



Financial Services Megatrends

Research in the mutual fund industry

November 2015

MEGATRENDS: OBJECTIVES AND APPROACH

Objectives:

- Better understand evolving trends among individual investors
- Assess service needs of asset managers, over the next 3-5 years
- Draw implications for financial service providers' core capabilities, technologies and services – with particular focus on the mutual fund industry

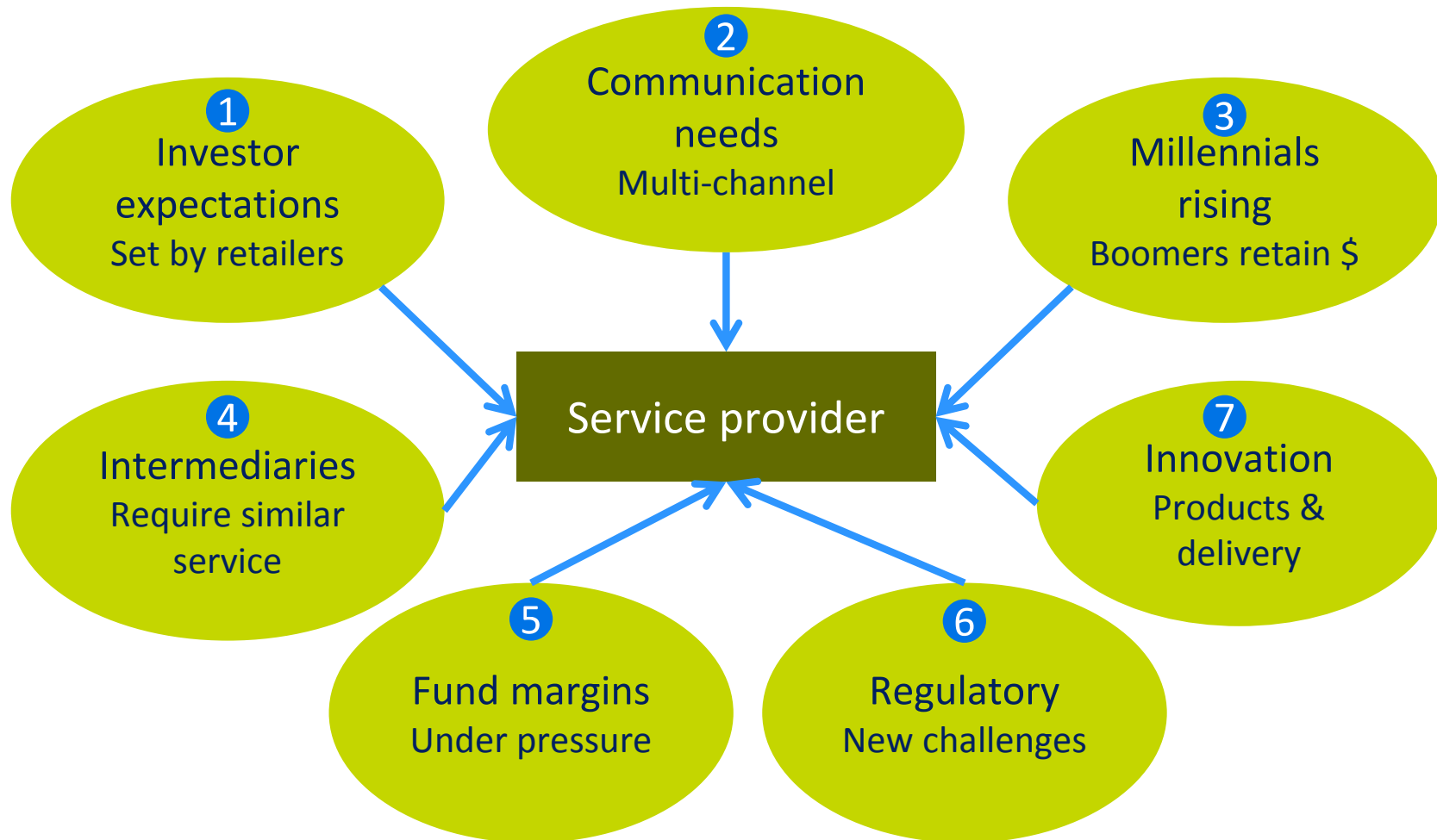
Approach:

