greater than some of its neighbouring states, to the vast size of Indonesia's growing middle class and economic output, and the double digit growth of Philippines and Myanmar (refer to Exhibit 1). Collectively, with a large and growing population, as well as an expected uptick in affluence across all income groups, SEA is quickly getting the attention of asset managers around the world, who are keen on tapping the vast and accumulating wealth in the region.

Exhibit 1: Population and gross domestic product statistics in SEA

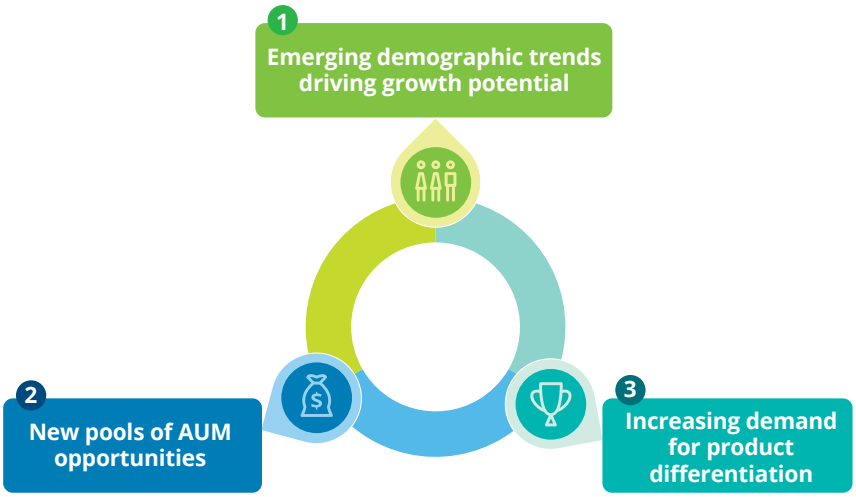


Note: *Gross domestic product, current prices
Source: EIU, IMF, Euromonitor, ASEANstats, World Economic Forum, Monitor Deloitte Analysis

Emerging trends in SEA

Based on the analysis of the key headwinds and tailwinds within and beyond the region that affect institutional and retail behaviour, three regional trends have been identified as having the most significant impact on the future of the asset management business in the region (refer to Exhibit 2).

Exhibit 2: Summary of trends in SEA



Source: Monitor Deloitte

1. Emerging demographic trends driving growth potential

Growth of digital natives

Millennials, who are raised in a digital, media-saturated world, are typically perceived as being familiar with and dependent on digital technologies. This demographic segment currently makes up 27% of the population in SEA[1], and contributes to a smartphone penetration of 35% in the region.

Potential implications for asset managers

The growth of digital natives presents a significant opportunity for asset managers, particularly those who are able to adapt their service offering and go-to-market strategies to cater to the preferences of this segment. One key success factor is the ability to create superior customer journeys, catered to digitally savvy customers, and founded on digital platforms that enable more efficient customer interactions.

Aging populations

Across the 12 key markets in Asia, the number of people aged 50 and above is expected to exceed 1 billion by 2025; of which 15% are from SEA. With East Asia aging at an unprecedented rate, the aging population in the region looks set to grow by about 22% every five years – between 2015 and 2034.

Potential implications for asset managers

The impact of an aging population in SEA can be felt across both institutional and retail investors. For example, public pension funds have to account for the uncertainties caused by demographic factors such as early retirement and improvements in life expectancies when estimating future liabilities (i.e. annual pension benefit cash flows). These uncertainties compel pension funds to seek risk-management frameworks that mitigate future cash flow volatilities while ensuring sufficient returns on investments to meet long-term liabilities.

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2. New pools of AUM opportunities

