

21st CEO Survey

Optimistic CEOs and buoyant growth, yet disruption looms

Key findings from the Asset and Wealth Management industry



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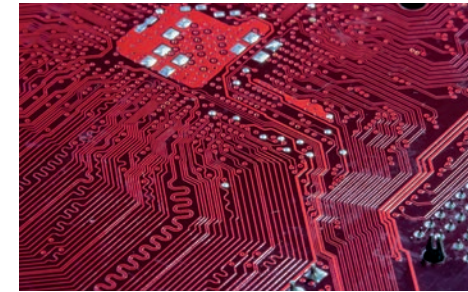
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Introduction

There's great confidence in the asset and wealth management (AWM) industry, but also acknowledgement that times are changing. While CEOs are optimistic about growth, they're aware that they face challenges, although perhaps not the full extent of them. Those are the inescapable conclusions of PwC's 21st CEO Survey in which 126 of the sector's CEOs were interviewed.

While AWM CEOs are optimistic about revenue growth in 2018, they also report seeing a myriad of challenges. This contrast begs the question: Will the extent of potential disruption outpace the time needed to prepare for and react to it? Accelerating technological change, more demanding customers, embedding the blizzard of new regulation – these powerful forces will transform, and perhaps terminate, some of the sector's traditional ways of operating.

The survey's findings echo the recent report, “Asset & Wealth Management Revolution: Embracing Exponential Change,” which estimates that by 2025 global assets under management will have almost doubled

– rising from US\$84.9 trillion in 2016 to US\$145.4 trillion. Yet certain AWM CEOs seem to underestimate the widespread industry reinvention under way, with major changes to fees, products, distribution, regulation, technology, and people skills, and how a failure to properly navigate these changes may cut into assets under management and eventual profits.

Perhaps this is due to the disparate nature of the sector. It ranges from global giants to active and alternative investment boutiques. Many AWM participants in PwC's 21st CEO Survey lead relatively small shops, reflecting the entrepreneurial nature of the industry. Fully 71% of the survey's participants employ

fewer than 500 people; 40% have revenues below US\$100 million. The CEOs of these boutique and mid-sized firms may believe, incorrectly, that many of the industry's challenges apply mainly to their larger peers.

Even so, many CEOs are anxious. They realise that fast-emerging disruptive threats mean the sector must learn new ways to differentiate their offerings, reach the market, and gain scale, but perhaps don't recognise the urgency. With barriers to global businesses likely to rise, digital technology is an important part of the answer. The industry

is expanding quickly, taking centre stage from other more traditional sources of finance, but only the fastest innovators will reap the spoils.

For the sector's CEOs, this is a time of contrasts: optimism, growth, and looming disruption.



Olwyn Alexander
Global Asset & Wealth Management Leader
PwC Ireland

01

Great optimism on global growth

At a time when global economic growth is rising and more uniform than it has been for many years, the sector's CEOs are optimistic about revenues. But challenges loom.

Looking forward to 2018, half (50%) of AWM CEOs say they believe that global economic growth will improve. That's far more than last year, when just 29% said that they expected better times. For context, the IMF has forecast that 2018 will see "the broadest synchronised global growth upsurge since 2010" and anticipates 2018 GDP growth of 3.9%.

