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Analysis of Global Asset Management Industry Development Since the Financial Crisis

Haixia Zhou

School of Finance, Central University of Finance and Economics; Beijing 102206, China.

Abstract:Since the financial crisis, the development environment of the global asset management industry has undergone important changes. There is no doubt that the outbreak of the financial crisis in 2008 caused a great damage to the global asset management industry, and has had a lasting impact on its development since then. These impacts have made the global asset management industry face many challenges, but also created opportunities for it. Only those asset management companies that earnestly grasp opportunities, actively respond to challenges and bravely make changes in accordance with the development trend can stand out in the new development background. This paper summarizes and analyzes the development trend of the global asset management industry from multiple perspectives, from the whole to the local, mainly focusing on the scale of assets under management, regional market pattern and industry fundamentals. The analysis of these trends can help to understand the past and current development of the global asset management industry, so as to better promote the development of the future.

Keywords: Global Asset Management; Development Trend; AuM; Regional Pattern; Industry Fundamentals

1. Total volume trend

1.1 Analysis of four stages

The first stage (2008-2011) – the stagnant stage. The 2008 financial crisis is one of the important time points in the development of the global asset management industry, and the scale of global assets under management has been severely impacted. Before the outbreak of the crisis, the global AuM grew at an average annual rate of 12% from 2002 to 2007. In the wake of the crisis, the global stock market slide in 2008 led to a precipitous drop in global assets under management of nearly 20 percent. Then the global asset management industry began its four years of stagnation. From the perspective of net inflow of assets under management, the growth is obviously weak, and there is a phenomenon of repeated outflow of net assets under management that did not occur in the previous five years. Weak market performance and net inflows of assets under management resulted in a lack of driving force for AuM growth.[1]

The second stage (2012-2014) – the gradual recovering stage. After four years of stagnant growth, global assets under management surpassed pre-crisis levels in 2007 for the first time in 2012, followed by three years of relatively robust growth since the onset of the crisis. Based on the analysis of the driving factors of growth in this stage, the rapid growth of AuM mainly relied on the rise of global stock market and fixed income market to push up asset prices. The increase in the net inflow of new assets contributed only a small part to the boosting of AuM. [2]

The third stage (2015-2016) -- the struggling stage. The overall performance of the global asset management industry in 2015 fell to its lowest level since the 2008 financial crisis, with total global assets under management stagnating at $71.4 trillion, almost the same as the previous year. Net new assets under management fell for the first time in the previous five years, a trend that continued in 2016 as net new assets under management remained sluggish. At this stage, the global asset management industry faced the dual dilemma of weak growth of AuM and declining net inflow of new managed assets. The direct reason for falling into this dilemma was the weakness and turbulence of financial market and the decline of asset value caused by exchange rate fluctuation. [3]

The fourth stage (2017-2020) -- steady growing stage. The global AuM in 2017 recorded its strongest growth since the financial crisis, with net inflows of assets under management hitting a record high of 3.1%. Apart from 2018, due to the tightening monetary policy, the economic slowdown led to AuM fell for the first time. In addition to slowing net asset inflows, the ratio of net asset inflows to assets under management at the beginning of the year was more than 3% in other years, significantly reducing the gap with the pre-crisis level. The positive performance was mainly attributed to the relatively good market conditions during this period. The increasing frequency of investment activities boosted asset prices, and the high investor demand led to an increase in net inflows of assets under management, which together supported the growth of global assets under management.[4]

1.2 Analysis of driving factors behind the growth of AuM

There are two main driving factors behind the growth of AuM, one is the growth of market value of invested assets brought by the better performance of the financial market, the other is the growth of capital invested by customers and the expansion of new customers, that is, the net inflow of newly managed assets, which is the lifeblood of the development of the asset management industry and directly affects the expansion of future business.

