

pwc

Asset and wealth management revolution:

# The power to shape the future.

THE FUTURE OF FINANCIAL SERVICES



**The year 2020 was a tumultuous one for society, the global economy, and asset and wealth management (AWM). After years of steady growth, the industry's asset base was whipsawed by rapid financial market movements, and the volatility will likely be a feature for some time to come.**

Even when vaccines and treatments help us stamp out COVID-19, we won't be going back to the world as it was. At this moment of inflection, AWM leaders like you have an opportunity. With US\$110tn in assets under management (AuM) directed towards environmental, social and governance (ESG) priorities, you literally have the power to change the world. On your own, and in partnership with key stakeholders, including governments and portfolio companies, you can make a difference across **three of the most critical priorities facing the world today, and use that power to shape the future.**

- **Funding the future:** AWM firms can channel capital and target investment opportunities to lift economies out of recession and sustain superior fund returns.
- **Providing for the future:** By delivering risk-adjusted returns, firms can help people meet their savings goals and bridge pension gaps in the face of economic fragility, ultra-low interest rates and a squeeze on government health and welfare budgets.

- **Embracing ESG as the future:** For some investors, financial return will remain the sole priority. However, a growing number of investors expect AWM organisations to make ESG issues integral to their investment strategies. This shift is already having a revolutionary impact on product design, fund allocation and performance objectives.

As an AWM leader, your central challenge is to be a meaningful part of the solution while also meeting your fiduciary obligation to optimise returns. Many investors will no longer accept a trade-off.

But endeavouring to **rethink** your organisation's purpose **across these three critical priorities** to make social and financial returns symbiotic is only the beginning of the road ahead. It's also time to **repair** your operations to bring them up to the competitive baseline and **reconfigure** your investment strategy and organisational capabilities to deliver on a new mission. The final part of the equation is to **report** on how your business is changing and the progress you're making against your goals. In this report, we will advise you on how to undertake each of these four critical actions.

AWM organisations that deliver standout returns on both the social and financial fronts will be the clear winners over the coming decade—magnets for investment and able to sustain superior returns for shareholders and partners.

## AWM'S GLOBAL INFLUENCE

Global assets under management (AuM) have grown by more than

**40%**

in the past five years.

At more than

**US\$110tn,**

global AuM is more than 20 times the US federal budget.

Institutional investors hold more than

**40%**

of global market capitalisation. This is higher in some markets—e.g., the US at 72%.

**At US\$41tn,**

nonbank lending to the private nonfinancial sector now exceeds bank lending in advanced economies.

## PROJECTIONS FOR GROWTH

Growth in AuM depends on the speed and sustainability of economic recovery. PwC's AWM Research Centre has projected three distinct scenarios:

**Best case:** If increased fiscal stimulus measures revitalise economies and boost investor confidence worldwide, economies across the globe would see a rapid recovery from the fourth quarter of 2020, positively impacting AuM growth.

**Base case:** In a scenario of sustained infection and economic recovery in mid-2021, AuM growth would be lower. We believe this scenario to be the most probable.

**Worst case:** In a double-dip recession scenario, many countries would face further waves of infection and

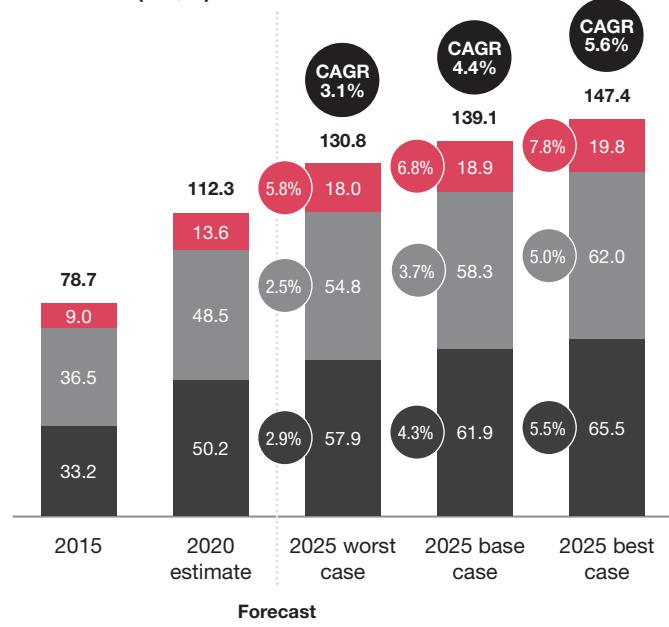
lockdown. These circumstances would be accompanied by a delay in vaccine development and deployment, resulting in economic recovery being delayed until the end of 2021. In such a scenario, AuM growth would be significantly lower.