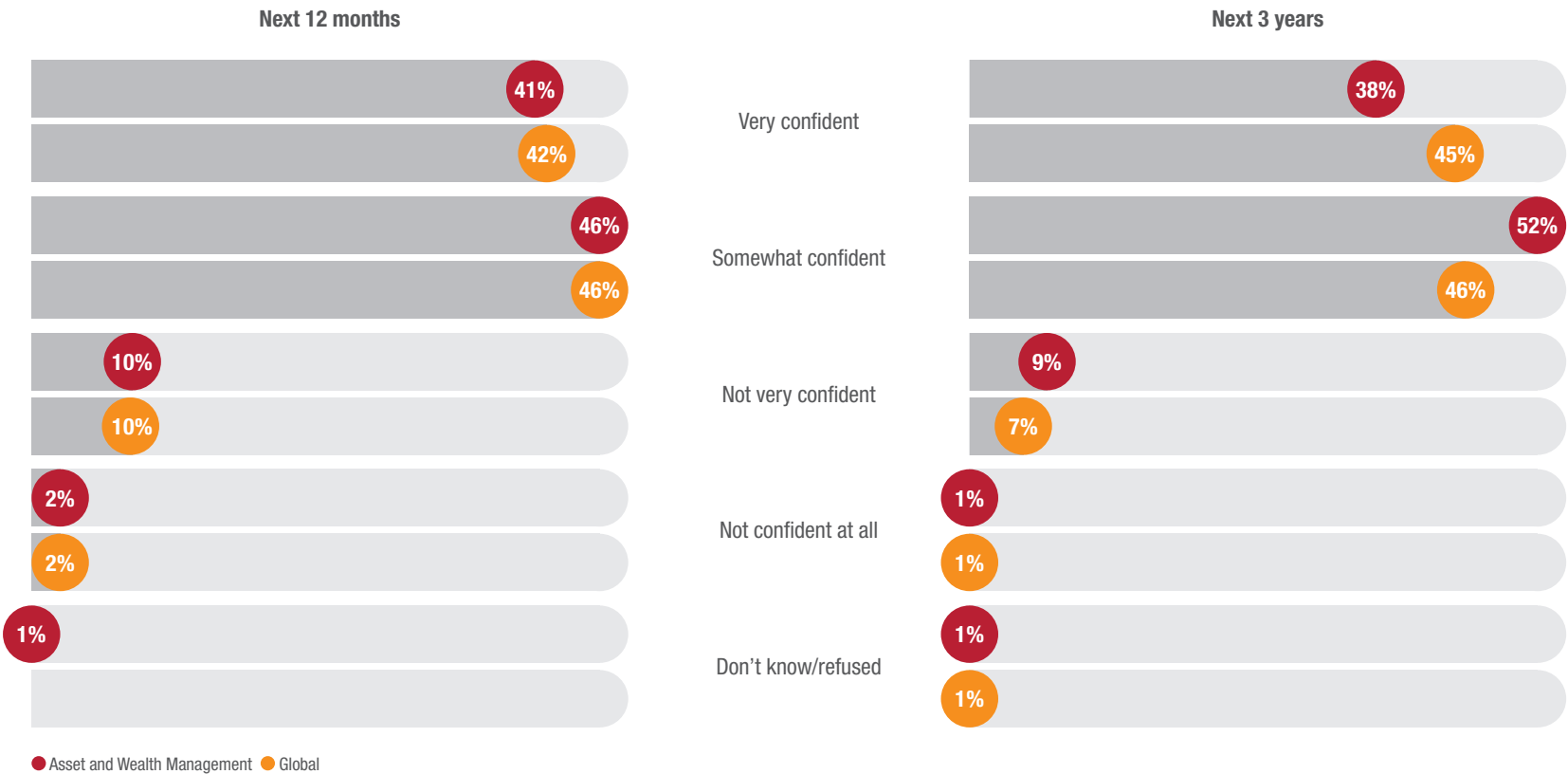
Eternal optimism about revenues is a characteristic of the sector. Some 87% of CEOs express themselves to be "somewhat or very confident" about the revenue prospects for 2018 – slightly lower than in 2017 when 92% were this sanguine, or 2016 when 90% were (see exhibit 1). Canvassed in late 2017, before the early 2018 market correction, perhaps CEOs were anxious about lofty prices in securities markets.

But the external environment is just part of the picture. CEOs are aware of the competitive threats they face from within and the survey reveals that many are preparing to reengineer the businesses they steer.

Exhibit 1

AWM CEOs continue to report being confident about future revenues

Q How confident are you about your company's prospects for revenue growth over the next 12 months and next 3 years?

