



# CVM Seminar: Strategic Issues and Challenges of the CIS Industry

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## **Agenda:**

# **Role of Service Providers and Gatekeepers and the Treatments of Conflicts of Interest**

- 1. Customer Choice: Access to products**
- 2. International Experience**
- 3. Dealing with Conflicts of Interest**
- 4. Conclusions**

# 1. Customer Choice / Access to products

# 1. Customer Choice / Access to products

## \* *Background*

- Globalization of markets, complexity and sophistication of products together with increased regulations brings a challenging situation for the distribution of financial products

## \* *Key considerations*

- **OA:** We define open architecture as the offering of third party solutions by a financial institution

- **Parties involved:** Generally we find 4 parties involved in the OA process:

1. Manufacturer (Asset Manager)
2. Intermediary (Financial Institution / IFA)
3. Path (Platforms)
4. Customer

- **Non product related items:** Aspects like tax treatment on CIS, operational and regulatory requirements and transparency can have key impacts of the development of customer choice

# Access to Choice: The Three Pillars

## Channel Access

- DIRECT ACCESS
  - Purchase of the product through a platform and with no intermediaries
- FINANCIAL INSTITUTION
  - Can be a bank, insurance company or other form of regulated entity
- INDEPENDANT FINANCIAL ADVISOR
  - Through a certified and regulated IFA providing advice

## Type of Product

- THROUGH A WRAPPER
  - Fund of Fund
  - Insurance Unit Linked
  - Retirement Solutions
  - Managed Fund Portfolio
  - Other...
- MUTUAL FUND
  - White labelling
  - 3P Branded Fund

## Client Segmentation

- RETAIL CUSTOMERS
- AFFLUENT CLIENTS
- PRIVATE BANKING / HNW

**Different conflicts of interest can arise, depending on the channel we use, type of product we buy or how we are segmented as client**

# Access to Products by Distribution Channels Europe

## Breakdown of Selected European Country Assets Under Management by Distribution Channel, 2007–2009 (€ billions)

Changes in regulation will challenge traditional distribution channels and open-up new opportunities.

Web-based direct to consumer propositions are likely to grow in importance across Europe.