The difference between AuM under the best- and worst-case scenarios is more than US\$16tn, demonstrating how much is at stake.

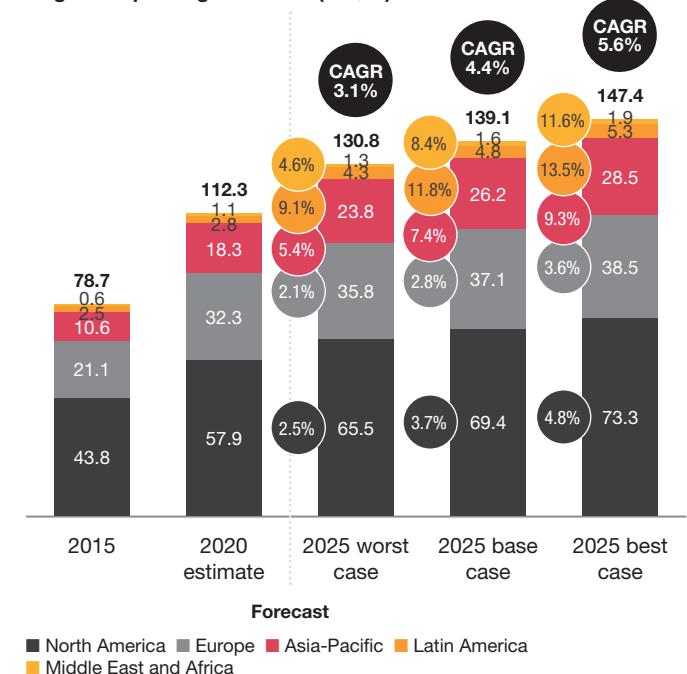
In absolute terms, AuM expansion would be strongest in North America under any of the scenarios. Growth would be fastest in Latin America and Asia-Pacific, albeit from a much lower base. China is emerging as the ultimate prize, reflecting its size, room for further growth and the opening up of the market there to wholly owned foreign entities.

### Exhibit 1: Global AuM and regional split of global AuM

Global AuM (US\$tn)



Regional split of global AuM (US\$tn)





# Rethinking the future

across the three critical priorities of funding the future,

providing for the future and embracing ESG as the future

## Funding the future

Growth in both passive and alternative investments is continuing. Although active investments still make up most AuM, faster-growing alternatives are taking on much of the alpha mantle, while passives are taking on the beta. We're also seeing a blurring of the boundaries between active and passive investment, which includes growing demand for active exchange-traded funds (ETFs).

Within alternatives, we are seeing the expansion of private markets. Public market investment in equities and corporate and sovereign bonds will continue to be a significant source of capital and lending. Yet, with record levels of dry powder to put to work, it's private markets that could provide the main springboard for recovery. Private equity investment could help turn around businesses in sectors hardest hit by COVID-19, such as hospitality, travel and leisure, and address the [growing importance of ESG](#) and digital engagement with investors.

