03

IRISH 2021 OUTLOOK FOR

INVESTMENT MANAGEMENT

- A DRIVE TOWARDS DIGITAL -

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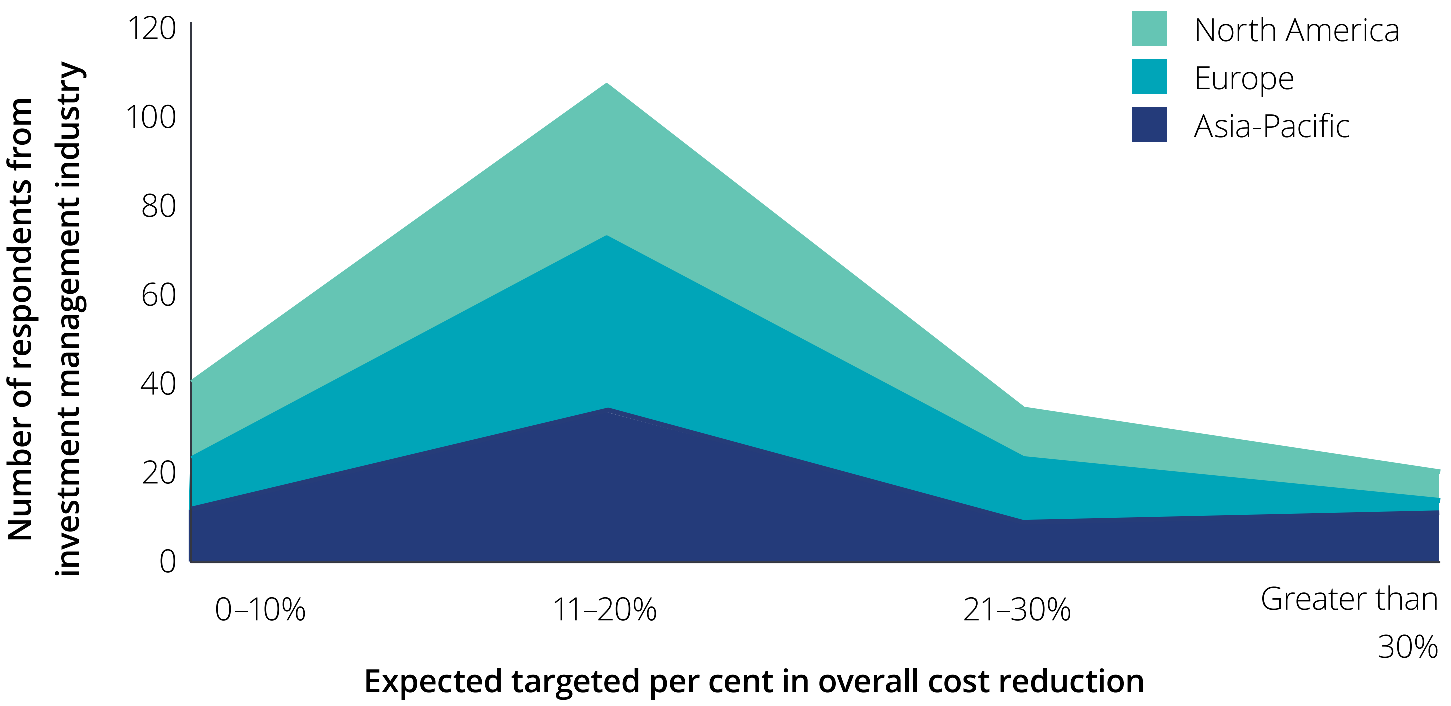
Even if we remove COVID-19 from the equation, the investment management market was always ripe for change. In many cases, the crisis triggered by the pandemic accelerated trends that were already emerging. Chief among these is cost pressure: increased competition was driving down the management fees that investment managers charge. As assets under management fell at the height of the crisis, the reduction was very significant and, in many cases, has not recovered. We have also seen a significant move from active management to passive management, where the fees are not as high.

On the cost side, investment management had become quite a personnel-heavy business over the years. Over time, and often in response to regulatory pressure, infrastructure costs have grown with enhancements to risk management and oversight areas in the business. Many organisations both on the asset management and asset servicing side had been looking at this area before COVID-19 struck.

Figure 1. Given the actions planned, what is the expected targeted per cent in overall cost reduction over the next year or more?



Source: The Deloitte Center for Financial Services Global Outlook Survey 2020.