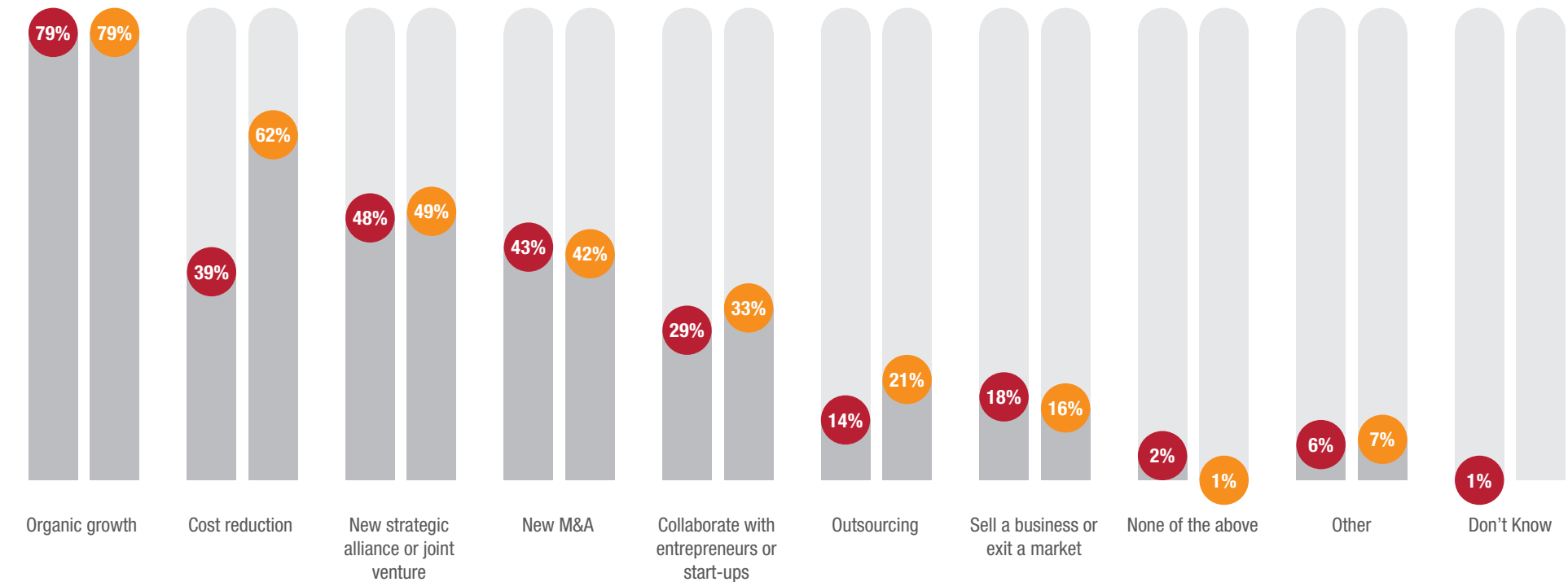


Source: PwC, 21st Annual Global CEO Survey. Base: Asset and Wealth Management respondents.

Exhibit 2

Organic growth is a priority for AWM CEOs – though fewer are planning cost cuts compared to CEOs in other sectors

Q Which of the following activities, if any, are you planning in the next 12 months in order to drive corporate growth or profitability?



● Asset and Wealth Management ● Global

Source: PwC, 21st Annual Global CEO Survey. Base: Asset and Wealth Management respondents.

More CEOs are gearing up for organic growth in the year ahead than were in 2017 (see exhibit 2). Some 79% of them are planning for this, compared with 76% in 2017. To prepare for this eventuality, they're staffing up, with 57% intending to increase headcount, focusing on employees with digital skills.

This isn't business as usual. More than a third (39%) say they intend to cut costs, down from 43% in 2017. With fees under intense pressure in the largest markets of the US and Europe especially, they've little choice. Indeed, it's surprising that more aren't doing so.

CEOs' answers reveal that there'll be further consolidation. Fully 43% are planning mergers and acquisitions (M&A) in 2018, while 48% intend to expand capabilities through either strategic alliances or joint ventures. This follows 2017 when M&A in asset management reportedly climbed to an eight-year high. CEOs report varying motivations for M&A, including economies

of scale and synergies, entering new markets, and the need to offer a more diverse range of products.

There's also a drive to collaborate with entrepreneurs and start-ups: 29% of CEOs say that they are planning to do so within the next 12 months in order to drive corporate growth or profitability. It's nothing new for large asset managers to team up with boutiques staffed by talented fund managers, but wealth managers may be keen to team up with FinTech entrepreneurs. As it becomes clear that many start-ups lack the capital to become serious competitors, greater scope for collaboration is created. Firms have an opportunity to decide what kind of businesses they want to be and develop their business by building, buying, or borrowing capabilities.

Whether through M&A, joint ventures or straightforward expansion, CEOs remain eager to access markets outside their home base. As North America remains the world's wealthiest region, it's no surprise that 48% of non-US CEOs regard the US as the most important market outside their own.

But almost as many, 40% of non-Chinese CEOs, are looking to China. While private wealth is arguably growing faster there than anywhere else, and the government is taking steps to open up the asset management market, serious obstacles to doing business remain. Indeed, several asset and wealth managers have been disappointed.

After the US and China, the two Western European markets of Germany and the UK are most favoured, by 25% and 22% of CEOs respectively.