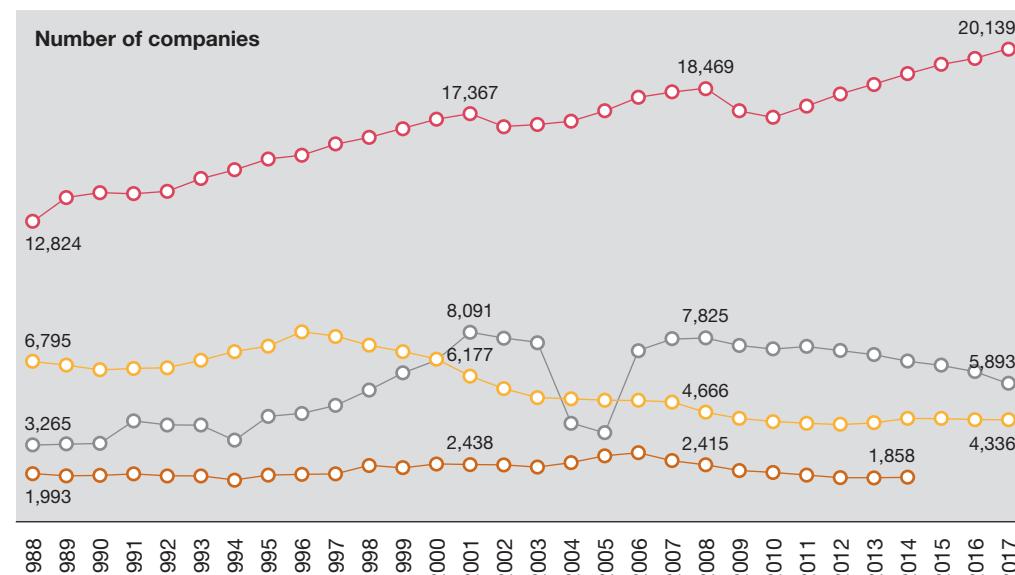
## Exhibit 2: Passives and alternatives lead growth, in US\$tn

Products	2019	2020 estimate base case	2025 estimate base case	CAGR 2020–25 estimate
<b>Global AuM</b>	110.9	112.3	139.1	4.4%
<b>Mutual funds*</b>	49.9	50.2	61.9	4.3%
Active investments	38.0	37.8	45.2	3.6%
Passive investments	11.9	12.4	16.7	6.1%
ETFs	5.7	6.1	8.6	7.1%
<b>Mandates</b>	47.8	48.5	58.3	3.7%
Active investments	36.3	36.3	43.2	3.6%
Passive investments	11.5	12.2	15.1	4.2%
<b>Alternatives</b>	13.2	13.6	18.9	6.8%

\*Note: These forecasts include figures from our base-case recovery scenario.

Source: PwC AWM Research Centre projections

## Exhibit 3: Shift from public to private markets



— US unlisted domestic companies with 500+ employees — EU listed domestic companies  
— US listed domestic companies — UK listed domestic companies

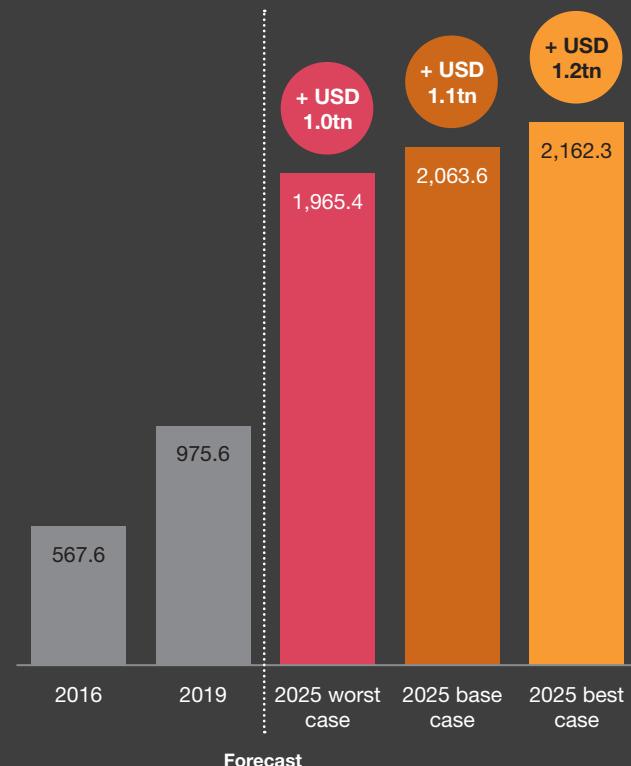
Note: UK-listed company data is not available for 2015, 2016 and 2017; there is no data for unlisted companies available for the EU and UK.