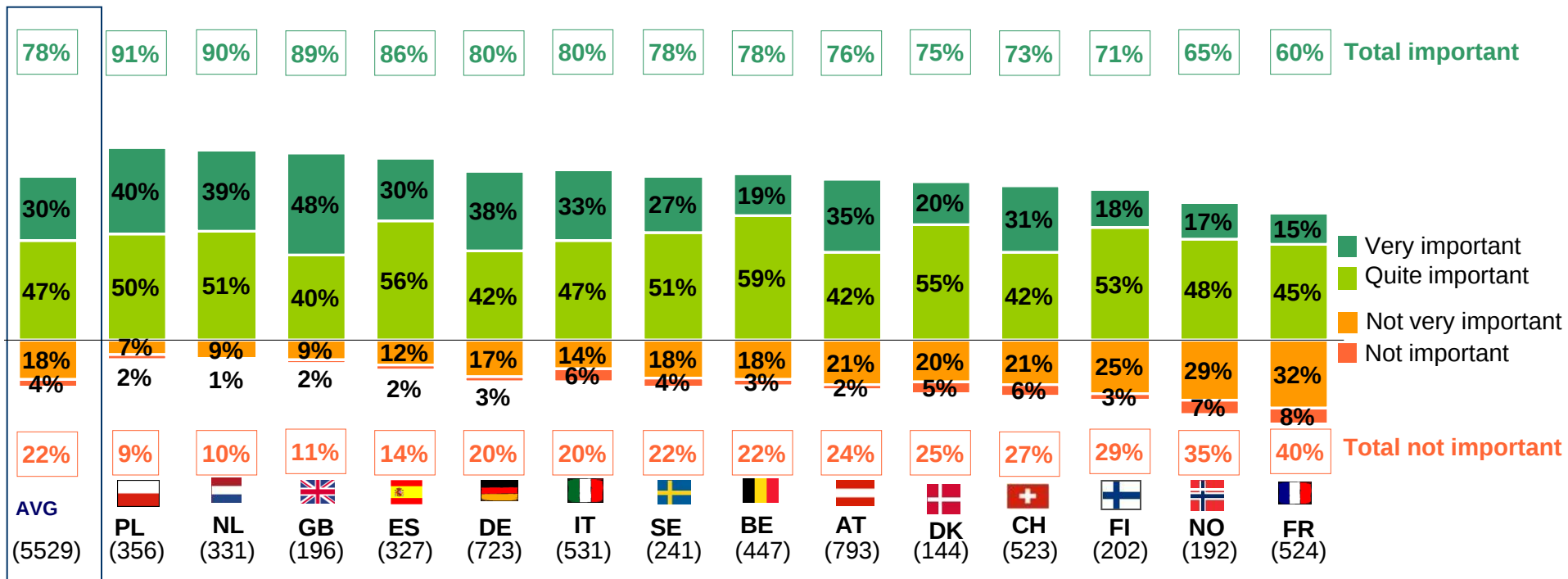
|                             | France        |               |               | Germany       |               |               | Italy         |               |               | Switzerland   |               |               | United Kingdom |               |               |
|-----------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|---------------|---------------|
|                             | 2007          | 2008          | 2009          | 2007          | 2008          | 2009          | 2007          | 2008          | 2009          | 2007          | 2008          | 2009          | 2007           | 2008          | 2009          |
| <b>Assets (€ bn)</b>        | <b>€891.6</b> | <b>€670.4</b> | <b>€734.6</b> | <b>€626.2</b> | <b>€408.6</b> | <b>€454.4</b> | <b>€526.0</b> | <b>€320.4</b> | <b>€345.3</b> | <b>€167.0</b> | <b>€142.1</b> | <b>€211.7</b> | <b>€605.4</b>  | <b>€359.1</b> | <b>€543.3</b> |
| Retail Bank                 | 23.9%         | 23.3%         | 21.3%         | 47.3%         | 45.4%         | 44.4%         | 57.5%         | 56.2%         | 54.3%         | 17.0%         | 14.1%         | 11.6%         | 5.7%           | 4.3%          | 2.3%          |
| Private Bank/ Discretionary | 12.0          | 9.9           | 10.9          | 12.3          | 11.0          | 13.5          | 7.0           | 7.0           | 13.0          | 51.0          | 45.0          | 51.0          | 6.0            | 6.0           | 6.0           |
| Pensions/Insurance Wrap     | 19.5          | 18.5          | 13.5          | 16.2          | 15.2          | 16.4          | 12.2          | 13.5          | 13.5          | 8.0           | 7.0           | 8.0           | 15.3           | 13.4          | 12.4          |
| IFA Advisor                 | 4.0           | 4.0           | 8.3           | 11.4          | 9.4           | 7.4           | 9.0           | 5.0           | 6.0           | 5.0           | 5.0           | 6.0           | 50.0           | 53.1          | 55.6          |
| Supermarket                 | 0.4           | 0.3           | 0.3           | 1.5           | 0.5           | 0.5           | 0.5           | 0.3           | 0.3           | 3.0           | 1.5           | 1.5           | 2.1            | 1.5           | 1.5           |
| Direct                      | 0.5           | 0.5           | 0.5           | 0.2           | 0.2           | 0.2           | 0.2           | 0.2           | 0.2           | 2.0           | 1.5           | 1.5           | 0.9            | 0.5           | 0.5           |
| Fund of Funds               | 13.5          | 12.5          | 11.2          | 6.0           | 11.3          | 13.6          | 11.0          | 10.2          | 5.1           | 1.0           | 11.9          | 6.4           | 7.8            | 9.2           | 9.2           |
| Institutional/ Corporation  | 26.0          | 31.0          | 34.0          | 5.0           | 7.0           | 4.0           | 2.5           | 7.6           | 7.6           | 13.0          | 14.0          | 14.0          | 12.0           | 12.0          | 12.5          |
| Other                       | 0.2           | 0.0           | 0.0           | 0.1           | 0.0           | 0.0           | 0.1           | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           | 0.2            | 0.0           | 0.0           |

