



PERSPECTIVES



RETURN OF THE LIVING DEAD, PART II

With high interest rates casting a shadow over 2023, investors have been turning to old haunts – broadening allocations to traditional non-managed savings products, including bonds, bank deposits and structured products.

Exactly one year since we explored the impacts of rising rates as well as changes in global capital markets on the asset management industry, our predictions on the continued rise of these “ghosts” have unfortunately come true.¹

After temporarily fading away during the low-rate era, these instruments came back from the dead, suddenly and with renewed vigor, preempting net saving flows and progressively eroding asset managers’ share of wallet in the management of retail savings.

Here is what has changed over the past year and what that means for asset managers.

Lingering Fund Flow Challenges

In Europe as in the U.S., heightened yields, capital protection, liquidity and wide accessibility have drawn investors toward bank deposits and structured products, outpacing flows to managed savings instruments² (life insurance, funds). This year has also seen the noteworthy resurrection of government bond issues specifically targeted at retail investors. Let’s unpack the driving forces behind each:

- **Bank deposits:** In various European countries, competitive interest rates on bank deposits and

regulated savings have offered appealing returns to savers, making them an attractive alternative to riskier investments. This is further fueled by the need for banks to shore up their liquidity positions in the face of ever more stringent regulations.

- Germany has seen massive inflows into fixed term deposits year to date (+€90bn). New intermediaries (digital platforms) are quickly becoming a new funding channel for non-domestic European banks. Several tens of billions have been raised so far in 2023 by these platforms – an amount unheard of previously.

1. Please refer to Indefi, “Return of the Living Dead”, October 2022. Available on www.indefi.com

2. Defined as flows into traditional products / services offering a remuneration in basis points over flows into assets managed / advised.

- In France, regulated saving accounts raised more than €33bn year to date. Over the past five years, bank deposits and liquidities captured north of 90% of the increase in households' net wealth vs. 0% for the managed savings industry, with the remainder going to new forms of investments including cryptoassets, crowdfunding and stocks and derivatives via neo-brokers.³

• **Retail bonds:** In Southern European markets, government bonds and Treasury bills have traditionally been a popular form of investment for individual investors. Debt-ridden countries once again tapped into this pool of easily accessible savings, offering attractive yield pick-ups to retail investors (in Spain, 2-year retail bonds offer 2% over bank deposit rates).

- Italian investors are leading the charge, with €136bn added by households to their bond holdings since July 2022 including a newly-issued €23bn of retail-accessible *BTP Italia* bonds and a new 4-year bond, *BTP Valore*, which raised €18bn.

- Other European retail markets followed the same pattern: a €10bn issuance by Portugal exceeding an initial target of €3.5bn, and €22bn by Belgium in September 2023.

• **Structured products:** While issuance had already picked up by 25-33% in 2022 for key European markets, issuance volumes in the first half of 2023 have already surpassed the 2022 total. While autocalls remain the largest category, 2023 saw a marked revival of capital-protected and interest rate-linked products. Looking forward, these instruments should benefit from strong tailwinds driven by regulation-induced investment personalization (MiFID II/PRIIPs) and technology-enabled ease of access.

Staying Alive in a New World: A Playbook for Asset Managers

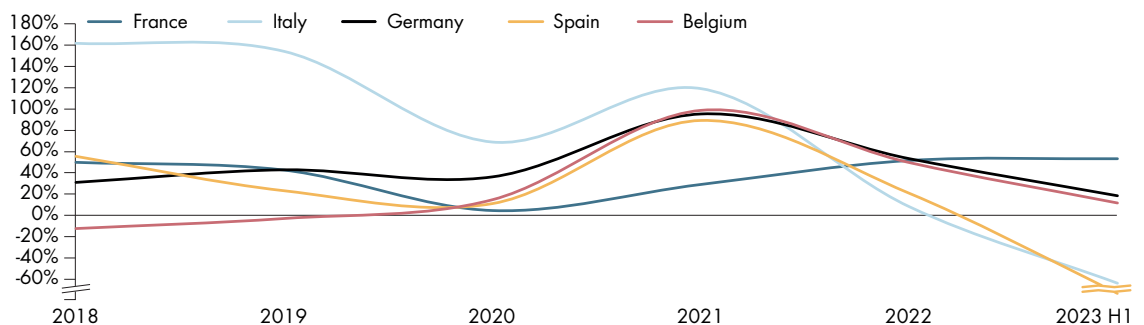
In order to counteract pressures on traditional revenue streams, asset managers need to innovate and diversify their business mix, allowing them to tap into new sources of revenue. Here are elements of the winning playbook in a high-interest-rate market:

• **Focus on winning channels for asset management products:** These include GFIs and their fund selection units, the broader wealth market and the DC pension/unit-linked channel. The French market is a testimony to the attractiveness of the latter: the 2019 pension reform is driving steady net inflows into fund-backed 401(k)-style individual DC pension plans.

• **Renew the asset management offering to broaden the appeal:** Winning products of tomorrow include "cost-effective" funds (critical today as the "Value for Money" wave sweeps Europe) and ETFs, with a special emphasis on active ETFs, alongside private assets and model portfolios. Down the line, delivering increasingly personalized portfolios by client-friendly channels is the way to go.⁴

• **In summary, this means becoming more than just an asset manager:** Asset managers should explore innovative avenues beyond their core business such as D2C models (direct-to-client access) and broaden the range of investment opportunities they bring to the market. Additionally, in a market where organic growth is increasingly challenging, asset managers need to consider how strategic partnerships leveraging their connections and technological advantages, as well as M&A, can help them accelerate their growth agenda in key client channels, such as wealth, insurance, and digital.

Ratio of net flows to managed assets vs alternative savings solutions (2018 - H1 2023)



Sources: Eurostat, Indefi analyses.

In a forthcoming white paper, we will expand on how asset managers need to think about the future of their industry.

Indefi is a strategy consulting firm that provides asset managers – from the top 10 largest global firms to boutiques and private market specialists – with an actionable roadmap to achieve their growth objectives. Operating across Europe and the U.S., Indefi maintains both a global view and deep local market expertise. The firm's guidance, grounded in conviction and insight, spans growth strategy, market entry, product development and enhancement, sustainability, and M&A support. For more information, please visit www.indefi.com.



3. Please refer to Indefi, "Every cloud has a silver lining. Analysis of the French managed savings industry and the rise of independent distribution", September 2023. Available upon request.

4. Based on Indefi's analysis on Gen-C (Generation Customization), unraveling the Gen-Z investment equation.