Sources: World Bank, US Census

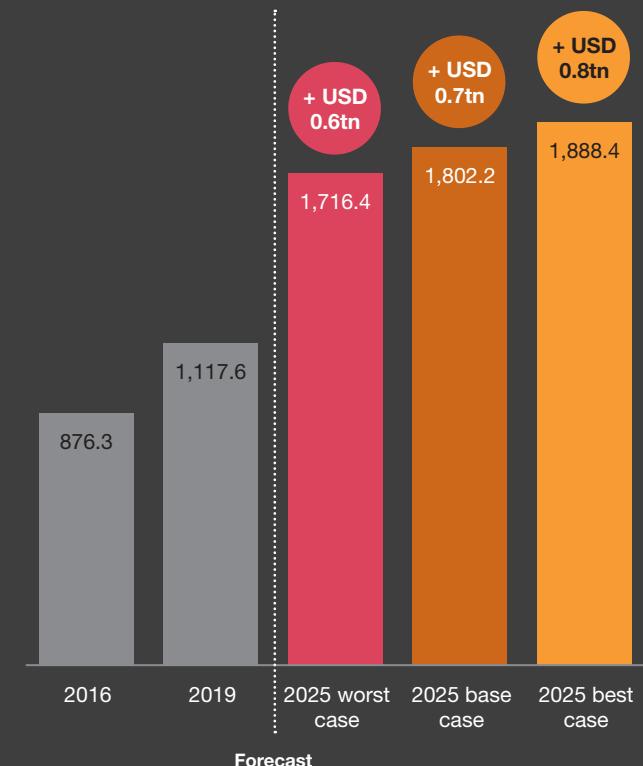
Although smaller in total amount of AuM than private equity, private credit will also play a key role in funding the future. Regulations put in place after the global financial crisis of 2008 to 2009 have increased the cost differential between regulated and unregulated capital, significantly boosting the role of nonbank capital providers. Having expanded rapidly since 2010, nonbank lending to the private nonfinancial sector now exceeds bank lending in advanced economies. Any rise in business failures as economies continue to struggle would put increased pressure on banks' balance sheets and ability to lend. Small- and medium-sized enterprises could be especially vulnerable to any dip in the availability of bank credit. This would create an opportunity for private credit funds to fill the breach by helping finance businesses that have strong growth potential but limited access to mainstream funding.

## Exhibit 4: Global infrastructure and private credit AuM

Global infrastructure AuM (US\$bn)



Global private debt AuM (US\$bn)



Source: PwC AWM Research Centre projections

Further opportunities for AWM to fund the future include making up for the [growing shortfall in available infrastructure investment](#), especially from government. In developed markets, there are considerable openings to refurbish roads, airports, hospitals and other such infrastructure while accelerating developments in areas such as 5G and renewable energy. There is an even greater need for investment in emerging markets, both in traditional areas and in the new digital infrastructure, as we see increased urbanisation. As a result, we expect AuM in infrastructure funds to double by 2025.

Alternatives will play a central role in getting economies back on their feet and laying a foundation for growth while boosting risk-adjusted financial return. The question for you, if you're a mainstream manager, is how much you will want to extend your alternatives presence. If you're a private markets manager, you will need to weigh investment opportunities against the increased public scrutiny you will face by taking a more prominent role in socially critical areas such as small- and medium-sized enterprise finance and infrastructure development.

A retreat from globalisation, which has been heightened by trade and geopolitical tensions exacerbated by COVID-19, will create further challenges and lead to headaches in portfolio management, including disruption to supply chains. From an organisational perspective, many regulators now expect your business to maintain a local presence, ensuring, for instance, that most of your people and senior roles are based in the territory where your business is based. Sovereign wealth funds might also come under pressure to invest more of their funds locally.



## Providing for the future

Providing for the future is the other side of the coin to funding the future—the more wealth we can create as a society, the more we can save. And as people live longer, the AWM industry can contribute to the resolution of [escalating pension gaps and retirement poverty](#). Providing for the future also opens up opportunities to develop a closer and more enduring client relationship, built around lifelong financial wellness, with digital transformation as the key enabler.

Global population growth, a switch to defined contribution plans, and lower and less attractive annuity rates than in the past are boosting AuM. But ultra-low interest rates and low fixed income yields can make it hard for even the most diligent savers to meet their goals. As a result, savers are looking elsewhere, including at managed funds. In retirement saving, specifically, pension funds now manage almost US\$50tn in assets, and we forecast that this will grow to US\$62.5tn by 2025, providing an attractive opportunity for asset managers.