- Interviewed 20+ investment firms and financial service providers
- Complemented survey with secondary research

This document:

- Summary of findings

FINDINGS: 7 TRENDS WILL DRIVE FUTURE SERVICE NEEDS



1. INVESTOR EXPECTATIONS

- Individual investors are also consumers
- They interact more frequently with online retailers, via simpler transactions
- But leading e-retailers set the bar, by providing:
 - Convenient access via channels of choice
 - Fast fulfillment
 - Intelligent help and advice

amazon.com[®]

Delivery experience has evolved:

- Overnight → Same day (11 US markets) → 1-hour delivery (Amazon Prime Now, NYC)

How do they do it?

- Massive investment in distribution
- Algorithms, analytics
- Rapid deployment of focused teams

Zappos
.com

Consumers' experience:

- Placing and managing orders online and on mobile devices
- 24/7 customer support (phone, email, web chat)
- Free shipping and returns

How do they do it?

- Empowering customer service reps
- Mobile/web investment

Source: New Harbor interviews, WSJ, Amazon.com, Zappos.com; Image credits: Amazon.com, Zappos.com

2. MULTI-CHANNEL COMMUNICATIONS ...

- Leading financial players are taking their cue from **online retailers**
 - Choice of channels – to suit the individual investor’s preference at the time
 - Consistent service, based on shared data, needed across channels for optimum experience
 - Not necessarily age-specific, rather economic/ technical profile-specific
- Many consumers want **digital self-service** AND efficient advice/ **human touch**



Mass Mutual “Society of Grownups” customers enjoy:

- Lifestyle-oriented classes and cafe
- Mix of general and financial advice
- Short, cheap financial planning sessions

How do they do it?

- Innovative new “hybrid” format
- Targeting millennials in Brookline, MA
- Attractive mix



Customers’ experience:

- Online, mobile or in-person access
- Access to massive data
- “Cool” tools – e.g., StockCity
- Impressive retirement modeling

How do they do it?

- Advanced Technology Center
- Relentless communications
- Efficient personal touch

Source: New Harbor interviews and research. Image credits: MassMutual.com, Fidelity.com

... WITH MOBILITY AND IMMEDIATE SERVICE

- Channels to match modern lifestyles delivery
- Mobility is key in today's 24x7 world



- Hearing daily change in all accts
- Checking if last deposit cleared



- Opening an account
- Choosing a new investment

Breakthroughs in service

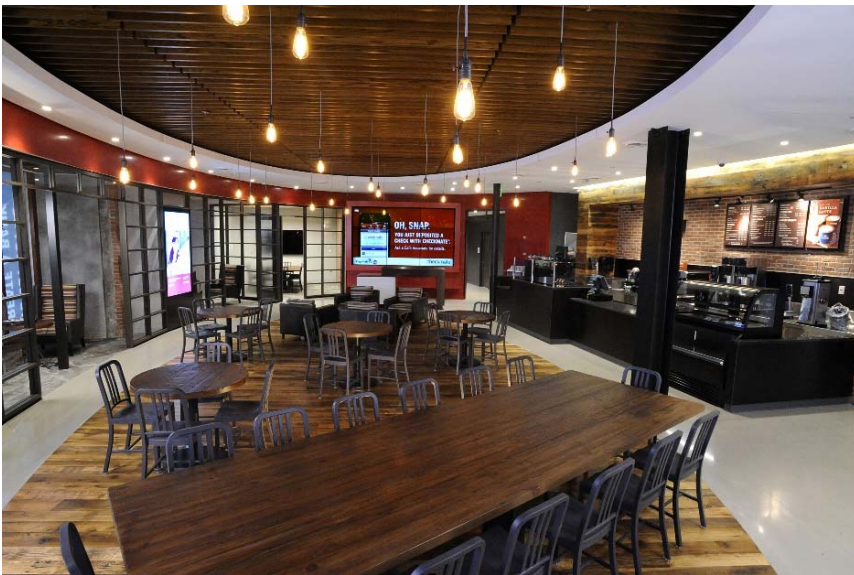
CBW Bank in Weir, Kansas

- Targeting radical upgrading of specific banking services:
 - Immediate and convenient funds transfer
- Worked with Silicon Valley and in-house developers to adopt technologies to reduce cost and time of money transfer domestically and internationally
- Succeeded despite regs, processes and cultures that prevent other banks from matching CBW's service level
 - Revenue increased more than 1,200% since takeover 5 years ago