02

Top-of-mind threats

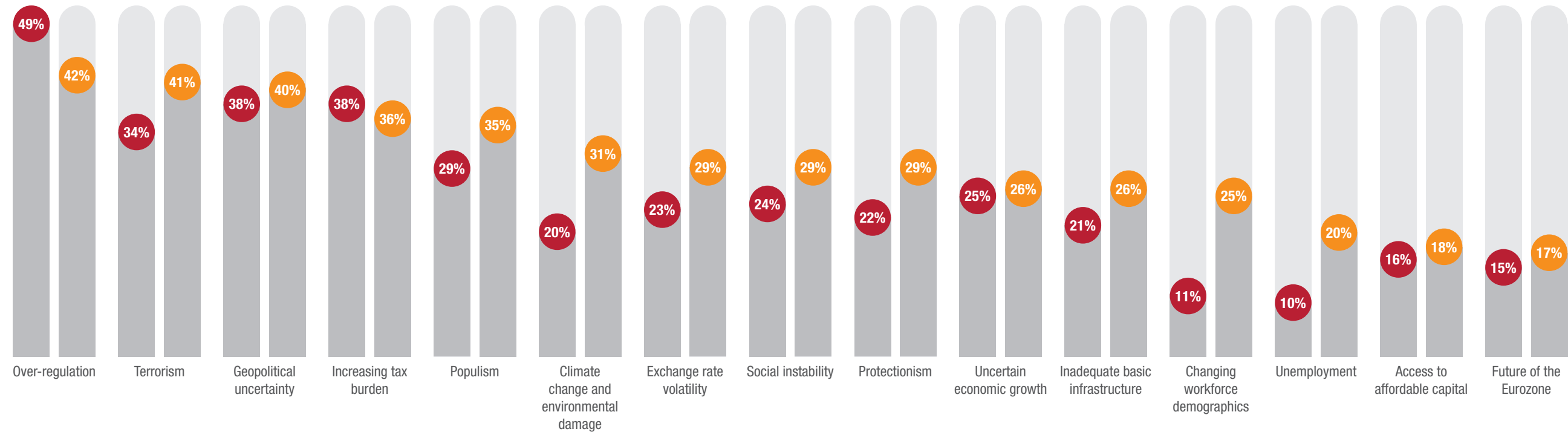
CEOs are anxious about the many threats they face. Regulation is their greatest worry, with 49% stating that they're "extremely concerned" (see exhibit 3) and another 34% saying they are "somewhat concerned". That's not surprising at a time when new regulation is eroding profit margins. In Europe and the US, the Markets in Financial Instruments Directive II (MiFID II) and Department of Labor Fiduciary Rule, respectively, are set to squeeze margins. These regulations are putting further pressure on asset management fees and demanding greater transparency, while MiFID II is also changing the way wealth managers charge for advice and making asset managers pay for investment research that was previously free.

Exhibit 3

About half of AWM CEOs say they are extremely concerned about over-regulation

Q How concerned are you about the following economic, policy, social and environmental threats to your organisation's growth prospects?

i Chart shows percentage of respondents who stated 'Extremely concerned'



● Asset and Wealth Management ● Global
Source: PwC, 21st Annual Global CEO Survey. Base: Asset and Wealth Management respondents.

Similarly, tax changes are a big issue, with 38% saying they are “extremely concerned” and 39% saying they are “somewhat concerned.” For some asset managers, new tax rules are challenging historic tax structures. More generally, the US Foreign Account Tax Compliance Act (FATCA) and the Organisation for Economic Co-operation and Development (OECD)’s Common Reporting Standard (CRS) rules for sharing of tax information about individuals between countries places the burden of reporting on financial institutions. Additionally, the United States recently enacted the most comprehensive tax reform in more than 30 years and the implications for operating models in the AWM sector could be significant.

As if this weren’t enough, CEOs have geopolitical uncertainty on their minds. This is hardly surprising with tensions in places such as East Asia, Central Europe, the Middle East, and North Africa. They’re also worried about threats that include: social instability, protectionism, terrorism, and populism.

When it comes to mega trends or factors poised to disrupt existing businesses, AWM CEOs are worried, but are they worried enough?

Technology and the speed with which it may change the sector are perhaps what makes them lose the most sleep. Some 70% of CEOs said that they believe that changes in core technologies will prove “disruptive or very disruptive” over the next five years. What’s more 58% expect an increase in the number of direct and indirect competitors – traditional and new – will be disruptive. It remains to be seen how prepared the industry is for competition from technology companies.