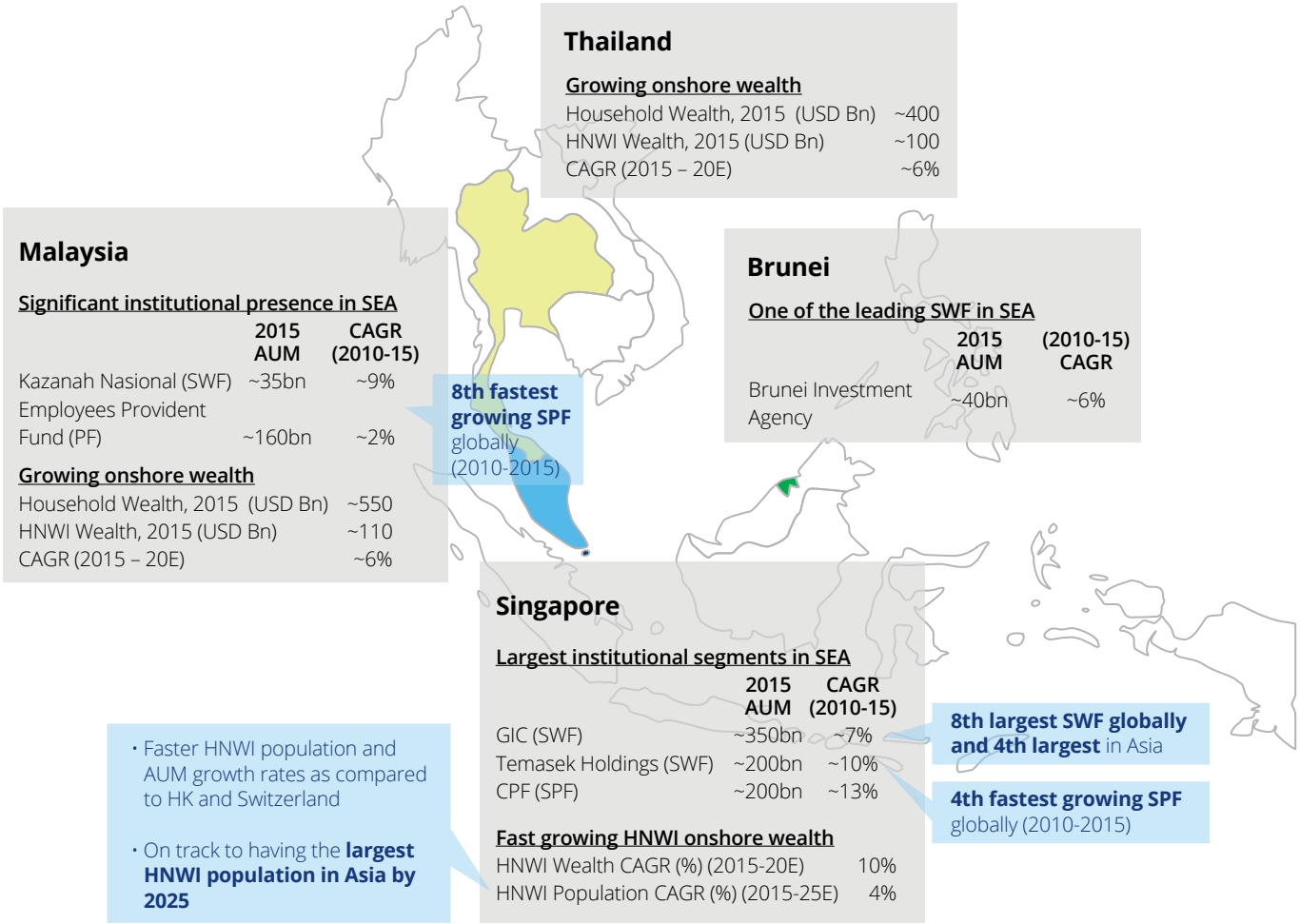
New wealth has translated into sizeable pools of AUM originating from institutional investors such as sovereign wealth funds (SWFs), pension funds (PFs) and onshore wealth in SEA.

These AUM opportunities reside within the institutional, high net worth (HNW) and retail investment channels in SEA. Conservative estimates indicate that SEA will have a total AUM pool of around USD 3.5 to 4.0 trillion by 2025, with the institutional segment accounting for more than half of that AUM opportunity.[2]

Potential implications for asset managers

While the size of investable assets in SEA is growing as a whole, asset managers need to prioritise strategically by focusing on the fastest growing pockets of opportunities such as sovereign wealth funds (SWFs), pension funds (PFs) and onshore wealth. Such strategic prioritisation would also need to take into account the alignment between the asset manager's long-term aspiration and its internal capabilities to support its goals.

Exhibit 3: Asset management challenges and strategic opportunities in SEA



Source: Willis Towers Watson, Sovereign Wealth Fund Institute, Credit Suisse, Knight Frank, Monitor Deloitte

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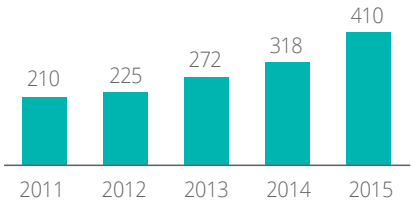
3. Increasing demand for product differentiation

In an environment of low or negative interest rates, investors in SEA have shown stronger preferences for a wider range of asset classes to access alpha. Specifically, income-oriented strategies as well as solutions which reduce portfolio volatility feature strongly in the SEA investor's portfolio. For example, investments in alternatives such as private equity, venture capital and real estate have almost doubled in terms of AUM over the last five years. Similarly, due to the fast-growing demand for Sharia-compliant products, the respective AUM has also almost doubled since 2012, albeit from a lower base (refer to Case Study 1).

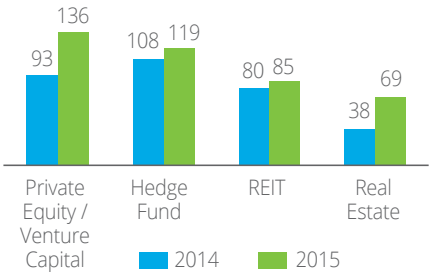
Case study 1: Growth in demand for Alternatives and Sharia products in SEA

In the SEA asset management landscape, the demand for new diversified products is best exemplified in Singapore (Alternatives) and Malaysia (Shariah).