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Tightening margins

Combine increasing demands on the infrastructure, together with pressure on fees, and ultimately it adds up to squeezed margins. Since the market dictates what firms can charge for the funds they manage, they need to shift their focus onto their internal costs in order to save margins.

This is one of the forces driving a renewed focus on digital technology. This is a multifaceted area: it covers both operational efficiency (using technology to automate where possible and drive down costs), and customer service (where digital technology serves to deliver a richer customer experience).

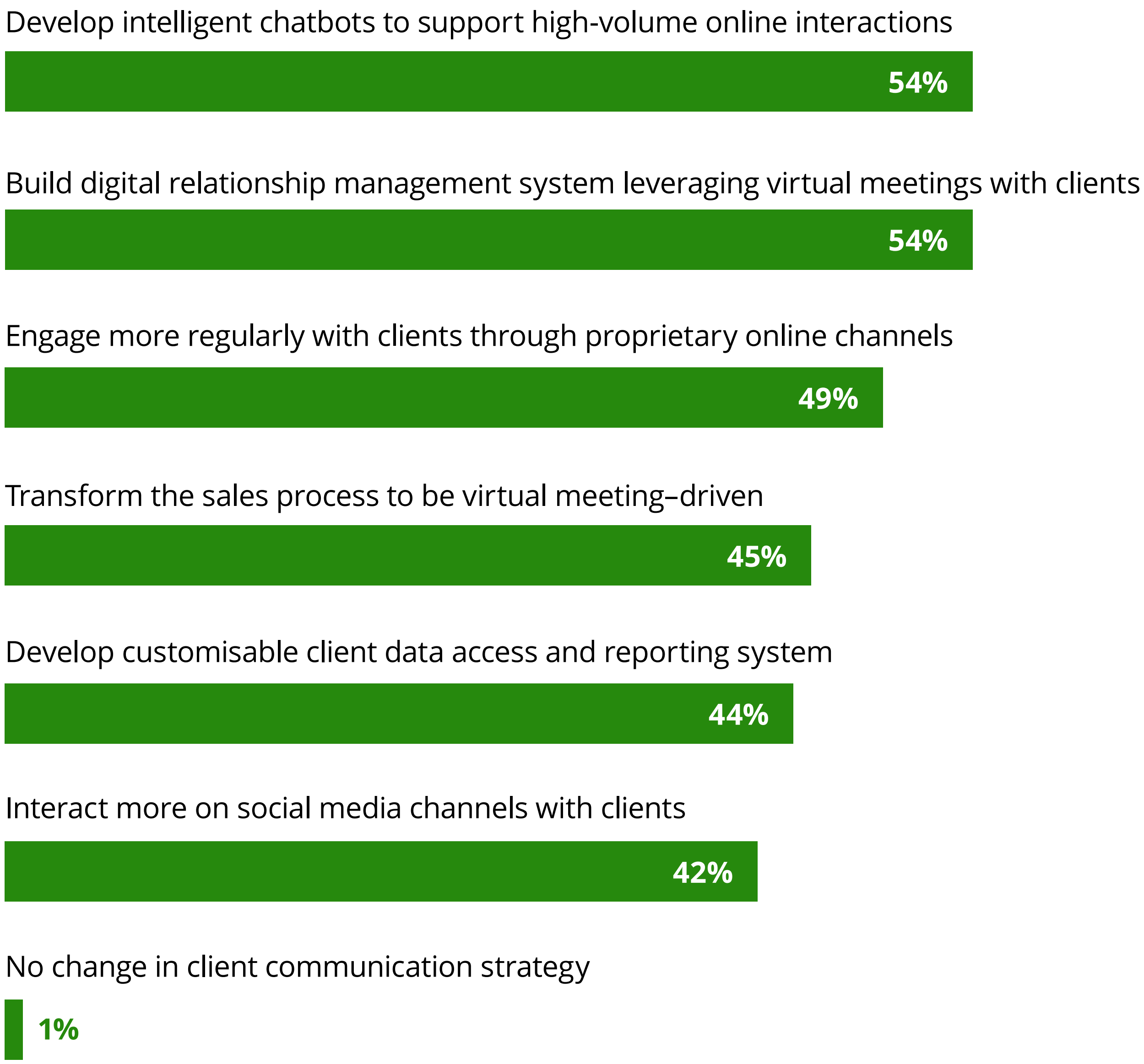
As consumers, we expect our interactions to be on a par with what we see on our smartphones and tablets. COVID-19 has only increased those expectations by speeding up the embrace of digital technology. As much of the world was forced to take shelter, mainly indoors, during the restrictions, use of digital channels grew as people sought access to information online. This is the changed world that firms must now confront.