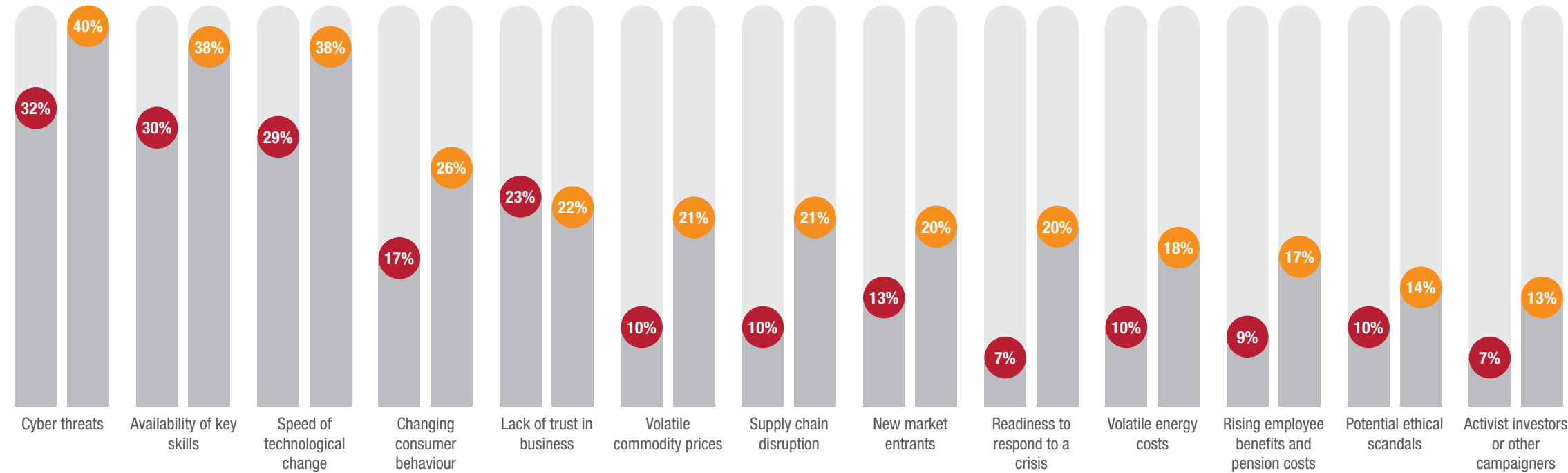
Almost a third of respondents say they are “extremely concerned” and 41% say they are “somewhat concerned” about cyber security threats (see exhibit 4), and are apprehensive that customer data or their own intellectual property will be hacked.

Exhibit 4

About a third of AWM CEOs report being concerned about cyber threats, the speed of technological change, and availability of key skills

Q How concerned are you about the following business threats to your organisation's growth prospects?

i Chart shows percentage of respondents who stated 'Extremely concerned'



● Asset and Wealth Management ● Global

Source: PwC, 21st Annual Global CEO Survey. Base: Asset and Wealth Management respondents.

Many CEOs are also worried about the availability of key skills (see exhibit 5). How does this reconcile with the possibility that alternative intelligence may come to reduce or eliminate completely reliance on investment analysts? It's likely that this will remain a skills-based industry but that the skills required are changing, with data skills taking on increased importance.