## Exhibit 5: Growth in client assets, in US\$tn

Clients	2019	2020 estimate base case	2025 estimate base case	CAGR 2020–25 estimate
Pension assets	49.4	49.8	62.5	4.6%
Insurance companies	33.5	34.0	41.3	3.9%
Sovereign wealth funds	8.3	8.6	11.0	5.0%
High-net-worth individuals	87.4	88.2	108.3	4.2%
Mass affluent	76.5	77.3	94.6	4.1%
<b>Total client AuM</b>	<b>255.1</b>	<b>258.0</b>	<b>317.6</b>	<b>4.2%</b>
Total AuM	110.9	112.3	139.1	4.4%
<b>Penetration rate</b>	<b>43.5%</b>	<b>43.5%</b>	<b>43.8%</b>	

Source: PwC AWM Research Centre projections



One of the key challenges you'll face in providing for the future, though, is delivering savings goals in a tough economic environment while helping less knowledgeable investors protect themselves. Given the volatility in capital markets, further allocation to alternatives would increase diversification and lower short-term fluctuations in investment valuations.

Yet, alternatives are no panacea. Even if access is available, many investors may be reluctant to take on the risks associated with complex and illiquid assets. Clients need to understand the products and the risks, which can be difficult, especially without access to face-to-face advice. Many fund managers may also be reluctant to open up alternatives to retail investors, even via pension funds, because doing so could expose them to significant regulatory and reputational risk.

Increased investment return and diversification might have to come from the capital markets. There has been a lot of focus on fee pressure and competition from passives, but investors are prepared to pay more if they can get genuine value for their money.

So, how can AWM boost savings? To start, your business could offer more education about the need for and benefits of savings. Policymakers can support this with legislative changes and incentives. Once people are convinced, incentivised and knowledgeable about how to save, you can then work on engaging with them more closely.

The need to connect with clients without being able to meet in person has accelerated digitisation in AWM. Even once-technophobic clients are now acquiring a taste for a faster, more personalised, digital customer experience. To deliver, you'll need to use data, analytics and artificial intelligence-enabled profiling to offer customised products and experiences. Managers with advanced digital analysis and omnichannel engagement capabilities have been able to maintain end-to-end client service without face-to-face interaction. Front-runners have also been improving their interactive visualisation to connect more closely with clients and help them understand their investments.

An increasing number of investors are adopting digital platforms and online trading platforms, especially since COVID-19 hit, which could pose a direct threat to traditional AWM organisations. Millennials have been at the forefront of this trend, but other generations are catching up fast. Human advisers still have a strong place in the market, though, especially as investors tend to want both human and digital advice. So, you'll have to determine what a person can do that a machine can't.

Many of these digital platforms offer day-to-day spending analysis and money management in addition to help with savings and retirement. These additional features create an always-on relationship and allow firms to develop richer and more revealing client insights, which they can turn into more precisely tailored products.

## Embracing ESG as the future

Investors are putting the [environmental and social profile of AWM firms](#) on a level playing field with financial return. There will continue to be markets and investor groups that consider ESG to be a peripheral concern. However, if you place less priority on ESG, you'll have to ask yourself if you can afford to miss out on arguably the most significant commercial development in money management since the creation of ETFs two decades ago.

In European markets that are leading the way on embedding ESG, our analysis indicates that ESG assets will make up between 41% and 57% of total mutual fund assets by 2025. And more than 75% of European institutional investors surveyed this year by PwC said they plan to stop buying European non-ESG products within the next two years. However, only 14% of European asset managers intend to stop launching non-ESG funds in the near future.

The key challenge for managers is that investors will still expect them to deliver strong financial performance. Some AWM organisations believe that there is an inevitable conflict between yield and doing the right thing, but the two may be more compatible than you would think. A [survey by Morgan Stanley](#) at





the end of 2019 found that almost 80% of institutional investors view sustainable investing as a risk mitigation strategy. Our own analysis shows that ESG-aligned funds cumulatively outperformed their traditional counterparts by 9% from 2010 to 2019. A study by the Peterson Institute of International Economics also shows that diverse companies, in which more than 30% of leaders are women, are, on average, [15% more profitable](#) than those that aren't diverse, and businesses that score highly on sustainability tend to [outperform](#) those that don't.