Alternatives AUM (SGD Bn)

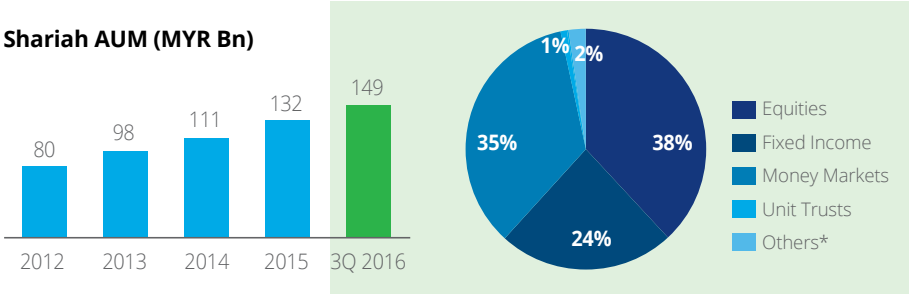


Alternatives Sectors (SGD Bn)



Alternatives AUM has almost doubled over the last 5 years. From 2014 to 2015, Private equity/venture capital and real estate AUM recorded strong growth rates of 47% to SGD 136Bn and 80% to SGD 69Bn respectively. AUM of hedge fund and REIT asset managers also grew, albeit at a more modest pace of 11% to SGD 119Bn and 7% to SGD 85Bn respectively.

Shariah AUM (MYR Bn)



Shariah AUM has almost doubled since 2012 with equity, fixed income and money market securities dominating more than 95% of the total Shariah AUM as of Sep 2016.

* Others consist of other asset classes such as wholesale funds, REITs, ETFs, closed-end funds, derivatives, business trust, payables, receivables, accruals and un-invested cash.

Source: MAS Asset Management Survey 2015, Securities Commission Malaysia, Monitor Deloitte

Potential implications for asset managers

Asset managers seeking to establish their bases in SEA, may find it a challenge to offer a value proposition that caters to a broad range of needs, especially if they do not possess the capabilities to develop and deliver specific products in demand. To drive the development of new products and solutions, asset managers may need to consider additional investments in internal capabilities such as enhanced portfolio management systems, analytics, risk and compliance management, as well as automated processes to support the development of new offerings.

Alternatively, asset managers may also consider partnering with relevant service providers or opening APIs to augment their value proposition without needing to build all the necessary capabilities in-house.

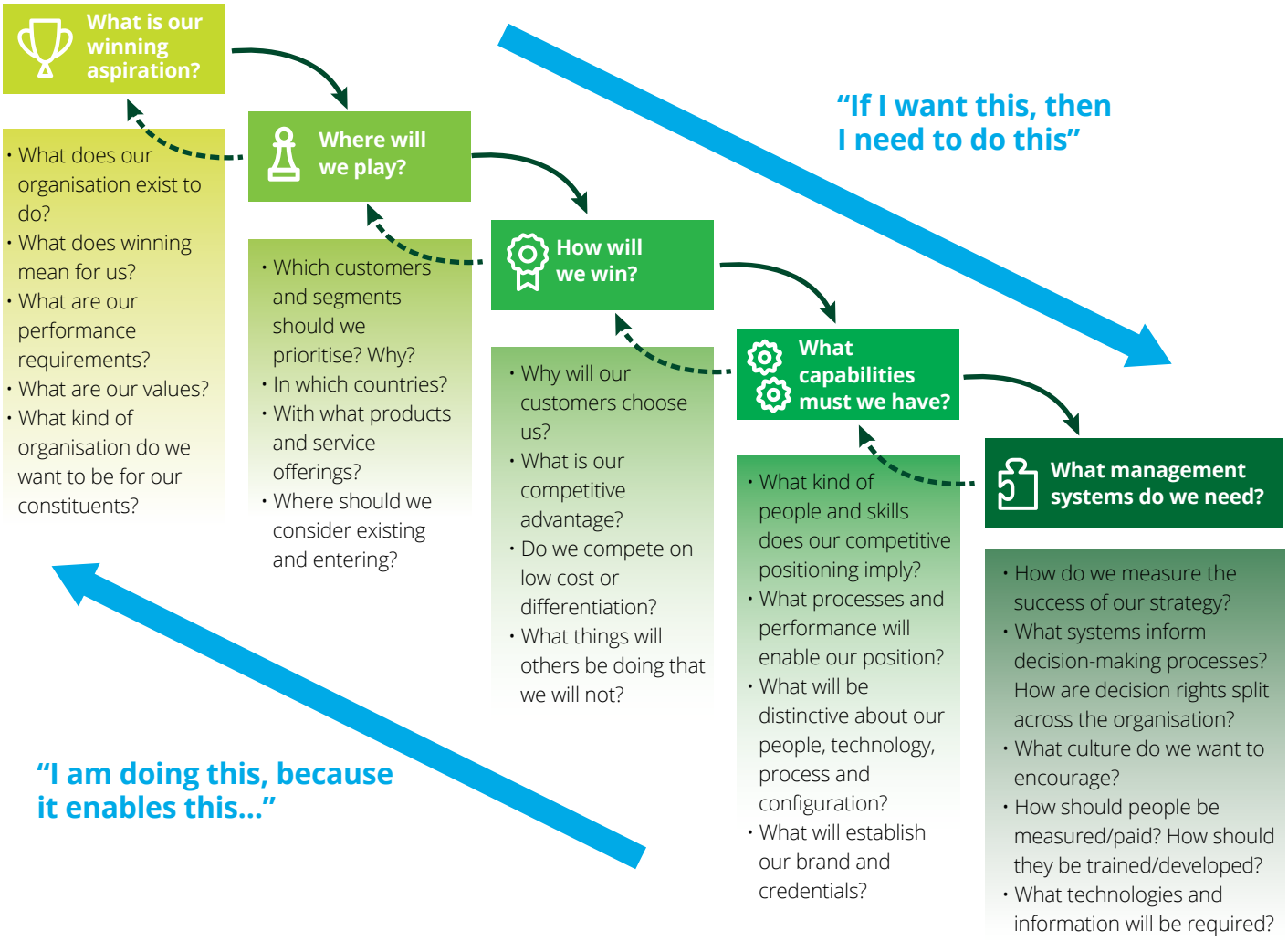
Addressing trends with innovation-centric business models