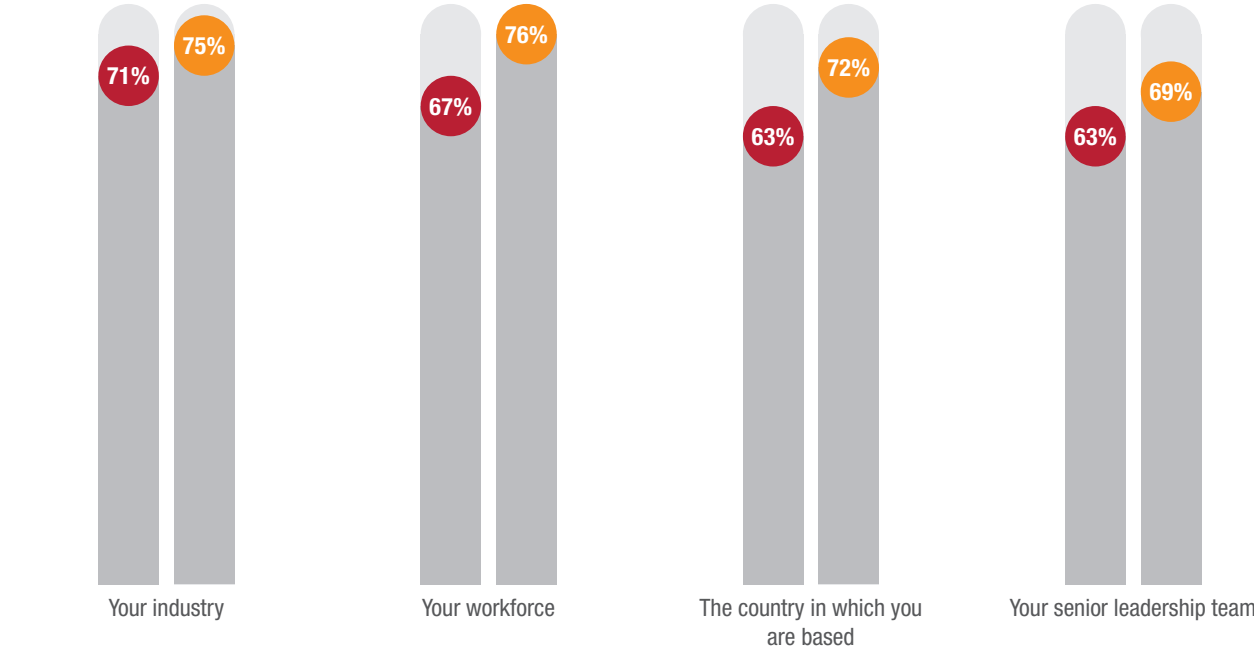
As if CEOs didn't have enough on their minds, they're also struggling with changing consumer behaviour. Simply speaking, customers want better products and services at a lower cost.

Exhibit 5

AWM CEOs say they are concerned about the availability of digital skills

Q Thinking specifically about digital skills, how concerned are you about the availability of these skills amongst the following?

i Chart shows percentage of respondents who stated 'Extremely concerned' or 'Somewhat concerned'



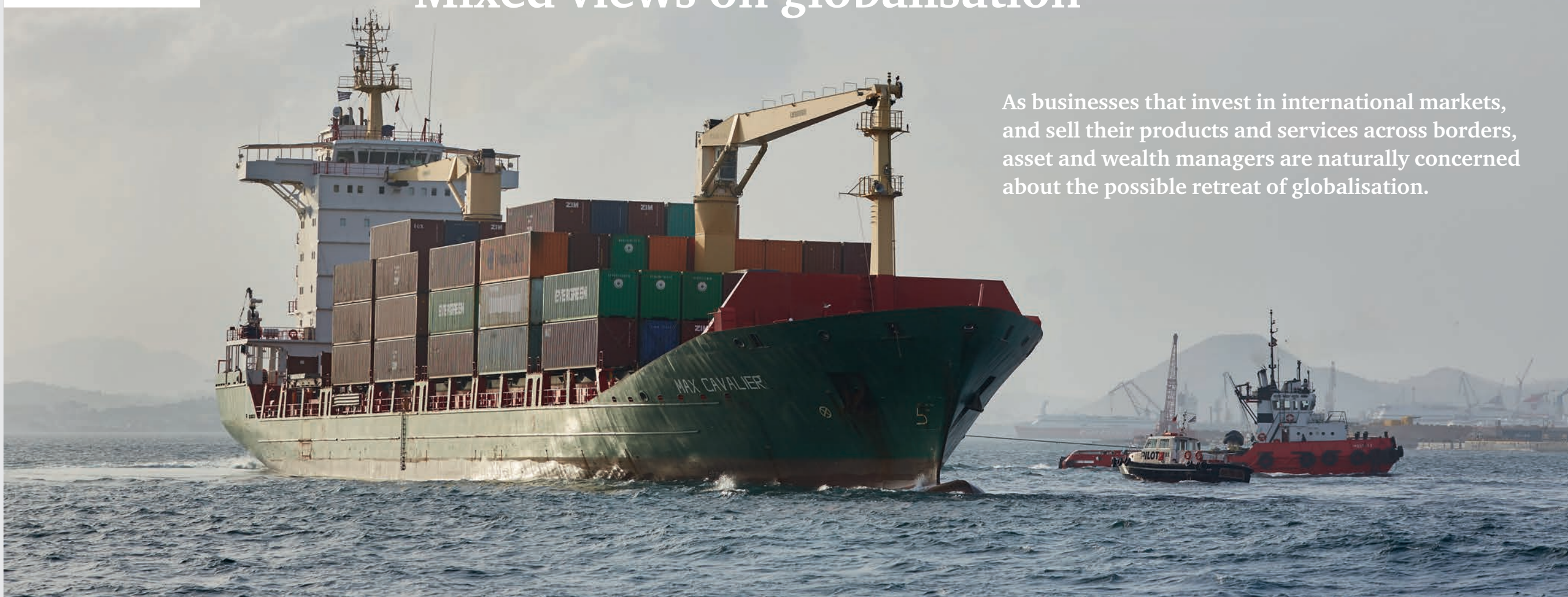
● Asset and Wealth Management ● Global

Source: PwC, 21st Annual Global CEO Survey. Base: Asset and Wealth Management respondents.

