Alpha

Alpha Outlook
2020

Letter from our Global CEO, Euan Fraser

The 2020 global political outlook has a number of key events on the horizon, such as continued Brexit activity, the US election, plus ongoing US / China trade negotiations. In addition to these macro topics, our industry is also facing significant changes: the need to digitise, the need to respond to fee and margin pressure, and the changing needs and expectations of customers. Little wonder then that 2020 is set to be an important year for the industry.

This outlook paper, written by a selection of Alpha's experts, covers a number of topics where we expect the industry to change and develop in 2020. Regardless of the global outlook, the firms that most successfully navigate through these industry changes will be most prepared to succeed in the long term and Alpha is very well-placed to help our clients on this journey. We summarise our key topics for the next year into three themes:

- **Consolidation:** we expect to see more M&A activity as firms look to generate economies of scale. We also expect further operating model consolidation as firms pick enterprise-wide systems and simplify global outsourcing relationships. Finally, we expect a much greater focus on the P&L of specific strategies, with product consolidation for those which are not deemed viable
- **Regulation:** the onslaught of global regulation isn't going anywhere – with SMCR coming into play requiring much greater individual accountability, CSDR transforming settlement penalties and the uncleared margin rules coming into force for small/medium managers. We also await the 2020 SEC Examination Priorities in the US. Finally, we are expecting a much greater focus on operational risks and resiliency within firms globally
- **Innovation:** we expect to see even greater investment in digital and agile, with processes being reinvented end to end, rather than just at the client end. Fintech will continue to challenge how the industry approaches problems, and we expect more collaborations between the incumbents and the startups. We also expect to see more focus on product strategy with ETFs and Alternatives continuing to gain focus

2020 will no doubt be a busy year for Alpha and its clients. We hope that you enjoy our 2020 outlook paper and we look forward to continuing the conversation with you through the year.

Profitability: Rising To the Top of the Agenda

The past 10 years have shown a paradigm shift in the world of asset management. For many years, companies have grown their capabilities and product suites with new launches, responding to market circumstances, changing client demand, or just a way to gather attention in the market and attract new assets.

Today, many companies are stuck with too many investment products that have no growth potential. This can be the result of the surge of passives, the focus on value for money, or fee levels that are not competitive. On the traditional fixed income side, the "low for longer" environment also puts tremendous pressure on fees and performance. Parts of the traditional offering do not add value to client portfolios, and the heavy cost of portfolio management and operations makes it a burden on the company's P/L. Lack of client interest in these products leads to lack of growth or shrinking AUM, while the business model is based on profitability by building scale. Rationalisation of unprofitable product ranges is highly desirable, but most asset managers struggle to accurately capture costs at a strategy level.

Coen Verheij,
Netherlands

At the same time, we are seeing some managers make investments in newer asset classes and products e.g. liability driven solutions, balanced products, ESG and alternatives. These asset classes may help clients differentiate themselves or find new sources of alpha, all of which are important in generating sustainable profitability.

That said, the distinction between "old and new" is not that easy to make. Pure play traditional building blocks of substantial size run by scalable teams with a proven process and track record can still drive profitability for many years. At the same time, investing in asset classes that offer more business potential requires new skills and hard work. Seed capital requirements and uncertain commercial potential force the business to seriously scrutinize new initiatives on commercial potential.

It all starts with a thorough review of the product offering as a cornerstone for the company's strategic path to growth and profitability. What is the real cost of running different product lines, how flexible is the organisation in managing cost levels and assigning capacity to the right offering, and can the business benefit from scalability?

Clear analysis of profitability will demonstrate to management which choices will have to be made in making the business model ready for the future. We expect to see a much greater focus on profitability of specific strategies and management teams will be determined to close the products that don't make the grade.

Distribution Data Analytics: Inundation or Innovation?

Sam Browning, USA

In 2020 leading Distribution organisations will need to find innovative ways to help their client-facing staff identify the important signals within our industry's noisy data landscape. Across Sales, Marketing and Client Service, firms have invested heavily to establish and integrate technology platforms, purchase third-party data feeds and curate internal information often tucked away in organizational siloes. Ranging from Client Relationship Management platforms and website behaviour tracking to new manager search and market sales data packs, sales professionals are now spending up to a third of each day sifting through data in search of buried treasure.

Against this backdrop of decades of technology and data acquisition, the challenge organisations now face is no longer one of data availability but rather data usability. So how will the leaders address this?