As the market dynamics in SEA continue to change rapidly, traditional product-centric business models are no longer effective in catering to the complexity of customer needs. This is especially so given that the region is characterised by a wide spectrum of differentiated economic conditions, as well as region-specific investor preferences and needs as well as the uncertain regulatory landscapes. Moving forward, asset managers will need to think of new models of growth that are driven by innovation in order to successfully mitigate challenges and capture opportunities in the long term.

Defining new business models with a set of strategic choices

The process of defining a new business model involves a rigorous exercise of calibrating a set of strategic choices, which asset managers could undertake to win in their chosen field. A framework that asset managers can leverage is the "Choice Cascade" developed by Monitor Deloitte. This framework features a template of questions that are solved simultaneously through iterative exploration, allowing the asset manager to define its business strategy in a structured and integrated manner (refer to Exhibit 4).

Exhibit 4: Choice Cascades



Source: Monitor Deloitte

Enhancing innovation effectiveness in every business model

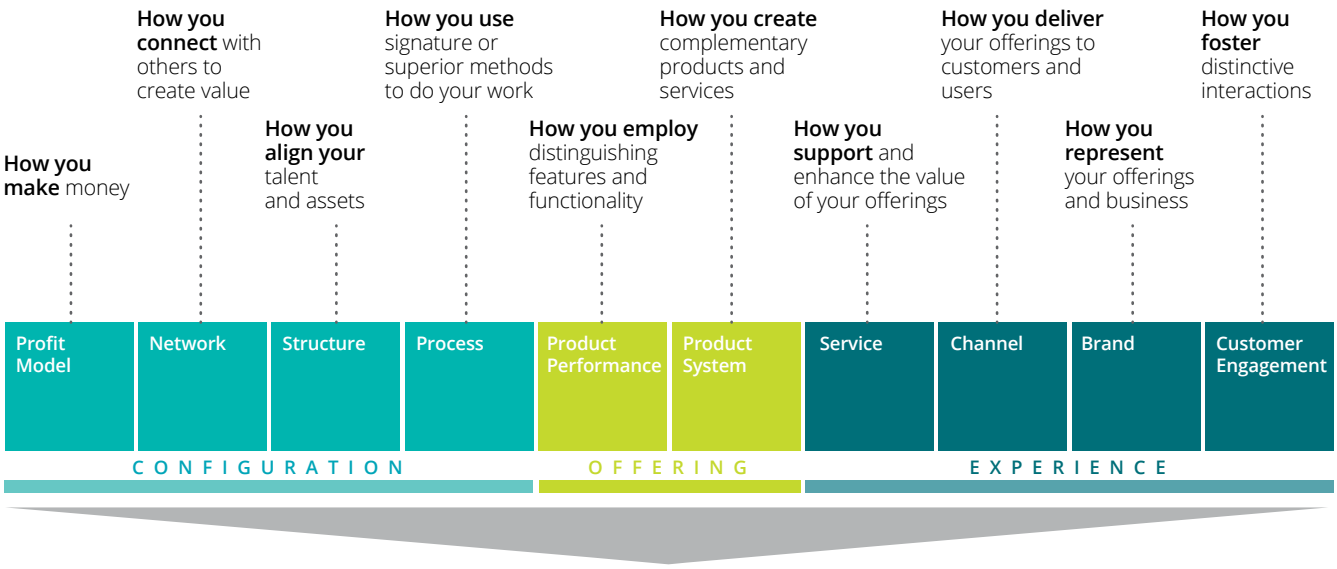
Asset managers need to enhance their innovation effectiveness if they aspire to win the long-term game in SEA. However, the innovation portfolios of asset managers currently operating in the region are restricted to the domains of product development. Successful asset managers of the future would be those who look beyond product and are able to integrate diverse sources of innovation to drive growth.

Monitor Deloitte's Ten Types of Innovation® provides asset managers with a powerful framework that identify areas from which innovation can be generated, as well as the key strategic approaches that can be activated (refer to Exhibit 5).