Sources: Lipper FMI European Fund Market Data Digest, Cerulli Associates

## Highlights

- **Retail Banks:**
  - Italy has a 54% weight as access channel
  - UK only 2.3%
- **Private Banks:**
  - Switzerland, with 51% leads in Europe in terms of access channel
- **IFA Channel:**
  - UK leads with 56% weight in distribution vs. a lower penetration in other European Countries

# Access to Choice in Europe: Open architecture; importance of product offering



Sample: People with Mutual Funds or Life Insurance products

Question: ¿How important is it for you to receive diverse product offering from the market place ?

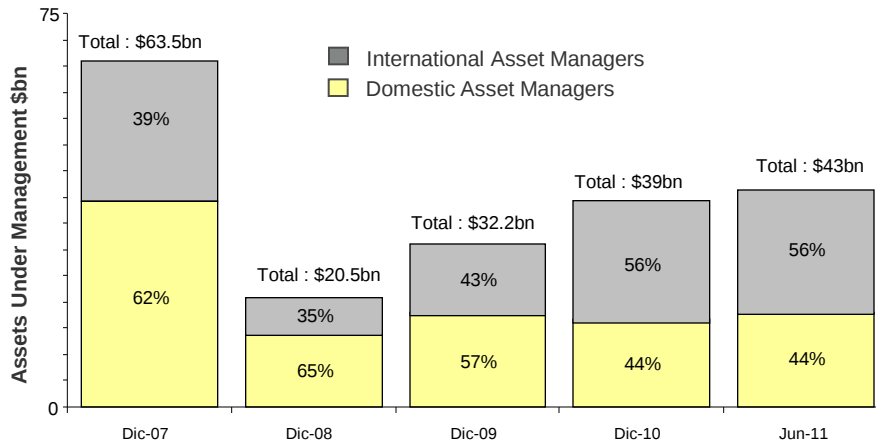
**Almost 8 out of 10 European investors appreciate the openness and accessibility to products and even 30% consider it VERY important**

## 2. International Experience

# International experience: Spain

## Evolution of Equity Funds AUM

Domestic and International Asset Managers, Dec. 2007 - June 2011



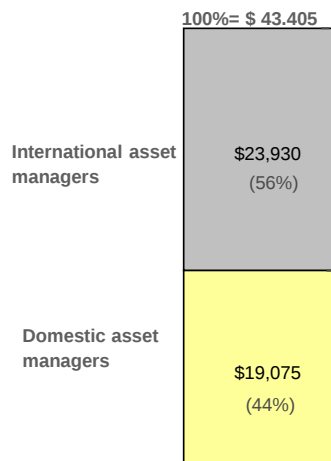
- Tax event triggered a re shape of the Mutual Fund Industry (Law 35/2003, Nov 4, Personal Tax Income Regime)

- New Landscape / More competition:

- \* Commissions
- \* Returns on funds
- \* Service levels
- \* Increased visibility Fund data providers

## Breakdown by Asset manager

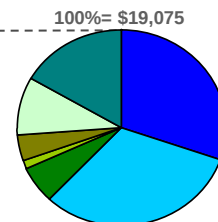
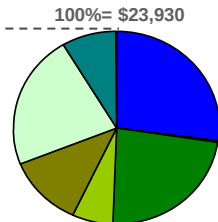
June 2011