First, firms must drive cultural change to encourage tighter relationships between sales professionals and data analysts. Some will do this by establishing Distribution Intelligence functions that will invest in business-facing individuals with strong analytical skills. These groups must be given specific business problems to solve grounded in available data. Most importantly they must have a mandate to deliver understandable and deployable solutions – leaders will avoid the pitfall of the black-box pet project whose output is difficult to understand and will never be able to stand on its own two feet.

Second, careful selection of strategic external data partners will be important. The industry is inundated with vendors that provide multiple lenses on the same data, creating an information kaleidoscope. It's not uncommon for a single sales professional to have multiple licenses to an array of third party data platforms that they rarely use. Leaders will select a partner for a given data segment or category and find ways of getting that data on-time, in the right shape, and in a manner that allows them to pool the data centrally and serve insights to their end users.

Finally, 2020 will see firms building Distribution Analytics applications that combine these multiple data sources to present valuable opportunities for client acquisition or retention. Where does our current share of wallet and brand positioning indicate the strongest growth opportunities? Given our product's competitive positioning and recent engagement behaviour which of my clients are most at risk of divestment? Based on favourable product views and superior performance, which consultant-led manager search should I respond to next? Leaders will not only be able to answer questions like these, but will be able to do so rapidly, repeatably, and with minimal human involvement.

As we enter the new decade our industry is data rich but insight poor - 2020's winners will make sure their sales professionals are armed with just the right level of information to excel.

The Growing Importance of Product Innovation

Driven by the fundamental shifts in the industry, continued squeezed margins and increasing competition, we believe that 2020 will be about asset managers taking a holistic approach to product innovation. Innovation of product offerings will extend into more fundamental corporate strategy decisions – asset managers need to innovate for existence.

We expect incumbents to clearly define and articulate their value proposition both internally and externally. This fundamental shift will position asset managers on one of two ends of the market spectrum – boutique alpha generators who will focus on bringing exemplary returns through building blocks of an overall client solution, or global distribution giants with the scale to create multi-asset solutions.

Accordingly, innovation in product will transcend the traditional realms of a product development function to a more strategic role in delivering client outcomes.

In order to be innovative, asset managers will need to develop their offerings in the context of the clear difference between product alpha and solution alpha. Product alpha will continue to be about superior investment returns whilst solution alpha will be about going the extra mile – investors want specific outcomes and as such active, passive and smart beta products will start to peacefully co-exist in a balanced portfolio.

Product innovation will focus on delivering more customised and adaptive offerings that evolve to meet investor requirements through the investor lifecycle, as opposed to the more conventional product lifecycle. D2C providers will focus on developing access strategies that provide end-investors with such products through a seamless digital experience. Access strategies will also be crucial as asset managers respond to the growing demand for alternatives, especially liquid alt strategies, infrastructure and real estate.

Sanam Arora,
UK

2020 will be the year that active starts to meet ETF on scale; following the SEC's approval of Precidian's 'non-transparent' ActiveShares structure we expect considerable focus on launching active management offerings in such a wrapper. Though liquidity remains a front-of-mind concern for many, savvier retail investors are increasingly impatient to access traditionally beyond-reach private markets. We expect product development teams to consider interval funds at some length to cater to the emerging 'I want it all' investor mindset, balancing the desire to achieve higher yields than traditional mutual funds in a cheap and relatively liquid manner.

ESG will continue to occupy much time and effort, as asset managers realise that a wait and watch approach is no longer viable. Integrating ESG into the investment process is in 2020 a base minimum expectation and on its way to becoming a crucial outcome of investment solutions.

Closet trackers are set to become a thing of the past, following global regulatory focus on costs of investment and increased fee competition. Fee models must start evolving, not only is the asset manager inertia of moving investors to cheaper share classes changing, but a more fundamental interrogation of the AMC has been triggered, and asset managers would do well to innovate their charging structures to respond appropriately.

Starting 2020, innovation in product will also extend into being in the driving seat of true cultural change, as Product Governance and Value for Money requirements start to get embedded across functions. Requirements to disclose the results of value assessments already exist in the US and UK and the CSSF, SFC and CBI are widely expected to soon follow.

Historically much neglected, asset managers will also feel the pressing need to invest in their product technology ecosystem, as investor and regulatory demand for near real-time data will start to hurt slow movers.

In 2020, firms that are unable to innovate and be responsive to an outcome driven client will suffer. Those that fail to innovate in their internal product capability – people, data and technology – may suffer more still. However, those that invest in 360 product innovation will capture the great opportunities brought on by the next decade of asset management.

