Editor's comment

There has been plenty written about the growth prospects of asset management worldwide, including the $400trn assets under management forecast by 2050. This may well happen, as the middle classes grow worldwide and the virtually underdeveloped financial systems in most parts of the world are brought up to date. But there are some big 'ifs'. The natural destinations for savings have, from time immemorial, been cash, gold, property and private businesses, all under the direct control of their owners.

It would take a major leap of faith for the owners to entrust their savings to third-party fund managers, requiring a high degree of trust and brand acceptance. The current absence of these attributes must cast some doubt on how much the industry can grow. The $400trn by 2050 is not impossible, but a radical transformation of the fund management industry will probably be needed to reach this level.

Even if the total industry does attain this $400trn figure, the lack of brand consciousness of western-based fund managers among the wider public everywhere might mean that these groups will not grab a significant share of the market. Local companies might become more dominant. The internet could by-pass the latter, but only if the problem of brand unfamiliarity is overcome.

FUND MANAGERS FEAR INTERNET GIANTS AS RIVALS

FTfm - 'Google creates panic for fund managers' and 'Tech giants pose threat to fund houses', Madison Marriage, 21.04.14

'Asset Management 2020: A brave new world', PwC report, pwc.com/assetmanagement. April 2014

The prospective and actual entry of internet giants such as Google and Facebook into financial services is causing many asset managers to quake in their boots, in fear of being supplanted. A recent report by PwC has indicated that opportunities are arising for leading internet and technology giants, including Apple, Twitter and Amazon, to rival asset managers in the light of their failure to keep up with technology. These tech giants will be able to "combine their reach, knowledge and influence with banking alliances to provide compelling asset management propositions". It is suggested that one could provide front office services and get together with a back office company to establish an integrated asset management group.

Top executives, including some from the world's biggest asset management groups, expressed their concern about this competition threat from the technology sector at a private dinner at the Financial Times headquarters last April. One of them said that her biggest fear was of Google entering fund management and blowing them completely away. Another executive in a large fund house said that the time was ripe for the industry to be taken over by the technology groups.

Several technology behemoths are already planning moves into financial services. Facebook is intending to launch an online money transfer service in Europe in the wake of the 2009 launch of Google Wallet. Apple's boss Tim Cook has hinted at similar ambitions, saying that he is intrigued by mobile payments.

Many executives at the dinner felt that the asset management industry would subsequently become the target. In China, this is already described as happening. Large internet companies, with hundreds of millions of users of their messaging platforms, have begun to distribute asset management products. Alibaba, China's leading ecommerce company, and

Tencent, the world's fourth largest internet group, have entered the game. Both groups have, in partnership with Chinese asset management houses, launched funds and raised billions of dollars within weeks.

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Alibaba raised $65bn within the first 12 months of distributing a money market fund. Tencent has joined up with China AMC, one of the country's largest asset managers, to distribute one of the latter's funds, reportedly raising $8bn within 40 days of launch. Nektarios Liolios, Managing Director of Startupbootcamp FinTech, a firm supporting new financial technology businesses, felt that, given the move into financial services that is already underway, tech groups targeting asset managers is the natural next step.

There was widespread agreement that the fund management industry is currently not coping with the huge problem of promoting itself to the masses of people under the age of 40, who have no idea of what fund managers do or provide. They felt that technology groups might be able to solve this problem. Sebastian Dobey, Managing Partner at Scorpio Partnership, a wealth management consultancy, claimed that thousands of private clients it has interviewed have expressed a desire for Apple to become a wealth manager.

As an example of backwardness among fund managers in technology, Nick Finegold said that the majority of fund managers know how to use only 20 of the 25,000 functions available on Bloomberg terminals. He believes that asset managers should develop their own tools and data to fend off competition from the technology sector, rather than relying on what is also sold to all their competitors. It was suggested that Visa and Google hold sufficient data to seriously threaten any company involved in markets. Finegold hoped that Google does not buy BlackRock.

However, the tech groups might face some problems and it may not be all plain sailing. It is believed that they will have difficulty in gaining the trust of retail and institutional investors, because of privacy concerns. Nick Hungerford, Chief Executive of Nutmeg, a new online wealth management company, said that his firm has polled retail investors a number of times about which type of companies to trust, and the results confirm these reservations. A survey carried out by the IT consultancy Ovum showed that only 1% of respondents trusted social networks, including Facebook, with online payments, compared with over 40% who trusted banks.

According to Julie Meyer, Chief Executive of Ariadne Capital, the asset management companies with the best chance of surviving in the face of competition from the internet giants with massive customer networks are those that swiftly adapt to technology change. She said that an exponential growth strategy is not possible without leveraging finance and technology. This was echoed by Nick Finegold, who said that most fund managers do not understand the technology that is necessary for their future. Nick Hungerford suggested that the tech groups are most likely to create independent companies when entering fund management, in order to avoid having to apply financial regulation across their entire company.

Editor's comment

This view of the giant tech groups such as Facebook, Google and Amazon kicking out asset managers is completely misplaced. Rather than threatening fund managers, the entry of these groups is much more likely to be a boon to the asset management industry. It is a false analogy to compare online payments with the true added value aspect of fund management.

There are indeed commoditised aspects of the industry, such as passive index funds, which are always vulnerable to well-heeled competitors who can brush aside the entry barrier of the large initial investment needed. But asset management can never be the sole province of the index funds. Talented fund managers will always have a place and so will the large numbers of specialist experts in areas such as infrastructure, private equity and derivatives.

If they do come in, the gigantic tech groups will need their heads examined should they try to upset the basic value-added model of fund management groups. Part of the problem arises from the marketing speak that has crept in over the past few decades. This talks about manufacturing and products, rather than fund management being a profession that provides a highly valued service. There is no way tech groups can supplant either the profession or the service.

These tech giants can contribute massively in two ways. They can infuse capital into the industry by becoming parents of fund management groups, as banks and insurance companies have done in the past, albeit having made a poor fist of it. With their innovative culture, the bosses of the tech groups are far more likely to be in sympathy with subsidiaries that need to combine flair and talent with adequate risk