But there aren't agreed-upon criteria to define responsible investing. And what is acceptable now may not be in the future, so it's important to keep your ear to the ground and be proactive in responding. For example, COVID-19 has put a spotlight on social inequity. And many think COVID-19 should be a catalyst for creating a more fair and green economy. Movements such as #MeToo and Black Lives Matter have also directed attention to diversity, equity and inclusion in business and society.

You really do have to put your money where your mouth is, though. It's not enough to dabble in ESG. If you do, you risk being called out for 'greenwashing.' The most focused investors will expect you to have clear criteria for investments, exert your influence as a shareholder and report the results you've achieved. This includes standing up against discrimination or environmental damage, even if the business in question has strong financial earnings potential.



Repairing what's not  
working right now

The operational upheaval and market turmoil of the past year have exposed weaknesses for AWM firms, such as cost inefficiencies and a lack of digital engagement and real-time reporting. The first stage of delivering on your rethink will be fixing these problems.

We advise five key repairs to set a solid foundation for the future.

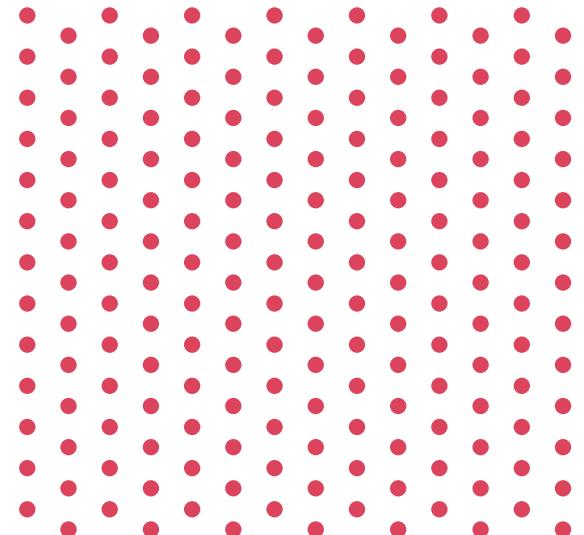
**Calibrate quickly with clients:** Ask yourself what clients want and how you can move quickly to deliver. For example, if you're facing questions over value for money, then performance-based fees or increasing allocation to high-yield alternatives could be the answer.

**Sharpen digital connectivity:** Look to vendors and fintech innovators to help you connect with clients and develop interactive reporting and faster response to enquiries.

**Clear out the legacy:** Implement fast and effective ways to drop the deadweight of legacy systems and lay the foundation for a more digitally enabled business. For example, you can apply robotic process automation to routine tasks and move to a software-as-a-service (SaaS) cloud platform.

**Rationalise portfolios:** Re-evaluate portfolios and returns before closing or merging unprofitable funds. This will enhance product strength, marketability and profit potential.

**Outsource your noncore operations:** If you haven't already, outsource your noncore operations and refocus on your core competencies. As the sophistication of service providers increases, there are opportunities to outsource higher-value operations, too, such as investment modelling, transaction processing, compliance reporting, tax and legal.





# Reconfiguring to pull ahead

Basic repairs can only get you to the competitive baseline. Meeting your new objectives over the long term requires you to reconfigure your investment philosophy, investment execution and relevant capabilities.

**Align your investment philosophy:** If ESG is a real priority for your business, as we believe it should be, then it's important to think about how you can ensure it is integral, not complementary, to your investment strategy and product development. This means looking at all of your operations through an ESG lens, modifying your investment philosophy and promoting ESG awareness across your organisation. What gets measured gets done, so build ESG into individual performance objectives and incentives. Investors will also be looking at your organisation's priorities and performance in areas such as diversity and inclusion.

**Ensure you have the scale and focus to deliver:** You need to have clarity about where and how you compete. This includes deciding, if you haven't already, whether to be a scale or niche player—a 'squeezed middle' could be exceptionally vulnerable at a time when returns are difficult to sustain. Your decision will determine whether it's best to build, buy or borrow the capabilities you need. Building can be difficult when time isn't on your side. Buying has tended to be costly, though market movements could bring more

targets into the affordable range. Borrowing through partnership and collaboration is going to be crucial in strengthening capabilities and meeting changing investor demands.