Front to Back: A Platform for Change

Mike Burns,
USA

In 2020 we expect the trend toward platform consolidation across asset classes and functions to continue. The idea of a front-to-back platform certainly has a ring to it. For asset managers with fragmented architectures battling the complexity of data, regulation, user demands and cost pressures, it's easy to see the appeal.

But the reality for most asset managers as they survey the evolving landscape is likely to remain the same - there is a good deal of hype, some real opportunities, and very few silver bullets.

The consolidation of vendor systems and services in recent years - through acquisitions or strategic partnerships - has had several different flavors. Some tie-ups offer the asset manager significant opportunities for operational efficiencies, data consolidation and interoperability. At the same time, there are seemingly daily reports of promising new vendor tie-ups which are in fact not a great deal more than a joint press release.

The winners will be the managers that are able to separate the signal from the noise - and take full advantage of the efficiencies afforded by a front-to-back strategy, while retaining the flexibility to respond to external events.

To achieve this, managers should carefully consider the opportunities in the context of their own operating model and business objectives. In evaluating which platforms offer the greatest opportunity, the firm needs to look beyond functional requirements and compatibility and ask broader questions of the potential providers – will the vendor be a trusted, strategic partner for our firm? Do we believe they can deliver? Will we still have the flexibility to adapt to evolving market conditions or changes in our firm's strategy?

As ever in our industry, there is no one-size-fits-all solution. And as the scope of new technologies gets broader, the complexity and cost of any associated change also increases - so it is more important than ever that managers have confidence in the business case and the alignment of vendor partners with the strategic objectives of the firm.

For firms that approach this in the right way, the current market offers exciting opportunities for building the simpler but flexible platforms that will be needed to compete in the years to come.

Outsourcing in the Cloud

Beth Scaysbrook,
UK

The outsourcing relationship has evolved significantly over the years and we don't anticipate 2020 to be any different. The increasing cost and regulatory pressures in the market will continue to put pressure on administrator relationships with both managers demanding more for less and service providers looking for new ways to maintain margins. As such we are seeing the traditional client-provider relationship develop into longer-term strategic partnerships with managers consolidating their outsourcing arrangements and seeing service providers as a key enabler to achieving their strategic goals.

In search of new revenue streams, providers will continue to expand their service offering notably up the asset value chain with outsourced dealing gaining significant traction in 2019. Concurrently, the increased sophistication of asset owners is driving a number of new demands by managers on their providers, from increasing the maturity of private market capabilities and provision of a truly global operating model, to provision of real-time data through more mature technology stacks such as API and Software as a Service (SaaS).

The move to SaaS solutions will be a significant shift in the outsourcing relationship, with providers becoming an extension of their clients' operating model with shared technology and data, blending the operating boundaries and solidifying long-term partnerships.

The outsourcing of services to third-party cloud-based solutions will raise similar challenges experienced in other industries such as security and regulatory oversight. Managers will need to place greater focus on their contingency plans for service provider failure and the effectiveness of their oversight functions. In addition, these increasingly co-managed operating models with less mature outsourced services, will further blur the lines of ownership between manager and provider. The challenges associated with segregation of duties and responsibilities have already impacted functions such as Corporate Services and we expect this to continue in 2020.

The drivers for change, and their relative influence will vary across firms however, we expect 2020 to bring more operating model choices to clients regardless. Outsourcing will likely be irreversibly changed through the introduction of cloud-based technologies and will continue to evolve over the coming year and beyond.

Andrew Glessing,
UK

2020 The Risk and Compliance Landscape

Asset and Wealth Managers continue to face a full regulatory agenda. After a sustained period of significant change in regulations, 2020 is the year when the Regulators are expected to pursue their national priorities and see recent European requirements and global initiatives demonstrably and fully embedded. Top priorities for Asset and Wealth Managers in 2020 include regulatory & client reporting - European regulators will expect to see demonstrably timely and accurate reporting, particularly transaction reporting. Asset Managers recognise the regulatory risks of inaccurate reporting and will increasingly look to better automate, improve controls and data accuracy and complete back reporting of errors.

We also expect more focus on Liquidity given recent high profile of liquidity management, particularly in the UK, the industry will be enhancing Liquidity Risk Management with IOSCO Objectives and Principles in mind.

Following the implementation of Value Assessment in the UK, European Regulators will continue to keep a close eye on the regulatory outcomes and the extent to which the industry delivers overall value in their eyes. Regulators will also look for Asset Managers to have clear policies in relation to sustainable and ethical investing to demonstrate a consistent approach, in line with expected standards.