03

Mixed views on globalisation

As businesses that invest in international markets, and sell their products and services across borders, asset and wealth managers are naturally concerned about the possible retreat of globalisation.





Just 17% say that they think globalisation has helped close the gap between rich and poor; 41% think it hasn't. Regarding helping to create a skilled labour force: 91% of CEOs say that globalisation has to some extent or to a large extent. And 96% of CEOs say that to some extent or to a large extent globalisation has helped move flows of capital, goods, and people.

With the benefits of globalisation in doubt, most CEOs report that they see the world becoming politically, socially, and economically fragmented. This is troubling for a sector that needs scale to overcome intensifying margin pressure.

Almost three quarters (74%) foresee a rise in regional trading blocs rather than a single global system. The same proportion see more devolved nations and fewer political unions. And 70% think there will be multiple economic models rather than just one.

Perhaps explaining the rollback of globalisation and integration is mounting wealth inequality. Some 56% of CEOs said that they think economic growth is benefiting the few rather than the many.

04

The challenge of attracting digital talent

Another concern, the type of talent needed for success, is changing dramatically. Data scientists will likely soon be just as sought-after as research analysts. Senior leadership must not only run the business but understand the next generation of technology.



With that in mind, 63% of CEOs say that they are “somewhat or extremely concerned” about the lack of digital skills in senior leadership. Similarly, 67% say they are “somewhat or extremely concerned” about a lack of digital skills throughout their businesses.

Even so, they seem to underestimate the potential of digital skills. Just 38% say that they “agree or strongly agree” that they are clear on how robotics and alternative intelligence can improve the consumer experience.

New tactics are being used to harness the digital skills needed and modernize the workforce (see exhibit 6). Most commonly, 39% of CEOs report that they are introducing more flexible ways of working, while 38% say they are making more digital tools available. More than a fifth, 21%, are improving compensation, and almost a third, 29%, are focusing on learning and development.

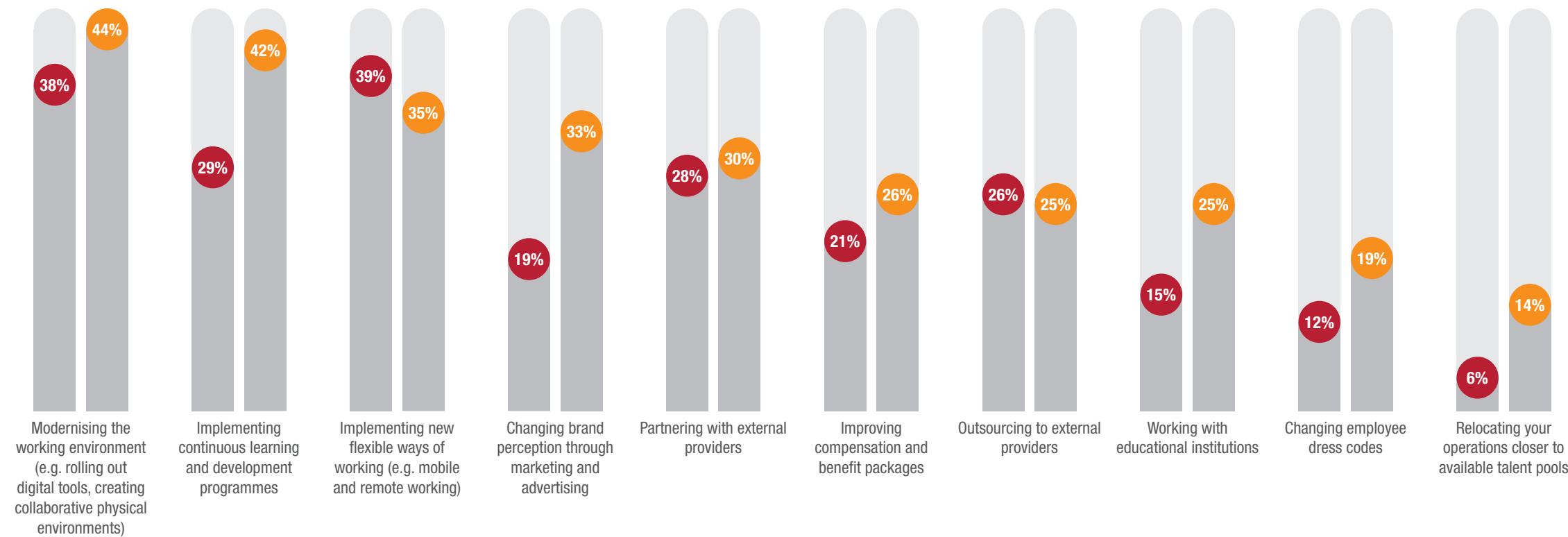
But there’s also a realisation that there’s a need to look outside the firm for new ways of doing things: 28% of CEOs report working with external providers to attract and develop digital skills while 26% are outsourcing.