Exhibit 5: The Ten Types of Innovation®

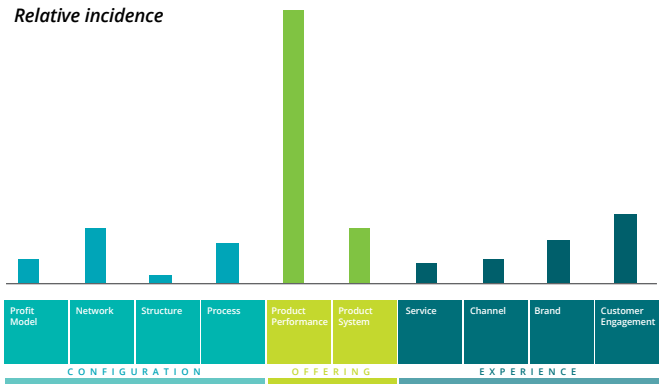
The learnings from Ten Types of Innovation® are particularly relevant when focusing on:

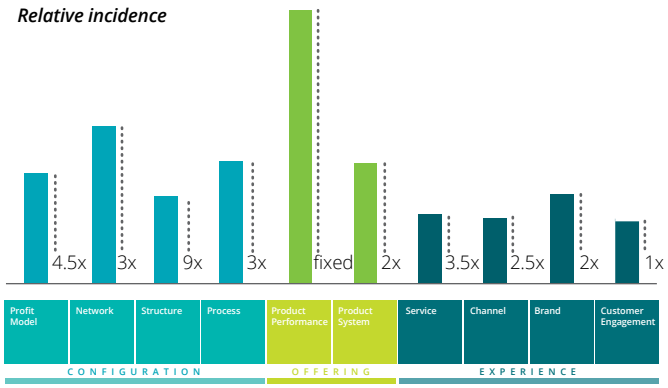
- Digital elements that can ignite multiple types of innovation
- Innovation strategies across the spectrum of configuration, offering and experience
- Creation of ecosystems that require the coherent combination of strategies, which makes them more disruptive and harder to replicate in full



The average innovator tends to pursue product-based innovation which integrates few other types...

...but the most successful innovators in the world have figured out to work more evenly across their business system to create lasting competitive advantage, leveraging twice the number of "Types" in their innovation



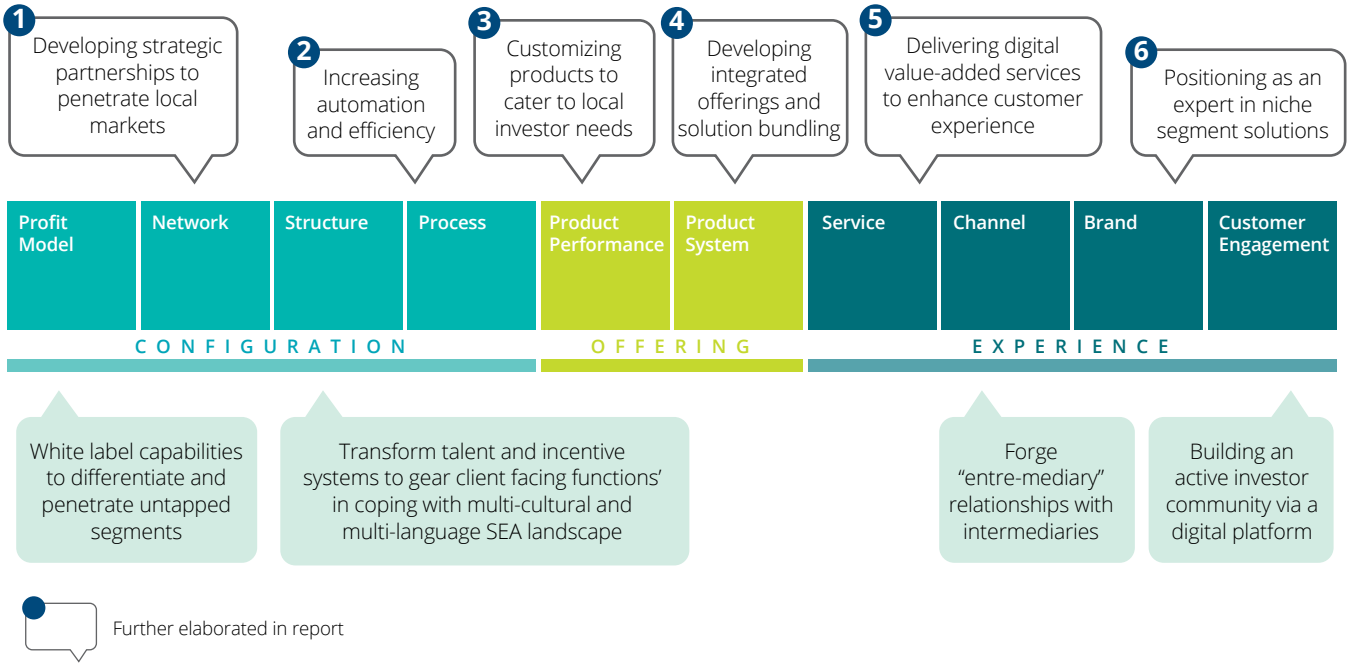


Source: Monitor Deloitte

Leveraging innovation to succeed in SEA

By leveraging the Ten Types of Innovation® framework, several areas of strategic innovation can be derived in the case of an asset manager aspiring to succeed in the SEA context (refer to Exhibit 6). This ultimately provides an asset manager with a greater arsenal to reinvent themselves in the region and effectively capture new opportunities whilst mitigating challenges posed by the emerging trends in SEA.