Governance and Conduct is firmly on the agenda of all global regulators, with earlier market failures and the LIBOR scandal contributing to a drive for enhanced accountability and Conduct. Operationalising SM&CR and demonstrating the right conduct culture is a key priority for UK solo-regulated firms.

Continually improving Risk Management is a growing priority for Asset Managers wanting to keep on top of changing regulatory and investment & operational risks. Fully embedding a culture of risk ownership and accountability, backed by an effective risk management framework are fundamental building blocks needed to address 2020's risk agenda.

Private Markets: Growing Up

Private Markets have continued to see significant inflows against a backdrop of lower returns in traditional assets. Alpha's clients have been building their businesses steadily, but we still see the operating models lagging behind their public markets' equivalents. In 2020 we expect to see firms investing in technology and focusing on scalability and improved client service.

Sustained growth requires operational maturity, and firms must adapt to provide greater flexibility in their investments and increased sophistication in their operations. Where historically firms have 'scaled' their businesses simply by adding more people, with large firms often becoming less efficient than their smaller peers, this is no longer a viable strategy.

Investors' demands are rising, institutional investors who are accustomed to the service levels of traditional Asset Managers and public markets require greater transparency and flexibility in reporting that most private markets businesses are not set up to provide.

In private markets, competition for good assets continues to rise – hiking valuations and placing greater emphasis on value creation to ensure satisfactory exit multiples. Increased flows into Real Estate and Infrastructure assets has resulted in more scattered data and a greater headache for firms managing the extra load. Firms are also increasingly pressured to consider ESG issues in their investment decisions, adding layers of complexity to the investment process.

Dominic Coyle,
UK

With the rapid change Private Markets are experiencing, firms will find themselves asking similar questions;

- How do we ensure and track value creation?
- Can we scale?
- How do we service more sophisticated investors?

For many of these, the answers lie in transitioning from 'spreadsheets & process' to 'systems & workflow'; embracing technology to minimise manual tasks, automating or outsourcing low value-add activities and utilising data to support decision making. We've seen an increase in 'AltTech' built specifically to tackle these challenges and capabilities throughout the investment lifecycle are being digitised as this area of enterprise technology expands. Solutions can now supercharge deal sourcing through big data, track value creation opportunities or reduce duplication of efforts in due diligence.

In 2020, Alpha anticipates firms will tackle challenges of inefficiencies by continuing to embrace technologies and adapt operating models to focus on core value-add activities. Firms looking to compete for capital in 2020 should look to review and redesign their client experience, mirroring trends we have seen in traditional Asset Management, to meet new demands set by investors. Alpha anticipates further growth and competition in the Private Markets space for 2020 – where success will increasingly benefit from developing greater efficiency across the value chain.

Jamie Forrester,
UK

Digital Wealth: Something of an Enigma

Two years on from our first survey of Digital Readiness in Wealth Management, Digital remains something of an enigma for the industry. In our 2019 survey, 25% rated themselves as Fast Followers or Digital Innovators vs. 31% in 2018. 2019 saw exits across Europe from UBS SmartWealth (UK), Allianz (CH), Investec Click & Invest (UK) and dilution of Nutmeg's Digital-only proposition as it brings on Advisors. So, regression or realisation?

Both Digital and the Client Experience respectively were ranked as top priorities for firms both years, although more strongly in 2019, backed up by levels of investment too. We contextualised our 2019 survey as the start of a post-regulation wave of investment and increased competition; these statistics and market moves suggest that is happening. And in 2020 we'd expect to see the sense of realism, the competitive tension and increased investment start to pay off.

In 2020 we expect to see increased focus on client onboarding, the process our clients love to hate. It's the first impression made to a client, commonly can take 6+ weeks and absorbs significant time from the Front Office, Compliance and Operations. Automated advice will continue to be a highly desirable prize. Larger incumbents have been watching the innovators with interest in this space. As the findings of FAMR, the AM Market Study and fallout from Woodford drive consolidation in fund ranges, Automated Advice techniques will start to proliferate in 2020. Despite recent robo-exits, firms are still looking seriously at how to use digital media to engage with both existing (typically older) and newer (typically younger) clients. We will see more forays into fintech solutions and digital channels, particularly where it supports inter-generational transfer in existing and new channels.

One of our two big challenges for 2020 is the wealth manager data operating model. Firms have long under-invested and created cottage industries around different data-consuming processes. It's hard to solve, but a root-cause of many of the cost, risk and efficiency challenges in client- and regulator-facing activity. The second is culture and people, which was the highest-ranked barrier to Digital change in our 2019 survey and evidenced by an industry that's lagging its neighbours in retail (banking, insurance) and institutional (asset management) on the agile journey.

