

Investment Management

The investment management industry is emerging from the financial crisis and is now dealing with the consequences of significant regulatory reform. This is impacting products, services, businesses and operating models.

But is it too much too soon? Yes, according to 70 percent of investment managers. They think that the pace and extent of reform could do more harm than good and that smaller players will lose out to larger institutions which are better equipped to cope.

Savers could suffer too. Inevitably, if firms withdraw from the market or if fund managers become more restrained in their risk taking and product offerings, there will be less choice for consumers. Moreover, increased red tape from tighter regulation could dissuade certain savers from taking up products or exclude them entirely due to the costs of obtaining impartial advice.

To me, at a time when the population is ageing and the public purse is limited, this seems counter-intuitive to the pressing need to save for retirement. That said, 15 percent of our respondents disagree with the hypothesis. This is most likely due to the significant political and public clamour for restored trust in the sector.

For them, a visible regulatory response is needed to address issues highlighted during the financial crisis. Tougher regulation could also threaten Europe's dominant position in the global investment management market. Year-on-year, sales of cross-border investment products, notably to Asia, have increased. However, respondents fear that regulatory headwinds could make it too onerous and too costly to offer certain products, undermining Europe's status and growth prospects. An overwhelming 87 percent either agree or strongly agree that the European industry needs to remain competitive and open to non-EU funds and managers.

Of course, some players serve only domestic or local markets, which may account for the eight percent who disagree with the hypothesis. Some companies might be persuaded to refocus on their local markets rather than contend with the cost and rigor of regulation globally.

The majority (77 percent) of respondents agree that financial advice to consumers across Europe needs to be improved. The dual problems of an ageing population and declining state and employer-funded pensions, is creating a funding gap.

Looking ahead, people not only need to be educated about the importance of saving for retirement throughout their working lives but to receive better advice on managing their financial affairs. Achieving bigger returns means taking on bigger risks, so it is crucial that people understand what they are getting into, what they could gain but equally what they might lose.

Since the financial crisis, organizations are increasingly concerned to demonstrate that they are managing risk. In fact, "addressing risk throughout the organization" ranks as investment managers' second biggest priority, gaining 45 percent of their votes compared with just 30 percent of the total population.

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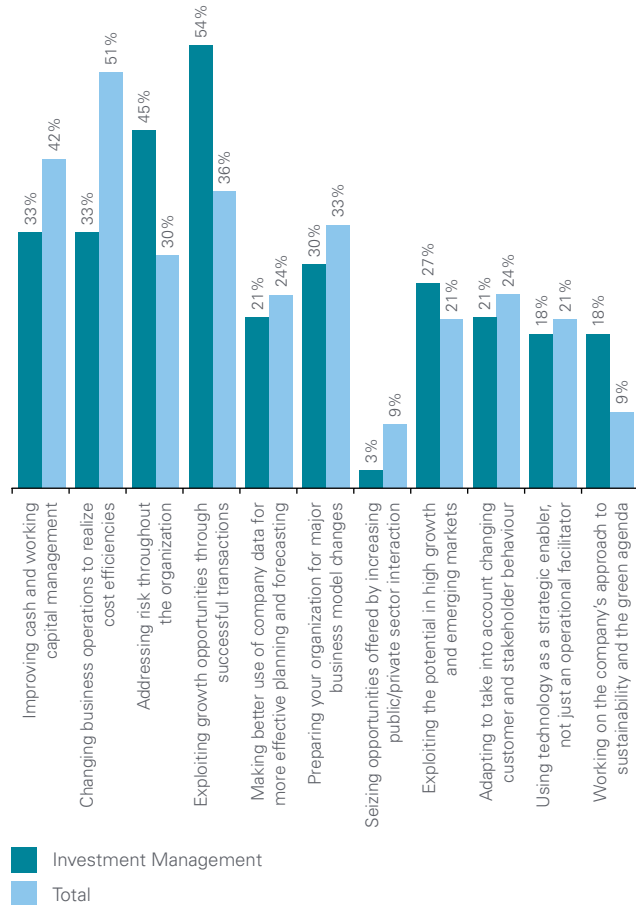
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Investment
Management

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Investment Management – Sector Results

Comparison of top business issues for Investment Management with total results



Percentage add up to 300 percent as all respondents had three votes.

Hypothesis 1:

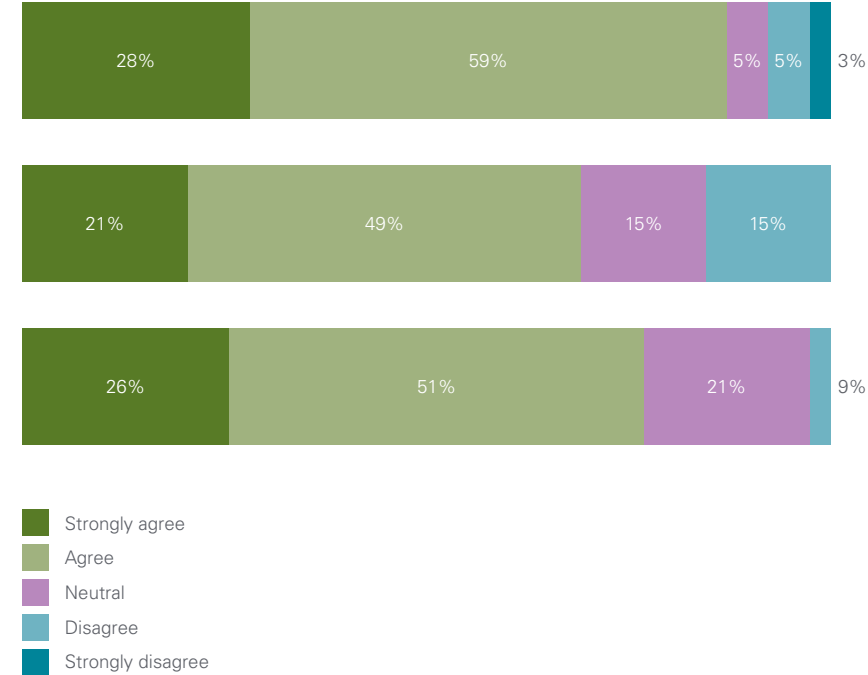
With the increasing globalisation of the investment management industry, cross-border activity continues to increase, with emerging markets in particular becoming more important and anticipated to represent the largest increase in future net sales. Making the industry more competitive and successful on the global stage is a priority. We must ensure that the European industry remains competitive and that EU markets are open to non-EU funds and managers.

Hypothesis 2:

Changes to the global regulatory landscape and cross-border standards are increasing business complexity and compliance costs, forcing changes to business and operating models. There are specific concerns over the increasing and cumulative regulation burden which, in turn, will have a significant impact on the conduct and behaviour of fund managers. The current pace and extent of reform is doing more harm than good, causing smaller players to suffer in favour of larger institutions.

Hypothesis 3:

Determining the level of necessary regulation is a difficult trade-off to balance. Consumers must not be put off due to the expense of paying for advice and it must be cost-effective for providers to offer the service without excessive compliance expense. Europe should therefore develop an improved market for financial advice; ideally via appropriate education which would encourage greater savings and investment.



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Tom Brown

Further info

The SiCW Business Leaders survey Exec Summary is available at: www.kpmg.eu/businessagenda

A suite of videos and kitcards, on the top themes is available online. This includes Jeremy Kay outlining what the Board is thinking about in terms of changing their business operations to realise cost efficiencies; and Andrew Ashby on how companies can improve cash and working capital management. To view the information please go to: www.kpmg.eu/businessagenda