Exhibit 6: Potential areas of asset management innovation identified using Monitor Deloitte's Ten Types of Innovation® framework



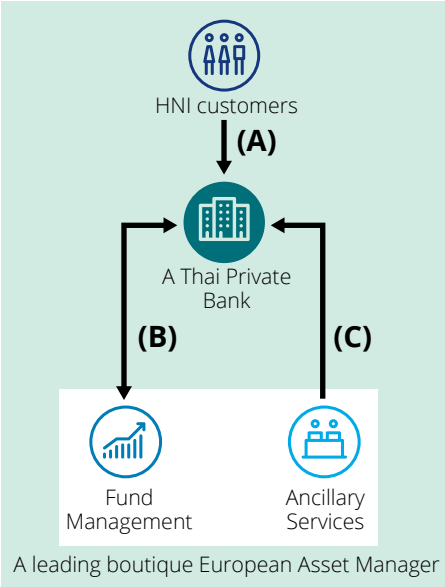
Source: Monitor Deloitte

1. Developing strategic partnerships to penetrate local markets

The establishment of partnerships with local champions provide a platform where asset managers can leverage on the distribution networks of local champions to accelerate their expansion in SEA. In Indonesia, a recent partnership between a global asset manager and local fund manager paved the way for both firms to distribute their respective funds within Indonesia and globally, creating a win-win proposition for both parties. Another example is the 2014 partnership between a leading boutique European Asset Manager and a leading local Private Bank in Thailand where the Thai Private Bank acted as a local distributor for the Asset Manager in circumventing the pay-to-play fund landscape in Thailand (refer to Exhibit 7).

Exhibit 7: Strategic partnership between a leading boutique European Asset Manager and a leading local Private Bank in Thailand

Despite intensifying pressures from European and North American regulators in clamping down on pay-to-play investment distribution models within their regions, the SEA intermediary investment distribution channel is still a predominantly retrocession fee-based landscape. This situation creates a dilemma for foreign asset managers that had or are looking to shift away from such models. A potential approach to circumvent this would be to enter into strategic partnerships especially with local private banking/wealth management leaders.



Description of strategic partnership between leading boutique European Asset Manager and a Thai Private Bank

(A) The Asset Manager formed strategic partnership with a Thai Private Bank to penetrate SEA market without adopting pay-to-play model

(B) The Asset Manager provides discretionary management services for Thai Private Bank's global investment funds for a management fee

(C) The Asset Manager also provides value-added services such as training and education for the Thai Private Bank's relationship managers and investment advisors, as well as raising the Thai Private Bank's overall investment service standards

Source: Company reports

Potential impact on asset managers

Developing an extensive partner network will enable asset managers to better access the various local opportunities in SEA, ranging from digitally-inclined millennials and aging populations to the growing onshore wealth. Through these partnerships, asset managers will not only save on building local business infrastructure, but also gain local market knowledge, capabilities and enhanced brand presence in their target markets in SEA.

2. Increasing automation and efficiency

Many systems and processes within asset managers are considered as "core" to their business operation. However, in an environment where a number of disruptors have emerged to provide low cost, sophisticated investment alternatives (such as robo-advisors), asset managers maintaining modus operandi practices are confronted with a tangible threat of market share loss. This is especially true in the SEA context where a significant portion of asset managers' existing processes, including portfolio allocation and risk management, are generally manual and fragmented. As such, asset managers looking to succeed in SEA in the future need to re-examine what are the critical systems and processes that should be maintained as-is, and which ancillary systems and processes can be automated or made more efficient through innovation.

Advanced analytics, cloud computing and natural language are three key innovations that can be considered as tools to breed such efficiencies and automation. For example, the use of advanced analytics would enable asset managers to leverage on advanced computer power, algorithms and analytical models not only to automate existing manual processes but also provide a new level of sophistication.

Potential impact on asset managers

Technologies and processes within asset management setups will become more streamlined and efficient helping adapt easier to the changing SEA landscape. The increased standardisation of processes, technologies and their interfaces will bring consistency across internal operations and facilitate the seamless sharing of data. Ultimately, with more processes being automated and made more efficient, greater capacity can be freed up for asset managers to invest in differentiating core capabilities in SEA, enabling them to provide higher value services to a broader customer base.

3. Customising products to cater to local investors' needs

Asset managers should focus on local product development in order to tap on the growing demand for localised solutions. Offerings designed to cater to American and European buyers are less likely to perform better than locally developed solutions for the increasingly sophisticated and diverse SEA client base. Furthermore, many local institutional and retail investors in SEA express a higher degree of comfort with local products that had obtained the necessary approvals from local regulators, especially due to the reduced headline risk if investment objectives are not met.

Customising products that cater to the needs of local investors involve either the development of new local products or leveraging current products to address local needs. In fact, a regional asset manager has leveraged this innovation lever and started developing new local products, providing investors access to Sharia-compliant infrastructure investment opportunities in SEA and other Asian markets.

Potential impact on asset managers

By developing a range of differentiated local products that are unique to the local investors' needs, asset managers are better positioned to tap on the oncoming trends within SEA, such as the rising demand for a wider range of asset classes, including Sharia-compliant products. By having a head start in adapting product development to local preferences, as well as building complementary capabilities, asset managers stand a chance to build a sustainable competitive advantage in SEA. In-house asset management-specific analytics systems are examples of capabilities that can monitor changing investor needs in real time, enabling asset managers to build or bring in the right products for local markets and drive product innovation for the future.