Digital customer experience

Traditionally, investment managers have been quite slow to embrace app technology – and clearly there are security concerns around delivering data this way – but it is also true that firms don't want to have unnecessary manual aspects in their processes if there is an opportunity to remove them and deliver a more streamlined, positive digital experience to their customers. The Deloitte Global Outlook survey has highlighted areas where firms are most likely to change how they communicate and engage with clients, and digital technology figures strongly.

Figure 2. How will you change your client communication and engagement strategy based on the COVID-19 experience?

Percentage of respondents from investment management industry

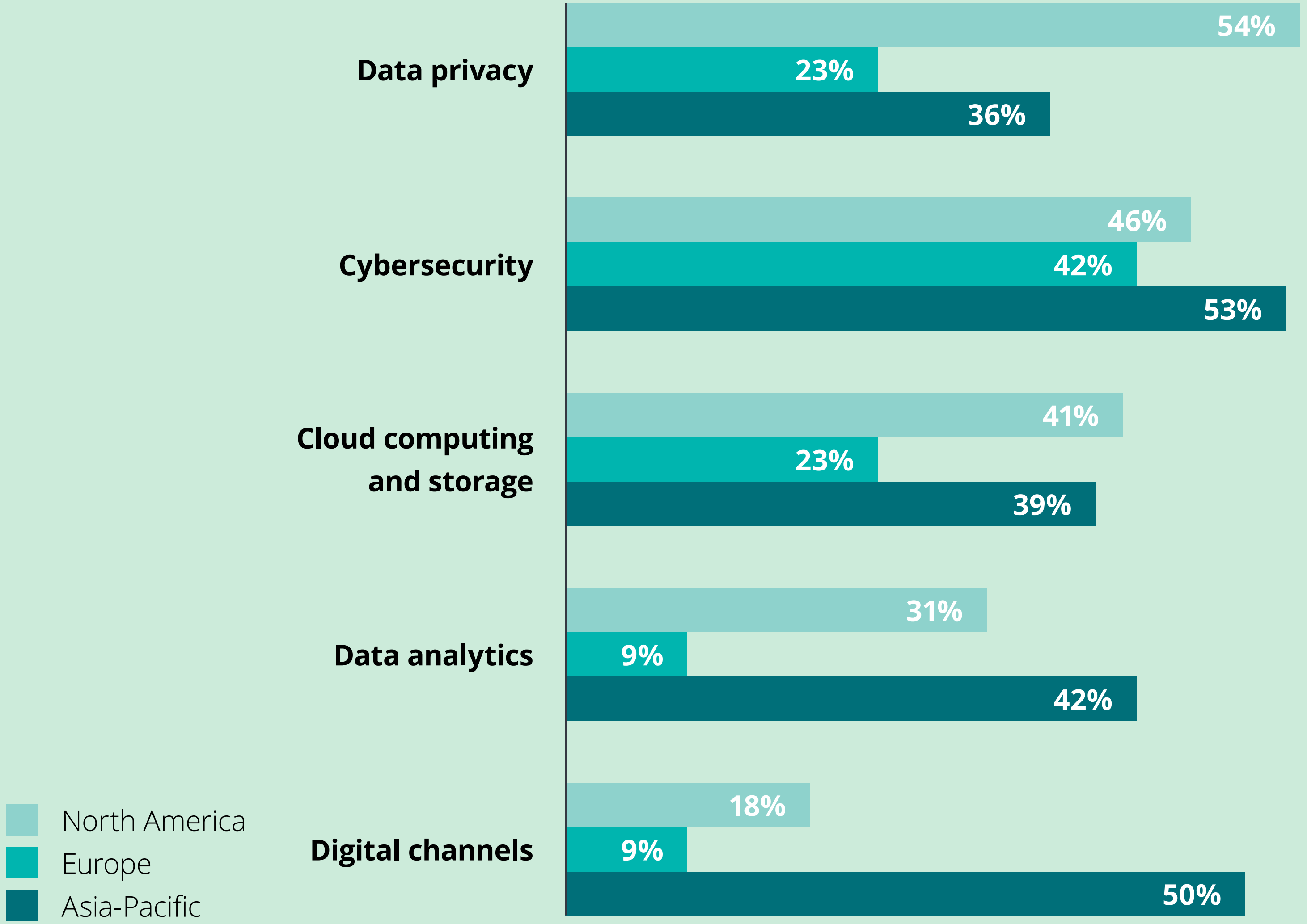


Source: The Deloitte Center for Financial Services Global Outlook Survey 2020.