**Engage with a wider ecosystem:** AWM can't deliver on its own. The way forward requires consultation—working with clients, their beneficiaries and other managers to determine how best to deliver both social benefits and superior financial returns. It also requires dialogue with and support from regulators and policymakers. For instance, infrastructure development might include public-private partnerships. AWM firms might also work with governments to develop tax incentives and initiatives such as auto-enrolment to help boost pension savings. Alliances with banks to enter the fast-growing alternative funding market is also possible. For example, you could take on nonbank lending portfolios to make use of banking skill sets in areas such as credit monitoring.

**Digitise your target operating model:** Many AWM organisations will have to move from marketing and managing a series of products to operating as a platform. This will be the only way to ensure you have the data, systems and other core capabilities you need—such as portfolio management, trading, operations and data analytics—to be able to profile customers, sharpen your understanding of them

and discover opportunities. Moving in this direction is challenging, especially in an industry that's been slow to adopt digital solutions. There could be a clash of cultures as the manual practices of the past give way to digital approaches. But the status quo is not an option. AWM organisations that embrace digital enablement are far more likely than less tech-savvy competitors to grow and thrive.

**Equip your workforce for new demands:** A digital organisation needs a [digitally skilled workforce](#). When upskilling, keep in mind that it's important to enable people to learn in the way that best suits them, for instance, via video, gamification or traditional classroom training. It's also important to offer opportunities for employees to apply new skills—for example, by having them use their training in analytics and visualisation to help tailor investment products and customer experience more effectively. Inevitably, there will be some resistance to change. Take your employees with you by explaining what's in it for them and fostering a culture that embraces innovation and change.

The demand for certain skills is also being reshaped by the growing focus on ESG. Employees need expertise in sustainable investment, transitioning to a low-carbon economy and engaging with governments and communities. ESG also requires upskilling for risk and internal audit teams.



# Reporting to rebuild trust

Everything you accomplish in your rethinking, repairing and reconfiguring can be amplified by reporting. Not only is reporting an opportunity to strengthen engagement and trust with clients, shareholders and even government entities, it's also an opportunity for you to set a standard in the market.

**Engage with society and demonstrate your purpose:**

Articulate the story of your culture and value in the world by explaining how your business has a societal and fiduciary purpose. Communicate how you are performing against expectations.

**Engage with regulators:** Regulatory demands in areas such as ESG, IFRS 9 and value for money are increasing. Work with regulators to understand their expectations and how you can meet them both now and in the future.

**Engage with clients, shareholders and limited partners:** Create a dialogue to explain how your strategy is changing, how this aligns with their expectations and how you are performing against objectives. Clearly articulate your ESG integration, hold yourself accountable and ensure transparency in everything you do. Seek to exceed expectations and constantly challenge yourself on how to please your customers.





Your defining  
moment



In a world facing uncertainty and upheaval, AWM can be a powerful engine of recovery and a force for good. Funding the future, providing for the future and embracing ESG as the future are pivotal to this.

Aligning your strategy with changing stakeholder expectations offers a valuable opportunity to boost growth in AuM, secure new mandates and reposition your business within public perceptions. Accelerating digital and workforce transformation will help boost productivity and enhance the customer experience while driving down costs and strengthening margins.

The changes you make must be fundamental, not marginal. A few tech fixes here or a nod to investors' ESG demands there won't be enough for you to survive and thrive in an industry where the front-runners are already embracing these changes and seizing the resulting opportunities.

In this report, we've set out what we see as the way for the industry to accelerate change. Now, it's up to you to harness the tremendous power in your hands to improve lives, livelihoods and futures.