4. Developing an integrated offering and solution bundling

In providing holistic investment services to the local SEA investors, asset managers can consider an even more comprehensive offering by going beyond just products and examining opportunities in bundling solutions to complement these products. Several large global asset managers have incorporated this type of innovation into their portfolios. For example, some asset managers have developed in-house platforms that provide sophisticated risk analytics with comprehensive portfolio management, trading and operation tools for their customers to make informed decisions, apply effective risk management, and practice efficient trading and operational scale. Others have started offering consultancy services to clients by providing advice on asset allocation. By bundling their respective solutions with products, these asset managers have built a system of integrated global offerings that enable them to better serve the needs of a wide range of clients based in different geographies, including SEA.

Potential impact on asset managers

In addition to addressing the trends stated in the product performance innovation category of Monitor Deloitte's Ten Types of Innovation® framework, providing customers with an integrated product offering and solution bundling options will enable asset managers to connect more closely with the digital natives whom are growing more prominently as a demographic segment in SEA. Moreover, asset managers will be able to further augment their value proposition for clients through the "shelf space" gained from these user-friendly digital and non-digital tools.

5. Delivering digital value-added services to enhance customer experience

While most asset managers tend to focus solely on product innovation, it is important to include a strong element of service innovation in order to possess a comprehensive innovation portfolio.

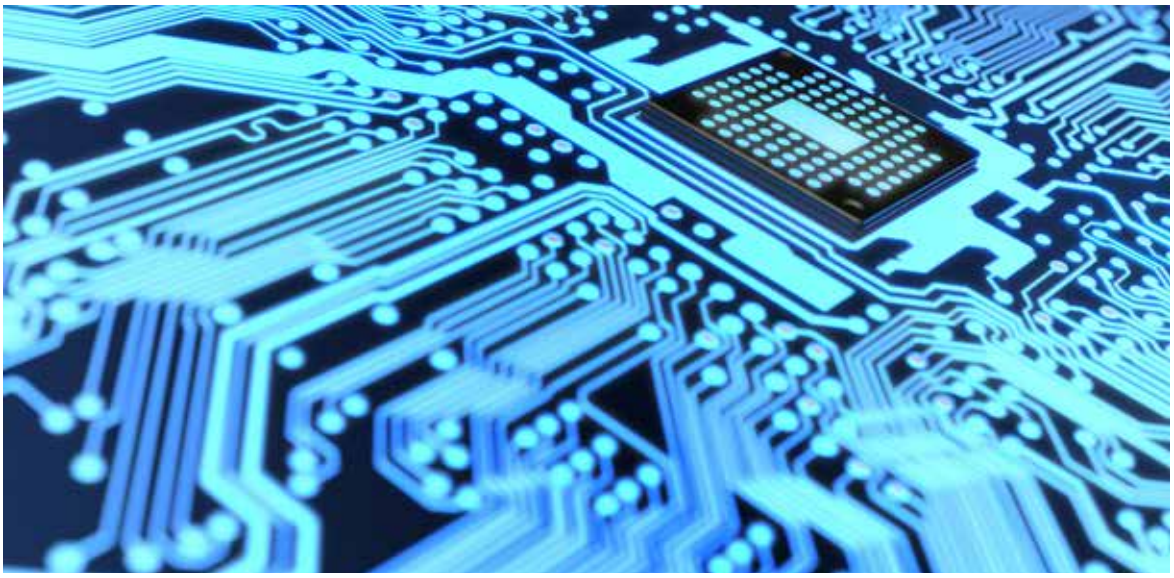
To this end, digitally-enabled value-added services can be a key source of innovation and competitive advantage for asset managers. Such services include the use of web and mobile tools, as well as digitally-driven advisory to enhance the client experience. For example, to compete against new entrants for market share from millennials, there have been many cases of global asset managers launching robo-advisory services through new service platforms. This rides on the fact that robo-advisors are expected to manage around 10% of total global AUM, or around USD 8 trillion, by 2020[3]. Given that the demand for robo-advisory services in SEA is expected to reflect global digital trends, there is a significant opportunity for asset managers to grow AUM, win over digital natives, and engage customers more frequently through digital platforms.

Potential impact on asset managers

Digital value-added services encourage a customer-centric model, which brings asset managers closer to the customer and accelerates the development of relevant offerings to address the increasing demand for differentiated products. In effect, it provides asset managers with a stronger lever to compete against new entrants and be more effective in gaining market share from the digital natives. The ability to serve the needs of multiple segments will be solid foundation in the asset managers' aspiration for future expansion in SEA.

Nonetheless, in order to be able to provide digitally-enabled value-added services, asset managers need to build additional supporting operational and technological capabilities. A key consideration for accelerating time-to-market and enhancing functionality is the use of open application programming interfaces (APIs), which allows the asset manager to leverage best-in-class third-party software and integrate it into their solutions via a "plug and play" arrangement. Open APIs are particularly useful in the asset management industry, where market data acquisition continues to be a time-consuming process. With open APIs, asset managers can now link their systems with external data feeds, which provide real-time, historical and reference data without the need for complex data-management systems[4].