Legacy technology slipped to the second largest barrier to change in our 2019 survey behind culture. We continue to believe that core technology is not the place to start the Digital journey and not going to offer the most significant step-change in Client Experience or Cost Base. We see industry-wide challenges with paper forms, data re-keying, high error rates and lost processing time waiting for sign offs / inputs from a multitude of people. In two of our recent initiatives, simple, configurable, low-code automation technologies form the backbone of the target state.

Wealth Re-platforming: A Strategic Imperative

The core technology at the heart of the Wealth Manager will play an increasingly vital role in delivering business success in the future. Without a modern, agile and future proofed technology stack, Wealth Managers will struggle to grow and thrive in the new world of Wealth Management.

For too long the inefficient nature of operational processes in Wealth Managers have been accommodated due to continued customer and revenue growth and distractions with regulatory change. This has been coupled with limited innovation in Wealth Management focussed technology and an immaturity in delivering transformational business change.

In recent years, a small number of Wealth Managers have begun transformational exercises, to update their technology stack, and deliver significant improvements to their operating model, to meet the needs and demands of a modern Wealth Management business. These early adopters will begin to see the fruits of their labour throughout 2020 and beyond, as they streamline their operating model and deliver significant savings to their Operations and Technology teams, releasing budget for continued developed and innovation across the business.

Bradley Northrop,
UK

For those that have not yet made any decisions regarding their approach to technology, 2020 will be the year where strategies are developed, roadmaps are drawn out and business cases developed – in short 2020 will be the year that significant technology and business transformation decisions are made.

The foundations were laid throughout 2019. With significant development improving technology vendors core platforms, an emerging and vibrant WealthTech landscape, and a burning platform for the industry to deliver improvements to the operating model. Those early adopters have laid the path for the industry to follow, and follow they must, in order to realise growth opportunities in the market and deliver operational efficiencies. Those businesses that fail to respond will struggle to grow and scale, requiring additional resource to manage increasing levels of assets and clients, or worse still, start to see assets migrate away into the hands of the competition.

Many factors are making re-platforming a business imperative. These factors include ageing legacy platforms, crumbling manual processes and a need to modernise the operating model. This is in addition to increasing customer experience demands, management oversight requirements and the impact that current systems can have on operating margins. Technology and outsourcing choices can have a significant impact on competitive advantage, so making informed decisions is key to success. Tactical fixes may work in the short term, but long term success will go to those firms that embrace technology and link it to the demands of the modern client. Those that make positive progress throughout 2020 will be best placed to adapt to a changing world and drive the industry into the new digital landscape.

Wealth Management & ESG: what inheritance will you leave?

Responsible Investing and the consideration of Environmental, Social, and Governance (ESG) issues as part of the investment process are increasing in visibility and priority across the investment marketplace. Where once these topics could be considered a PR exercise, addressing them rigorously is now a commercial imperative. We see two primary drivers: increasing recognition and evidence that incorporating ESG considerations drives better financial performance, and demand from the end investor that their investments be more aligned to their individual values and aware of society's wider challenges.

The extremely fast pace of change and innovation in this area, combined with increasing regulatory and policy-maker interest in this topic mean it's time for Wealth Managers to get moving, if they haven't already. The Wealth Management industry has two key strengths that make it particularly well-suited to addressing this trend: firstly Wealth Managers have long and deep experience in listening to clients, collecting their preferences, and tailoring a portfolio to meet their needs and secondly the time horizon being considered is typically very long term, with explicit focus on preserving assets for transfer to the next generation

Vanessa Bingle,
UK

At Alpha, we recommend three critical questions be asked inside every Wealth Manager to start addressing this trend, and position yourself for commercial success by most effectively meeting your clients' needs.

1. Are you confident your firm has a strategy for addressing this emerging trend and that your clients understand your vision?
2. Are you confident you're ready to meet upcoming client communication needs, like carbon foot-printing and UN Sustainable Development Goal reporting, in a scalable and robust way?
3. Are you confident that you're digging deep enough to understand the approach to ESG integration when selecting managers for your clients' portfolios, to avoid any nasty surprises like unexpected holdings or poorly aligned voting behaviour?

This topic is about much more than a high-level mission statement or just selecting the right investments at outset: embedding the discipline in the operational processes of research, portfolio analysis, client annual review, and reporting is critical to getting this right. In the context of manual operational processes and fragmented technology prevalent at many Wealth Managers, the effort involved in getting this right and achieving your corporate objectives is meaningful – don't expect a "quick fix".