Before the outbreak of the financial crisis in 2008, the main driving factor for global AuM growth was net asset inflows under management, which accounted for about 4% of total assets under management annually in the first five years of the crisis. After the outbreak of the crisis, the total amount of global assets under management fell off a cliff, and the net inflow of assets under management fell sharply or even turned negative. Subsequently, with the gradual financial stability and economic recovery, the total global assets under management increased at a moderate rate year by year, and the growth rate also rose slowly year by year. However, the driving force behind these growth figures mainly comes from the asset market value growth brought by the recovery and development of the financial market. The performance of the net inflow of new assets under management made little contribution to the growth of AuM. Especially during 2008-2016, except for China and a few high-growth markets, since the outbreak of the financial crisis, the performance of net new asset inflows is a far cry from the 4% to 6% seen before 2008.

2. The changing regional market pattern

2.1 Regional pattern of global asset management industry development

After the outbreak of the crisis, each market in the whole asset management value chain has embarked on different development paths. From the perspective of mature market and emerging market, some basic conclusions can be drawn about the development trend of the asset management industry.

Mature markets are generally growing at moderate rates. Penetration of some asset management products is stagnant and the market sentiment is tepid. As the domestic asset management has developed to a higher level, in order to cope with low growth, limited development potential and other problems, it is a natural choice to expand the overseas market.

Although regional assets under management is relatively very small, considering its small base, wealth accumulation, investment opportunities to the economy development and mature capital market to spread into a purpose into emerging markets and higher industry ceiling, the penetration in the medium term will achieve steady growth and the market can gain a faster development. At the same time, however, it should be noted that emerging markets are not as stable as mature markets and may fluctuate greatly when they encounter external shocks.

2.2 Situations and reasons of China's asset management industry development

China's asset management market has developed rapidly in the past decade and has achieved strong growth of double-digit compound annual growth rate of assets under management since the crisis. Growth was driven by higher savings rates, regulatory reforms that encouraged pension and insurance companies to entrust investments to professional asset managers. China's asset management industry is rapidly developing new products, digital distribution and technology-driven innovation. Moreover, the digital development of the Chinese market itself is at a high level, which is consistent with the future digital trend of the asset management industry.

China's asset management market offers huge growth opportunities for the following reasons. First, macroeconomic regulation provides a good external environment for the development of the financial industry; Second, China's high degree of digitalization provides natural soil for the development of asset management industry, which is conducive to the digital transformation and reform of China's asset management industry. Third, the development of ESG investment in China will promote enterprises to pay more attention to the realization of long-term social value, and play a benign role in regulating the capital market.

3. Continuous pressure on fees and revenues and overall decline in industry profit margins

3.1 Introduction to the industry fundamentals

The environment for the industry has changed dramatically since the financial crisis, with fundamental indicators such as revenues and profits underperforming in recent years. The profit margin of net revenue has been basically flat for four consecutive years since 2010, but significantly declined in 2014 and 2015 due to the fee pressure. Revenues and profits of traditional asset managers around the world fell in 2016 for the first time since the crisis. Buoyed by the bull market, net inflows of assets under management and profits across the industry have both hit record highs, but under the surface, industry margins continue to be squeezed as management fees continue to fall and cost pressures persist. As the market worries about rising interest rates and the reversal of the economic cycle, industry growth came to a screeching halt in 2018, with negative returns in major asset markets, capital outflows from asset management institutions, declining profitability and shrinking revenue margins. In 2019 and 2020, the profit margin of the global asset management industry is basically the same as that of 2018.

3.2 Reasons for the underperformance

The main reasons are as follows. First, the market is recovering from the trauma of the financial crisis, wealth accumulation is slow, and the overall average assets under management growth is slowing, resulting in weak net income growth. Second, according to the classification of customer groups to explore the reasons for the profit decline, the decline of institutional business profit margin is mainly due to the fierce market competition, and institutional investors are increasingly sensitive to the fee rate. On the retail business side, margins are being squeezed by the growing power of distributors, regulatory demands for transparency and increased pressure on fair fees. Third, product portfolio continuously transforming from high rates products to low rates products, and funds constantly changing from active management to passive management, and most traditional asset managers suffering severe rates pressure, but at the same time due to the growth of solution, special products and alternative assets, downward pressure on margins has eased to some extent.

About the author: Haixia Zhou (1999-November) female, Han nationality, from Beijing, Central University of Finance and Economics, 2021 graduate.

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