Equity Funds - June 2011

## Break down by asset class

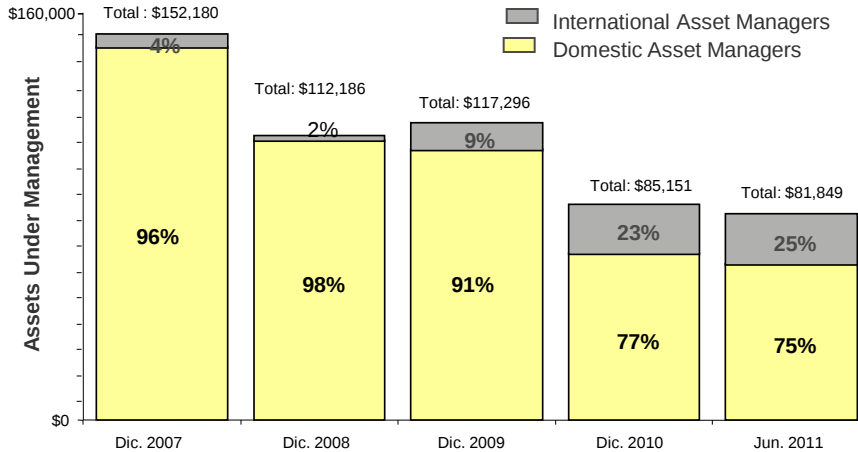
June 2011



# International experience: Spain

## Evolution of AUM in Fixed Income Mutual Funds in Spain

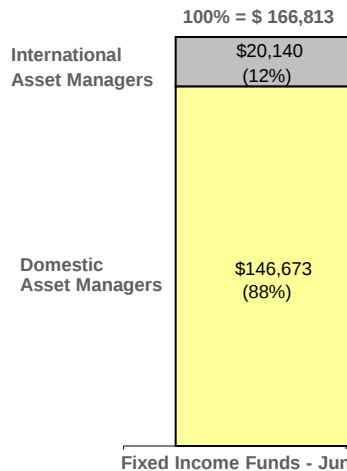
Domestic and International Asset Managers Dec. 2007 – June 2011



- Fixed Income Third Party fund penetration has moved at a slower pace than equity
- OA is developing in complex Fixed Income disciplines such as High Yield and Credit

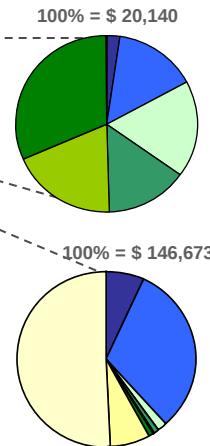
## Breakdown by Asset manager

June 2011



## Break down by asset class

June 2011



|                  |      |
|------------------|------|
| Euro             | 0.2% |
| Short term       | 15%  |
| Corporate        | 18%  |
| Flexible & Other | 15%  |

|              |     |
|--------------|-----|
| High Yield   | 19% |
| Global       | 31% |
| Money market | 0%  |
| Guaranteed   | 0%  |

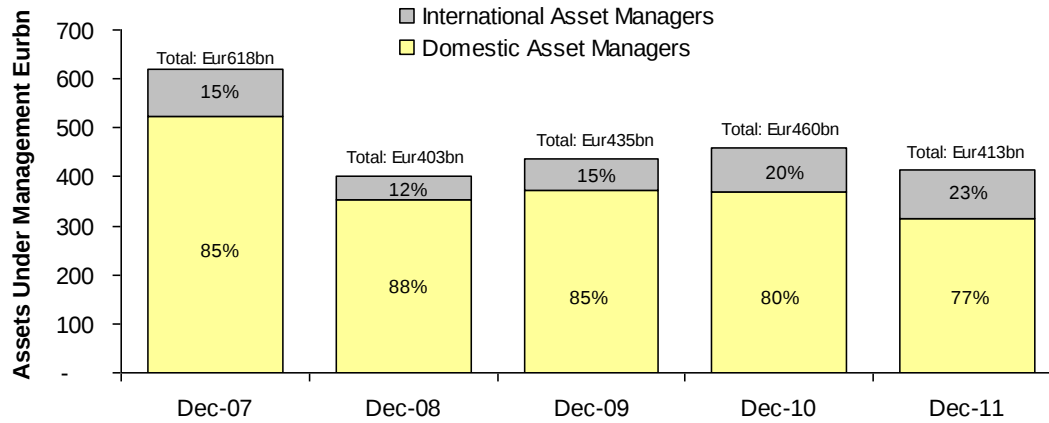
|                  |     |
|------------------|-----|
| Euro             | 7%  |
| Short term       | 31% |
| Corporate        | 2%  |
| Flexible & Other | 1%  |

|              |     |
|--------------|-----|
| High Yield   | 0%  |
| Global       | 1%  |
| Money market | 7%  |
| Guaranteed   | 51% |