The emergence of Responsible Investing and ESG Integration is both an opportunity and a threat for Wealth Managers: those who seize the mantle and set a clear vision and strategy aligned to their clients' needs, underpinned by a scalable and robust approach to delivery should benefit from commercial success. Those who fail to act may face unwanted regulatory scrutiny and be quickly left behind commercially.

A typical purpose of Wealth Management is enabling the transfer of assets between generations. Wealth Managers should therefore ask themselves: is there any customer value in passing on a financial portfolio in 30 years' time, if there's no healthy planet to enjoy it in?

Offshoring vs Nearshoring: An Opportunity for Private Banks?

Anabelle Rocat,
France

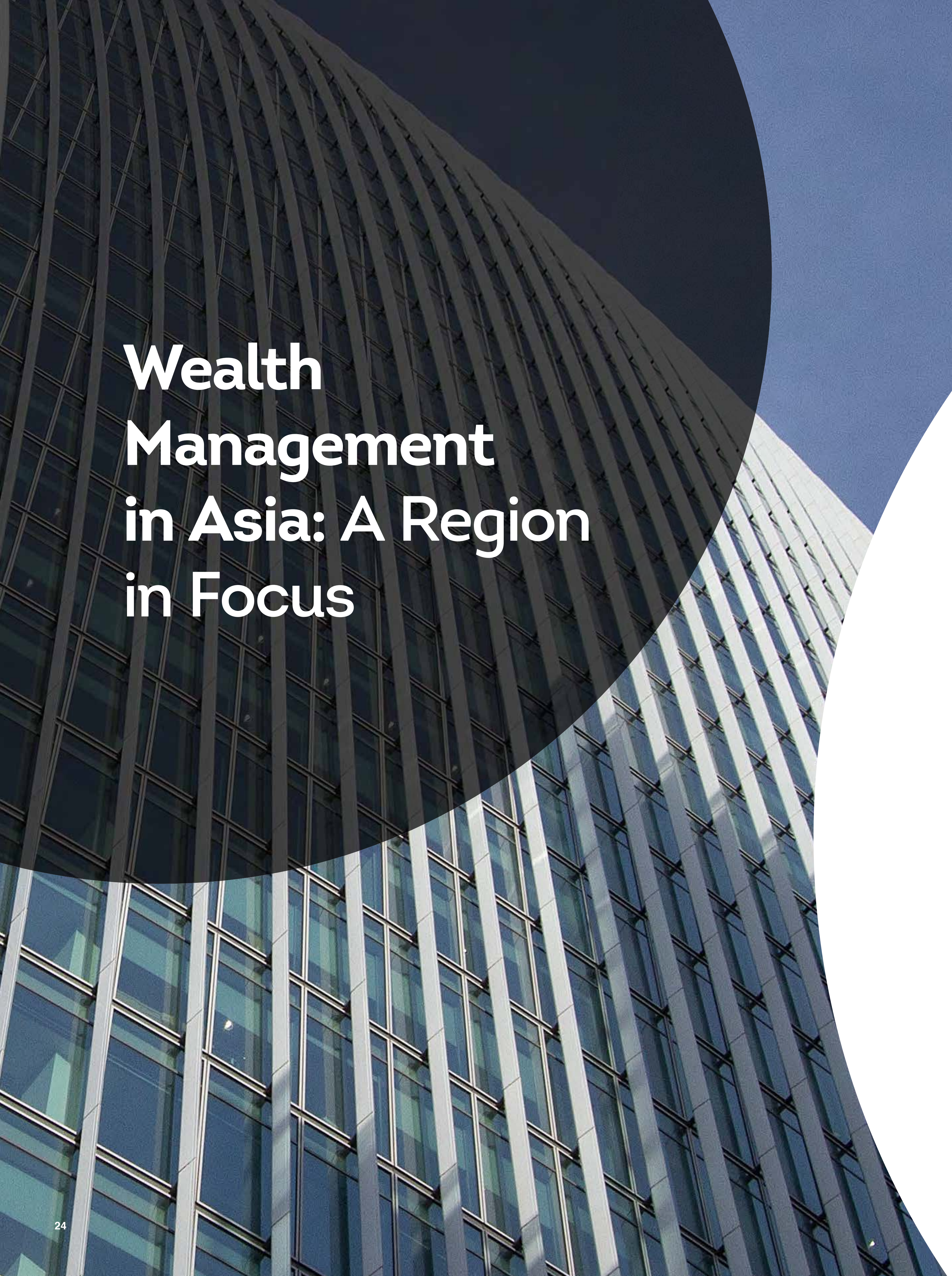
Offshoring and outsourcing operations are now integral parts of the business model of private banks. Historically outsourcing firms with low cost operations primarily in Asia have been successful in attracting clients, but the arrival of new technologies may well shake up the sector and promote a nearshoring model that is more suited to the 'white glove' service expected from private banks, replacing cheaper heads with more efficient technology