Optimising operating models

Digital technology is key for firms looking at ways to reduce manual input in their processes and optimise their operating models. This has become more imperative since regulators require that certain activities must take place in Ireland, and place limits on how much activity can be outsourced or offshored. These factors are driving an increased focus on technologies such as digital channels, cybersecurity, robotic process automation, and cloud computing and storage, as the Deloitte Center for Financial Services Global Outlook Survey data shows.

Figure 3 part 1. For each of the following technologies below, how do you expect spending to change in your functional area over the next one year?



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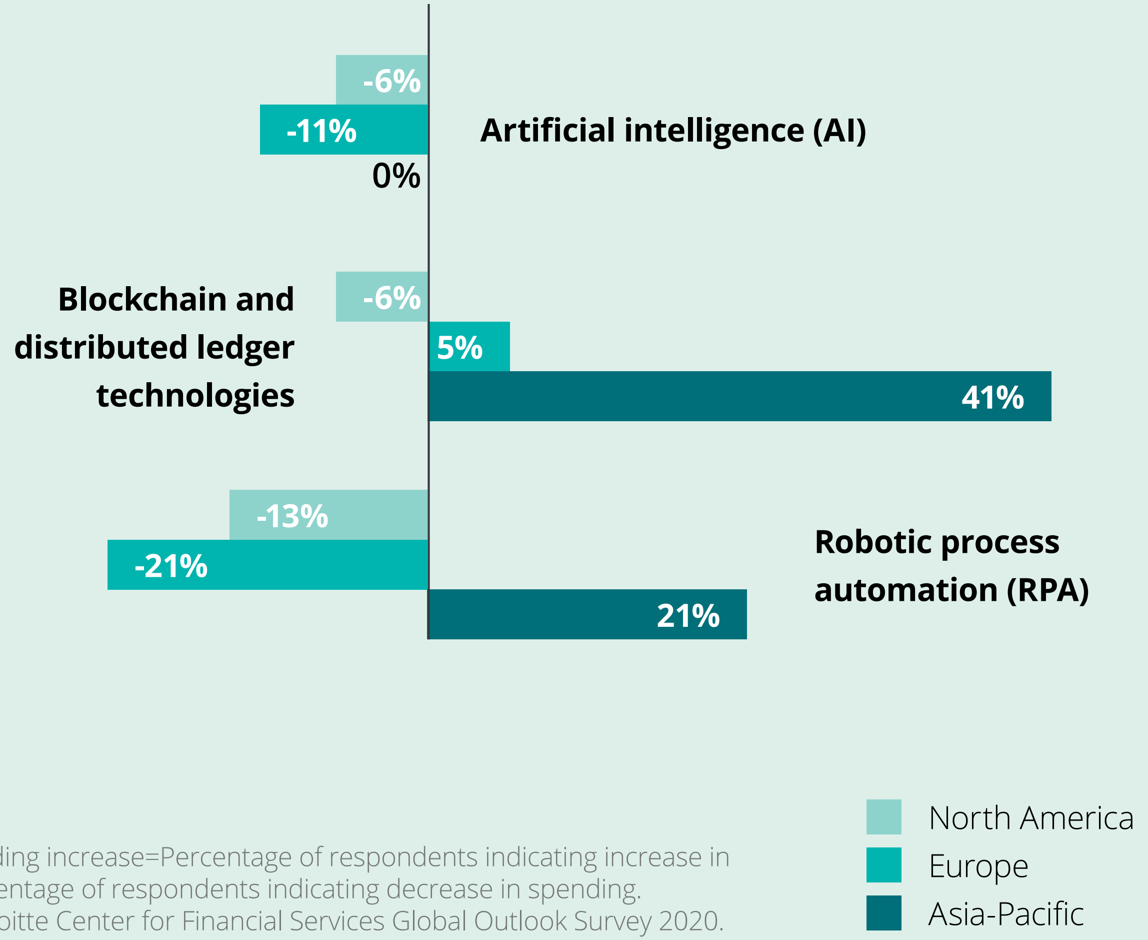
As consumers, we expect our interactions to be on a par with what we see on our smartphones and tablets. COVID-19 has only increased those expectations by speeding up the embrace of digital technology.

Figure 3 part 2. For each of the following technologies below, how do you expect spending to change in your functional area over the next one year?