# International experience: Italy

## Evolution of the Italian mutual fund industry

Domestic and International Asset Managers, Dec. 2007 - Dec. 2011

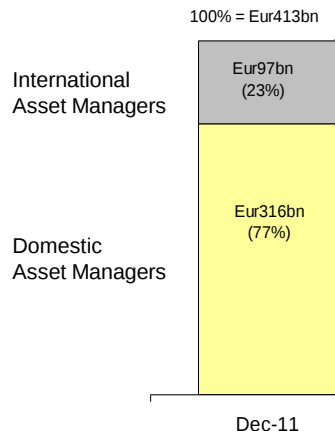


- Penetration of International Asset Managers have increased steadily over the last few years\*.

- While domestic companies show a higher diversification across various asset classes, overall International players are concentrated in Equity and Bonds.

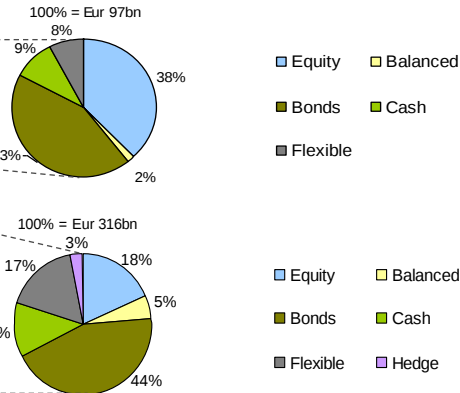
## Breakdown by Asset Manager

Dec. 2011

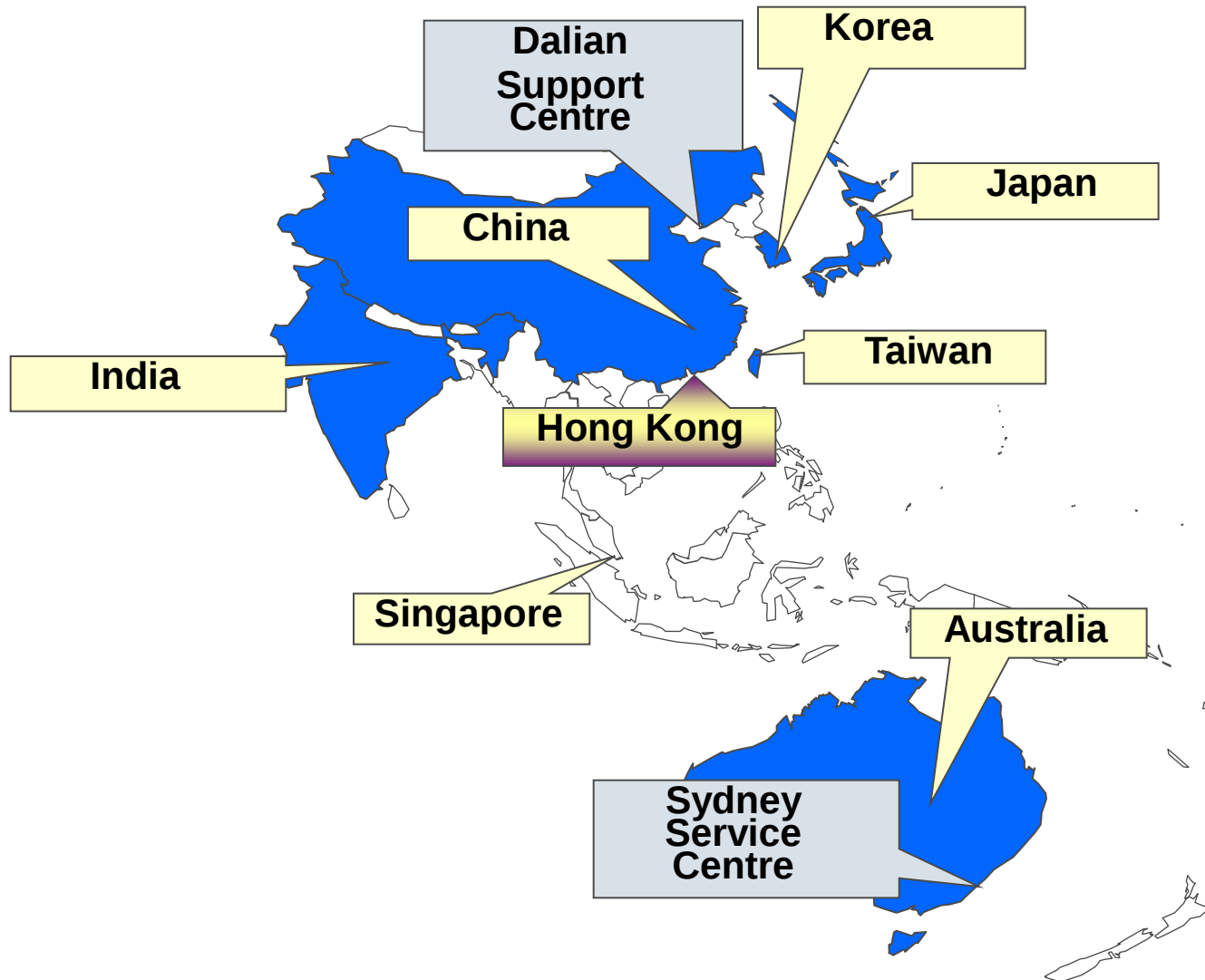


## Breakdown by Asset Class

Dec. 2011



# International Experience: Asia



# Well diversified business and a deep presence in most of the countries that we operate

|           | Channel Access |               |            |            | Product Offering |                        |                             |
|-----------|----------------|---------------|------------|------------|------------------|------------------------|-----------------------------|
|           | Wholesale      | Retail Direct | Inst. - DB | Inst. - DC | Local Funds      | Offshore Funds (SICAV) | 3 <sup>rd</sup> Party Funds |
| Japan     | X              | X             | X          | X          | X                |                        | X                           |
| Korea     | X              |               | X          |            | X                | X                      |                             |
| Australia | X              |               | X          |            | X                |                        |                             |
| Hong Kong | X              | X             | X          | X          | X                | X                      | X                           |