3 BI Intelligence (2016)
4 Deloitte (2016)



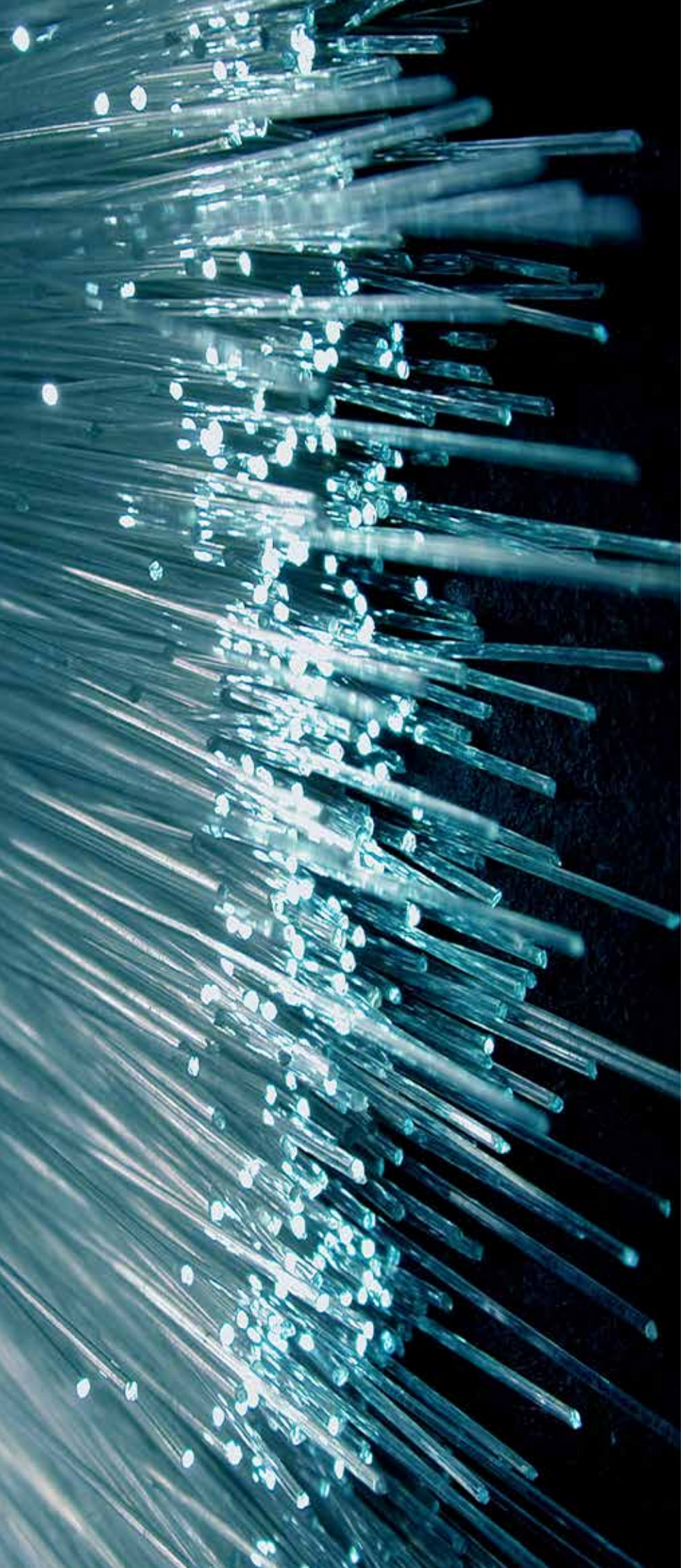
6. Positioning as an expert in niche segment solutions

To capture investors' confidence in asset managers' products, there is a need to boost asset management presence and positioning within the local investment community. Instead of trying to fulfil every segment in the market, asset managers can selectively target specific markets/segments and brand themselves through various communication means as leaders in a particular suite of products and services.

Some asset managers have chosen to focus on the growing retirement segment. Solutions to convert retirees into customers include online retirement calculators to help prospective customers project saving requirements, retirement institutions, as well as retirement financial advisors. These dedicated solutions help strengthen the company's reputation as a retirement planning expert, thereby improving rates of customer acquisition.

Potential impact on asset managers

Through the development of a niche segment-centric branding, asset managers are able to directly tap on the tailwinds of the emerging trends in SEA to accelerate their growth in the region. There will be a greater efficiency in the management of resources with a targeted brand and segment, instead of casting the net too wide and stretching resources thin within the region. Branding and marketing efforts will also be more effective due to the deeper understanding of and alignment with the segment's interests, goals and behaviours. These efforts will result in increased brand awareness of the asset manager within the region, and eventually translate into better client acquisition and loyalty rates.



Conclusion

In a decade where growth opportunities are increasingly obscure, the justification for asset managers to prioritise the SEA region becomes more pertinent. In order to increase the prospects of success in the region, business models need to be re-calibrated to suit the overall landscape.

Asset managers looking to succeed in SEA need to consider a series of strategic choices to define their go-to-market strategy and address the oncoming SEA regional trends. The ability to integrate different types of innovation into their business models will be a determining factor that enables asset managers to successfully unlock and capture opportunities, as well as mitigate potential challenges that may emerge from shifting market dynamics.

In summary, this is an opportune time for asset managers to position themselves for sustainable long-term growth in the region and focus on building plays that could help in truly differentiating themselves in the market.

Acknowledgements

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