Exhibit 6

AWM CEOs say they are introducing more flexible ways of working and modernising the work environment to attract or develop digital talent

Q To what extent is your organisation using the following strategies and tactics to attract or develop digital talent?

i Chart shows percentage of respondents who stated 'to a large extent'



● Asset and Wealth Management ● Global

Source: PwC, 21st Annual Global CEO Survey. Base: Asset and Wealth Management respondents.

Conclusion

The CEOs canvassed for our survey remain confident that rising asset prices will buoy their assets under management, but are aware that the forces of regulation, technology, and changing consumer behaviour are threatening a period of disruption.

Yet while they're aware of the challenges, it's hard to escape the conclusion that not all are feeling and acting with sufficient urgency. Should there be more energy around cutting costs for example? Or on hiring digital talent? Yet 33% of CEOs said that they expected their headcount to stay the same over the next 12 months.

Asset and wealth managers must focus on three things as their industry moves to a new paradigm:

- 1. Strategy.** All firms must have a clear view of the landscape of tomorrow and a clear strategy, and know their differentiating capabilities. They should reorganise their businesses to support the differentiating capabilities and cut costs elsewhere.
- 2. Technology.** CEOs must embrace technology across all functions. Artificial intelligence, robotics, big data, and blockchain will transform the industry.
- 3. People.** Old ways of hiring and nurturing people are changing. New skills are needed and new employment models must be embraced. Hiring and retaining the best will depend more than ever on diversity and inclusion, and meeting the needs of the whole person.

21st CEO Survey Methodology

PwC conducted 1,293 interviews with CEOs in 85 countries. Our sample is weighted by national GDP to ensure that CEOs' views are fairly represented across all major countries. The interviews were also spread across a range of industries. Further details by region and industry are available by request. Eleven percent of the interviews were conducted by telephone, 77% online, and 12% by post or face-to-face. All quantitative interviews were conducted on a confidential basis.

The lower threshold for all companies included in the top 10 countries (by GDP) was 500 employees or revenues of more than US\$50 million. The threshold for companies included in the next 20 countries was more than 100 employees or revenues of more than \$10 million.

- 40% of companies had revenues of \$1 billion or more.
- 35% of companies had revenues between \$100 million and \$1 billion.
- 20% of companies had revenues of up to \$100 million.
- 56% of companies were privately owned.

Notes

- Not all figures add up to 100%, as a result of rounding percentages and exclusion of 'neither/nor' and 'don't know' responses.
- The base for figures is 1,293 (all respondents) unless otherwise stated.

We also conducted face-to-face, in-depth interviews with CEOs and thought leaders from five continents over the fourth quarter of 2017. Their interviews are quoted in this report, and more extensive extracts can be found on our website at ceosurvey.pwc.com, where you can also explore responses by sector and location.

The research was undertaken by PwC Research, our global centre of excellence for primary research and evidence-based consulting services

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PwC industry contacts



Olwyn Alexander

Global Asset and Wealth Management Leader
PwC Ireland
olwyn.alexander@ie.pwc.com



Thomas J. Holly

Asset and Wealth Management Leader
PwC US
thomas.j.holly@pwc.com



Andy O'Callaghan

Asset and Wealth Management Leader
PwC Ireland
andy.ocallaghan@ie.pwc.com



Mike J. Byrne

Partner
PwC Channel Islands
michael.j.byrne@pwc.com



Justin Ong

Asia-Pacific Asset and Wealth Management
Industry Leader
PwC Singapore
justin.ong@sg.pwc.com



Lara De Vido

Global FS Marketing
PwC US
lara.de.vido@pwc.com

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