| India     | X              | X             |            |            | X                |                        |                             |
| Singapore | X              |               | X          |            |                  | X                      |                             |
| Taiwan    | X              | X             | X          |            | X                | X                      | X                           |
| China     |                |               | X          |            |                  |                        |                             |

### 3. Dealing with conflicts of Interest

# 4. Dealing with Conflicts of Interest

## Fund Platform Business

- Fundsnetwork platform
- Fidelity Select List
  - 135 funds offered
  - 121 Non Fidelity from 29 different managers
  - 15 Fidelity Funds
- “Total Cost of Ownership Policy”: complete transparency with regards to rebates and costs

## Institutional Business

- Segregated Mandates in equal treatment as other products
- Disclosure policy rules
- Fidelity offering Pension Schemes on our platform
  - Fidelity Select List

## Putting customer FIRST

- Correct use of share classes
- Investor protection measures
  - Fair Value pricing
  - Swing pricing
  - Dealing cut off times
  - Disclosure policy
  - Hot money policy
- Lowering commissions on Cash Funds
- Inducements

## Reputational Risk

- Strict Code of Ethics
- Gift and Hospitality Policy
- Data Protection
- AML Policies
- Other

**Full Transparency Policy when dealing with potential conflicts of interest**

# Dealing with Conflicts of Interest

**Bad advice, narrow restricted product offering and expensive commissions are the main reasons to change intermediary**

Sample: All

Question, ¿Out of the options listed below, which ones can influence you to change your relationship with your main intermediary?