Note: Net spending increase=Percentage of respondents indicating increase in spending – percentage of respondents indicating decrease in spending.
Source: The Deloitte Center for Financial Services Global Outlook Survey 2020.

A leaner industry?

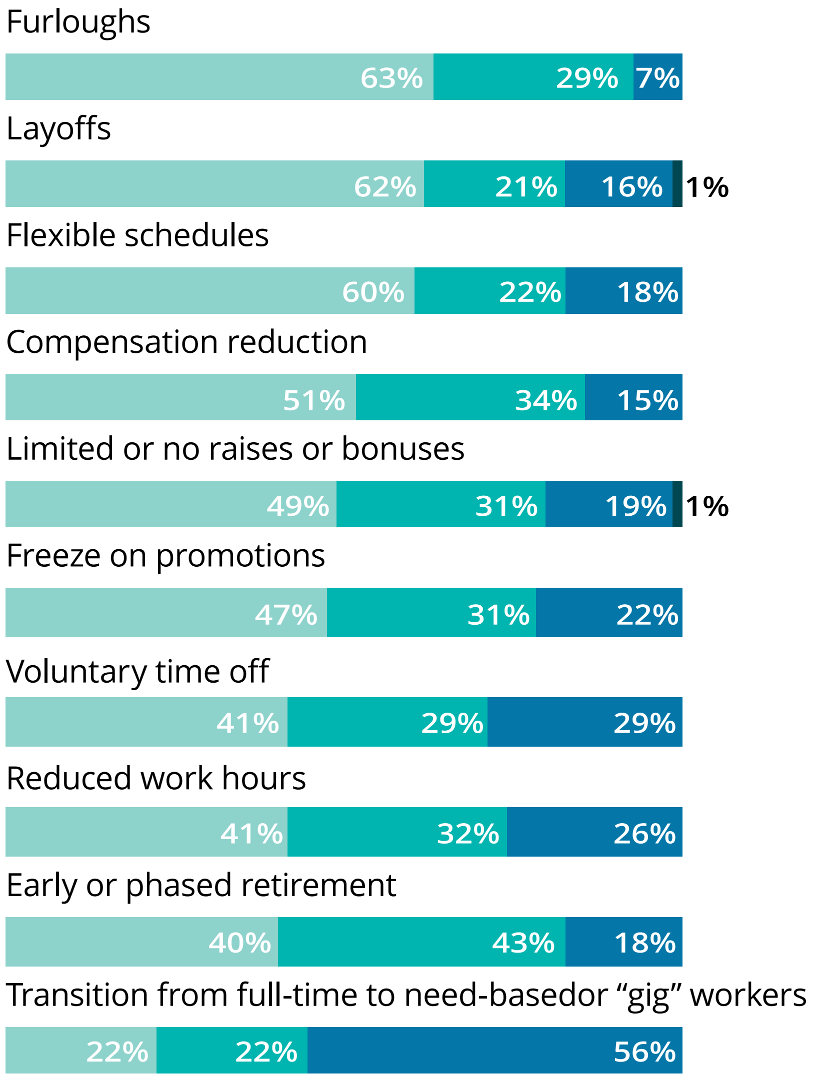
It is clear that if 2020 was a year of COVID-19, 2021 is a year of measuring how firms respond. In an Irish context, firms were able to pivot quite quickly to a situation of widespread working from home. Over the longer term, this could prompt questions relating to real estate, and whether administrators need to bear the costs of large offices if they can manage the transition to a remote or hybrid workforce. This may lead to a leaner industry than we have had before.

Deloitte's survey of investment managers has identified several employment actions that companies have taken to reduce workforce-related expenses.

Figure 4 part 1. What employment actions, if any, has your company taken to reduce workforce-related expenses?

Percentage of respondents from investment management industry

North America



- Have already done
- Planning to do
- Have not done and not planning to do
- Don't know

Note: Percentages may not add up to 100% due to rounding.
Source: The Deloitte Center for Financial Services Global Outlook Survey 2020.