Over the last ten years, private banks have coped with new challenges: regulation has tightened, clients and their needs are changing, and competition is increasing. To stay in the race, private banks must adapt their operating models, focusing on simplification and automation. By combining outsourcing models with modern technology, private banks can focus on customer relationship and client servicing enhancements.

The larger private banks with upwards of $100 bn AUM being often subsidiaries of major banking groups, often prefer to leverage group capabilities for logistics, tax and financial know-how in establishing foreign subsidiaries. The smaller private banks have been more cautious about offshoring but that may be set to change as technology improves the overall service and reliance on increasing headcount to scale reduces.

New technological breakthroughs such as better value chain integration or automation will make a significant difference by automating parts of the process and allowing Private Banks to focus on their value-add. Improved technology may also allow player disintermediation as a result of automation across the value chain. The subsequent cost cutting would lead private banks to review their operating models, and offshoring would lose its competitive advantage. This context would promote nearshoring, with considered first-class alternatives such as Portugal and Ireland, conferring some cost advantage, but primarily being a skills-play with better proximity to their clients.

We also expect 2020 to see the continued growth of service platforms dedicated to private banks operating activities including reconciliations, e-banking, cash and securities transactions services. We also expect some ambitious private banks to develop their own service platforms in order to sell it to their competitors. Viewing their own investment as a new potential revenue stream.



Wealth Management in Asia: A Region in Focus

Michael Chaille,
Singapore

Resilience has been a key theme for wealth managers in the Asia-Pacific this year. The ongoing Sino-American trade conflict and Hong Kong protests have hit global markets hard, and given their closeness to the geographical centre of these forces, the region's wealth managers have faced challenging conditions. Yet, great potential is apparent from the wealth that is being created within the region. At a compounded annual growth rate of 6.45% from 2016-23, the growth in total wealth assets of high net-worth individuals (HNWIs) in Asia-Pacific will outpace growth rates in The Americas (5.17%) and EMEA (4.75%). This outperformance is underpinned by long-term trends – high-growth economies, rising wages, favourable demographics - which assure that the region will continue to be a powerhouse of wealth management.

Against this backdrop, Alpha conducted a series of interviews with C-level executives of global private banks in Asia to discuss their top priorities for 2020. Amidst a unique mix of challenges and opportunities, our clients mentioned that navigating uncertainty requires the conviction to "focus on what you do best and do it even better". This applies to the client-facing dimension, where enhancing products and services is key, as well as to internal organisation, where they aim to reduce operational frictions and deliver greater efficiency.

The basis for this strategy is that tough market conditions demand further differentiation and added value. Yet the reality is that any private bank's investment capacity is finite. This means clear choices must be made to favour some areas and drop others. Management logic is that narrower, focussed project portfolios will translate into sharper impact, which can produce expected returns.

A pattern emerged where private banks' project portfolios prioritised items such as enhancing the ability to attract and service external asset managers, extending new investment strategies (ESG), deploying investment products (e.g. custom OTCs), reorganizing front-office to empower investment specialists to interact with clients directly, and automating tedious operational processes with upgraded platforms.

Notably, while regulatory initiatives and technology stack upgrades remain ongoing concerns, they carry less urgency than in recent years. Our interviewees said that "housekeeping", referring to mostly reactive change, fails to keep them awake anymore. This comment rings true to what we have observed over the last few months from Alpha's engagements in Asia. This implies a greater maturity of business environment, which should encourage global wealth managers to upgrade their penetration efforts in this region.

In this context, 2020 will see continued growth of wealth management in Asia, leading us to believe that the correct approach is to pick the right battles, and go bold, with the conviction needed to win.

Retail Investment Platforms: Big is Beautiful

Amid challenging market conditions for investment platforms, we expect the level of consolidation to continue apace in 2020, with at least two large deals likely to be announced in H1. There is increasing recognition that 'big is beautiful' in the market, and we believe this chase for scale will mean continuing M&A activity throughout the year.