|                                                                  | Media      | AT         | BE   | CH         | DK   | FI         | FR   | DE         | IT         | NL         | NO   | POL        | ES   | SE         | GB   |
|------------------------------------------------------------------|------------|------------|------|------------|------|------------|------|------------|------------|------------|------|------------|------|------------|------|
|                                                                  | 6468       | 390        | 481  | 464        | 276  | 292        | 520  | 511        | 627        | 549        | 318  | 511        | 640  | 306        | 583  |
| <b>Commissions are too high</b>                                  | <b>41%</b> | <b>60%</b> | 36%  | <b>49%</b> | 40%  | <b>51%</b> | 37%  | <b>48%</b> | <b>43%</b> | 31%        | 31%  | <b>47%</b> | 30%  | <b>47%</b> | 38%  |
| <b>Bad advice over my investments</b>                            | 30%        | <b>49%</b> | 14%  | 39%        | 36%  | 39%        | 18%  | <b>50%</b> | 23%        | 14%        | 28%  | 35%        | 28%  | 33%        | 30%  |
| Negative returns over one or various investments                 | 24%        | 23%        | 19%  | 26%        | 30%  | 19%        | 22%  | 21%        | 27%        | 13%        | 22%  | 30%        | 29%  | 36%        | 27%  |
| Lack of response                                                 | 23%        | <b>44%</b> | 21%  | 29%        | 18%  | 23%        | 22%  | 30%        | 15%        | 13%        | 22%  | 29%        | 19%  | 23%        | 23%  |
| Lack of attractiveness over competitors                          | 23%        | 36%        | 19%  | 31%        | 17%  | 26%        | 21%  | 30%        | 29%        | 9%         | 16%  | 27%        | 23%  | 20%        | 15%  |
| Lack of regular investment advice                                | 19%        | 27%        | 19%  | 20%        | 15%  | 18%        | 23%  | 16%        | 15%        | 15%        | 16%  | 24%        | 24%  | 17%        | 18%  |
| Problems in the relationship with my financial advisor           | 19%        | 32%        | 13%  | 24%        | 20%  | 24%        | 21%  | 20%        | 22%        | 10%        | 11%  | 20%        | 18%  | 23%        | 13%  |
| Competitors offer a wider range of products                      | 14%        | 23%        | 9%   | 13%        | 13%  | 16%        | 5%   | 16%        | 13%        | 6%         | 16%  | 19%        | 13%  | 18%        | 15%  |
| Investments and ideas are too standardized<br>No differentiation | 13%        | 19%        | 13%  | 18%        | 11%  | 15%        | 17%  | 18%        | 8%         | 10%        | 5%   | 14%        | 12%  | 13%        | 9%   |
| Change of Financial advisor                                      | 12%        | 18%        | 14%  | 16%        | 13%  | 18%        | 21%  | 12%        | 11%        | 7%         | 10%  | 7%         | 9%   | 7%         | 10%  |
| None of the above                                                | 16%        | 5%         | 19%  | 13%        | 18%  | 11%        | 16%  | 15%        | 10%        | <b>35%</b> | 25%  | 8%         | 11%  | 18%        | 24%  |
| <i>Promedio</i>                                                  | 2,35       | 3,34       | 1,97 | 2,77       | 2,32 | 2,61       | 2,23 | 2,76       | 2,16       | 1,65       | 2,01 | 2,58       | 2,16 | 2,56       | 2,22 |

## 4. Conclusions

# Highlights

**INTERMEDIARIES:** Banks continue to be the preferred intermediary but:

- Its influence has decreased
- Other channels are gaining importance: IFA and Internet

**CUSTOMERS:** Investors look for better information

- It is still unclear to them if they need to pay for investment advice
- Reasons to change Intermediary:
  - Quality of Advice
  - Lack of Open Architecture
  - Commissions

**ASSET MANAGERS:** Find positioning and value proposition

- The trend is to offer better risk adjusted, simple and easy to understand products
- Increase in non Investment management related costs such as Marketing

**CONFLICTS OF INTEREST:** Identify them in advance, prevent them and always be transparent informing the involved parties

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