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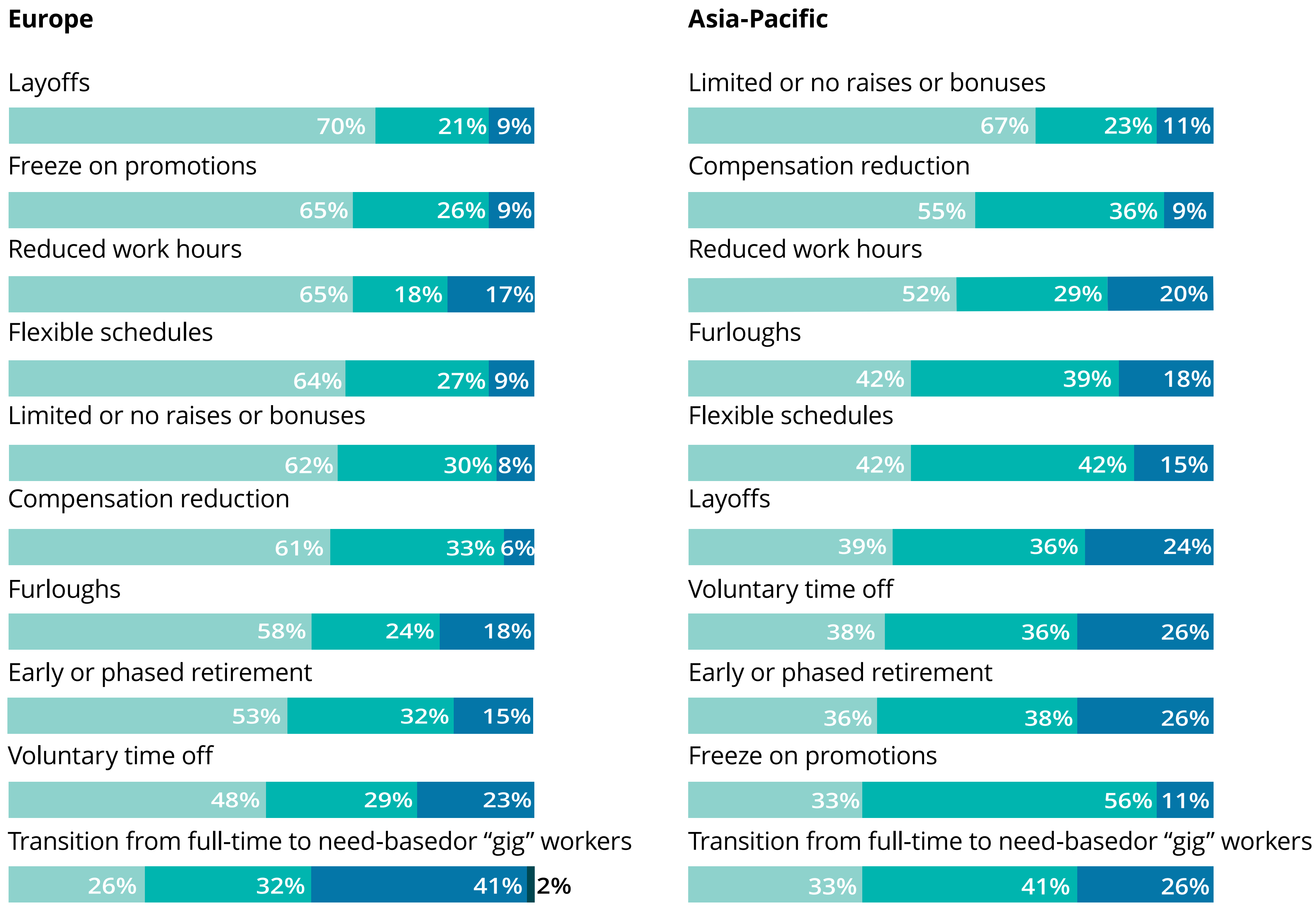

- Have already done
- Planning to do
- Have not done and not planning to do
- Don’t know

Note: Percentages may not add up to 100% due to rounding.
Source: The Deloitte Center for Financial Services Global Outlook Survey 2020.

2021 will also be the year that we stop talking about what sort of Brexit we might get, and we get on with implementing the agreement that was reached, however as regards financial services there remain a number of areas of uncertainty. The Irish market has seen a significant influx of asset management firms setting up a presence in Ireland to ensure continuity of access to the EU. The presence of these firms, together with the existing asset managers on the ground in Ireland, will only enhance the overall investment management offering in Ireland, complimenting the existing asset servicing business.

The lasting legacy of COVID-19 and 2020 is a lot of learning and changes to the way we do business which will have some benefits into the future. And while forecasting is a risky endeavour after the turmoil of last year, I do anticipate that the areas of sustainability and ESG investing will come to the fore this year. This is borne out by global trends identified in Deloitte's Outlook report. It would be helpful if the long-discussed Taxonomy was agreed and perhaps 2021 will be the year to see this happen.

Read the Global **2021 Investment Management Outlook**