It will be an interesting year to observe the technology providers in the platform market. We believe that the recent consolidation activity is likely to complete, albeit with some caveats around the extent to which businesses can be integrated and an objective to retain some competitive tension. It remains to be seen whether other credible providers can emerge in this space to enhance the level of competition and choice for advisers / customers.

We expect the regulator to step up scrutiny of the sector in 2020, with reference to the outcomes expected through the market study. In particular, we expect renewed focus on providers' using their platform to promote in-house funds and enhanced scrutiny as to how much progress our clients have made in grasping the 'orphan client' issue.

We are aware of a number of providers planning to launch or enhance D2C platform capability in 2020. A number of these will be supported by 'full-fat' regulated advice journeys, conducted fully on-line. It will remain to be seen as to whether these propositions will be able to compete or make a dent in the market share of current leaders.

Bruce Davies,
UK

After a year of sustained and (at times) frenzied M&A activity in the financial advice market, we expect the pace to slow in 2020, albeit with the potential for one or two significant transactions and a steadying flow of smaller consolidation acquisitions. Instead, we expect renewed focus on productivity and improving profitability in this already thriving market.

We have seen evidence (particularly in larger advice firms) of an appetite to invest further in core infrastructure and innovation to create large productivity gains and reduce operational strain in the advice process, particularly around client onboarding and initial advice events. We are also seeing providers use technology to develop hybrid advice models, using automated solutions to complement their face-to-face and telephone advisers.

We believe that providers will continue to invest in financial advice, with at least two large firms considering launching or acquiring advice capability in 2020. This reaffirms our belief that providers are now convinced by the longevity of face-to-face financial advice and the need to invest further in creating greater intimacy with end-consumers.

We also foresee increased adoption of automated ('robo') advice models, as the user interfaces of these models start to catch up with the underlying algorithms. We believe that these developments are likely to gain significant traction in 2020, both as a direct-to-consumer and hybrid advice proposition.

Retirement: Market Stabilisation

Following a number of years of impressive growth, we have seen a stabilisation of the market size in 2019 and expect this to continue in to 2020. For a number of years, the ER market has been supply-side constrained, however we expect this to loosen next year, as new funders from less traditional sources finally enter the market.

We expect to see increased pace of innovation in distribution, as advisers seek to find productivity gains and leverage new technologies to reduce friction and improve risk-monitoring in the advice process. We also expect to see increased focus on new product launches, as growth in traditional markets begins to marginally slow. This will include focussing on the higher value part of the property spectrum and reducing exclusions from lending. We also expect a small (but significant) amount of corporate activity, as providers and distributers look to capitalise on recent growth and move across to other parts of the value chain.

With the FCA's new 'Investment Pathways' guidance due to come in to force in August 2020, we expect significant focus from market participants in building robust customer-journeys to meet this obligation. In addition, we believe that providers will need to ensure that they have undertaken a thorough review of their product governance frameworks to ensure that the solutions in place continue to meet the required outcomes for consumers. We believe that a successful implementation of the investment pathway model will have a beneficial effect both for our clients and end-consumers, however this is likely to require investment in customer engagement and digital / contact centre capability.

Dan Mahoney,
UK

We believe that the Individual Annuity market in the UK will again stabilise following growth in recent years, however is unlikely to regain further market share unless there is significant movement in long term Gilt yields. Despite ongoing political turmoil, we believe this is probably unlikely in the short term, however the proposition will remain relevant for a significant minority of customers looking for guaranteed income.

The wholesale (bulk) annuity market will remain robust, after a (likely) record year in 2019. There is a strong pipeline of large deals and a number of schemes have significantly improved their funding shortfall in recent years, rendering buy-outs more affordable to trustees. As a result we predict increasing appetite amongst insurers for long-term illiquid assets, making this a continued 'hot' asset class for 2020.

With the bow-wave of auto-enrolment now firmly behind us, we are seeing provider focus shift to how to deepen their relationship with end-consumers, whilst developing differentiated technology and tools to retain existing schemes.

Many of our clients are wrestling with the challenge of how to develop a more direct and meaningful relationship with the new cohort of savers, who may previously have had very little interaction with retail investments. So far, we would not single-out any company as being particularly successful in this endeavour, however we are aware of a number of firms which are planning significant investment in 2020 in this space.

We foresee an increased number of schemes coming to market this year, as the post-AE broking market starts to gain momentum. There is a broad-range of functionality and operational support offered by market incumbents and those firms who have underinvested in technology will rightly be concerned about losing clients. It is essential that laggards invest for the future to maintain market position.

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