# Contacts

## **Olwyn Alexander**

Global Asset and Wealth  
Management Leader  
Partner, PwC Ireland  
+353-1-792-8719  
[olwyn.m.alexander@pwc.com](mailto:olwyn.m.alexander@pwc.com)

## **Peter Finnerty**

Global Asset and Wealth  
Management Assurance Leader  
Partner, PwC US  
+1-617-530-4566  
[peter.finnerty@pwc.com](mailto:peter.finnerty@pwc.com)

## **Bernadette M. Geis**

US Asset and Wealth Management  
Leader  
Partner, PwC US  
+1-617-955-1997  
[bernadette.m.geis@pwc.com](mailto:bernadette.m.geis@pwc.com)

## **Marie-Anne Kong**

Hong Kong Asset and Wealth  
Management Leader  
Partner, PwC Hong Kong  
+852-2289-2707  
[marie-anne.kong@hk.pwc.com](mailto:marie-anne.kong@hk.pwc.com)

## **Steven Libby**

EMEA Asset and Wealth  
Management Leader  
Partner, PwC Luxembourg  
+352-49-48-48-2116  
[steven.libby@lu.pwc.com](mailto:steven.libby@lu.pwc.com)

## **Andrew O'Callaghan**

Global Asset and Wealth  
Management Advisory Leader  
Partner, PwC Ireland  
+353-1-792-6247  
[andy.ocallaghan@pwc.com](mailto:andy.ocallaghan@pwc.com)

## **Justin Ong**

Asia-Pacific Asset and Wealth  
Management Leader  
Partner, PwC Singapore  
+65-6236-3708  
[justin.ong@sg.pwc.com](mailto:justin.ong@sg.pwc.com)

## **Allison Rosier**

Global Asset and Wealth  
Management Tax Leader  
Principal, PwC US  
+1-646-465-0474  
[allison.rosier@pwc.com](mailto:allison.rosier@pwc.com)

## **Elizabeth Stone**

UK Asset and Wealth Management  
Leader  
Partner, PwC UK  
+44-207-804-9678  
[elizabeth.stone@pwc.com](mailto:elizabeth.stone@pwc.com)

## **Dariush Yazdani**

Asset and Wealth Management  
Global Market Research Centre  
Leader  
Partner, PwC Luxembourg  
+352-49-48-48-2191  
[dariush.yazdani@lu.pwc.com](mailto:dariush.yazdani@lu.pwc.com)

*We would like to thank John Siciliano, senior adviser to PwC US, for his contributions to this report.*

## Methodology

The PwC AWM Research Centre used econometric modelling to obtain our estimates. AuM was used as the target variable, generally based on data from 2004 to 2019. Various macroeconomic indicators from the International Monetary Fund (IMF) and IHS Markit were used as explanatory variables. In addition, we integrated industry-specific factors into our models. We used statistical software to search among different possible linear models. We tested the models in levels, in differences, in logs, and both with and without lags, and shortlisted the statistically significant models for each country. We further examined these models per country and selected the most economically plausible model. In addition, we included PwC experts' points of view on the future key trends in the AWM industry.

The sources we used to build our market sizing database are widely accepted in the industry. We have used data from the IMF, Lipper, the Investment Company Institute, Preqin, the Sovereign Wealth Fund Institute, the Credit Suisse Global Wealth Report, TheCityUK, Willis Towers Watson, the World Bank, the Financial Stability Board, and the Office for Economic Co-operation and Development (OECD).

Our forecasts were initially based on the April 2020 IMF World Economic Outlook report, The Great Lockdown, which included substantial uncertainty across financial and real economy markets. We subsequently used the scenarios provided by IHS Markit, the OECD and the World Bank throughout 2020 until September. We used the most optimistic scenario to build our best-case scenario and the most pessimistic to build our worst-case scenario. The base-case scenario is considered the most likely to materialise up until 2025.

Note: For any questions on methodology, please contact PwC Luxembourg Partner [Dariush Yazdani](#).

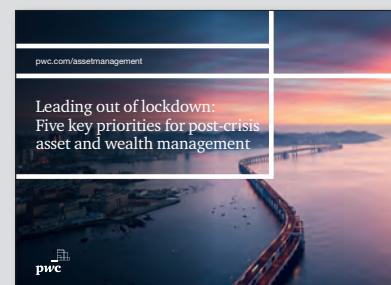
## Further reading



[\*\*AWM: From 'A brave new world' to a new normal\*\*](#)



[\*\*The future of financial services: Securing your tomorrow, today.\*\*](#)



[\*\*Leading out of lockdown: Five key priorities for post-crisis asset and wealth management\*\*](#)



[\*\*Asset and wealth management revolution: Investor perspectives – Rethinking purpose and performance\*\*](#)

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