3. MILLENNIALS' SAVINGS RISING ... BUT BOOMERS RULE

- Boomers boast 10x the mean household net worth of millennials ... and
- Boomers hold 51% of mutual fund assets, millennials just 5%
- Fund companies are highly focused on retaining 401(k) rollovers to IRAs
- But leading financial institutions are making new efforts to attract millennials

CapitalOne 360 Café interior (in 7 metro areas)



Fidelity StockCity (visualizing portfolio gaps)



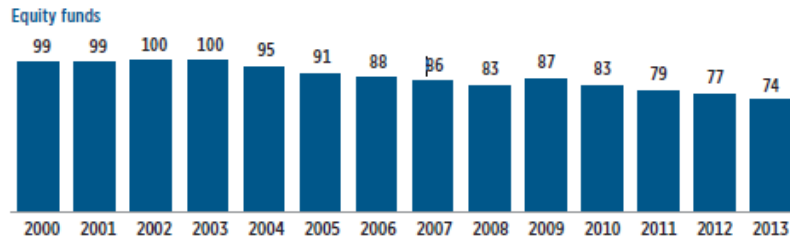
Source: Federal Reserve Bulletin, Sept 2014; ICI 2014 Investment Company Fact Book. Image credits: BusinessWire.com, BostonGlobe.com

4. INTERMEDIARIES REQUIRE SIMILAR SERVICE

- Intermediaries account for a major share of service providers' call center activity
- Convenient interactions are critical
 - Quick service from call center across a client's portfolio (e.g., address change)
 - Access to knowledgeable service reps
 - Convenient service can influence fund recommendations
 - Mobile apps key to support on-site client meetings
- Intermediaries seek insights on investor trends
 - Based on service provider data and experience
 - For example, analyses of investor behavior by region or age group
- Intermediaries can also create 'pull' demand
 - Fast, convenient service for broker-dealers and investment advisors may influence demand for investment products supported by service provider
 - Analogous to Liberty Mutual's 'passionate' videos, to create consumer 'pull' with agents

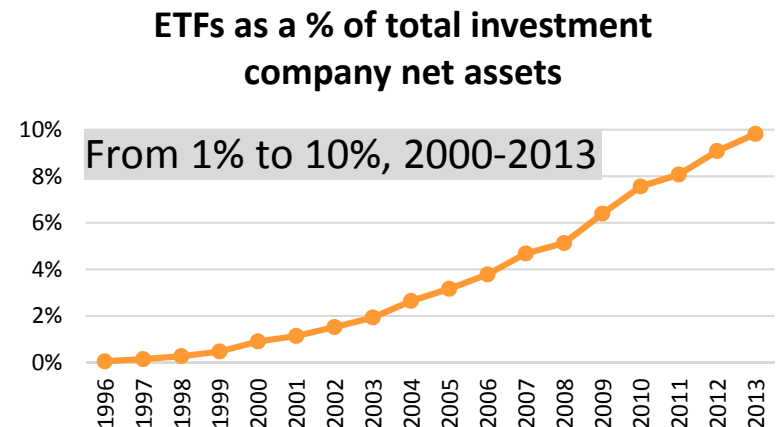
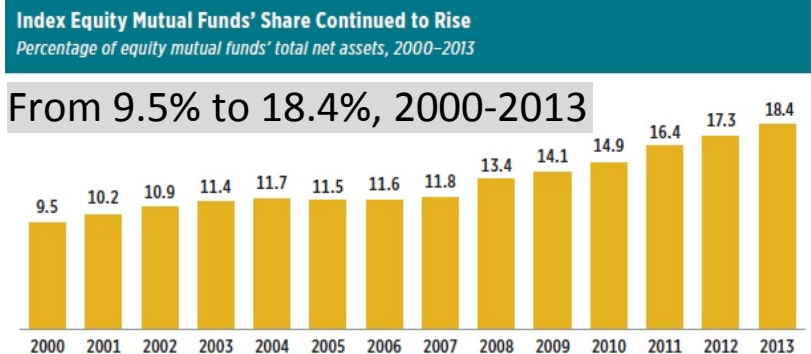
5. FUNDS' MARGIN SOURCES UNDER PRESSURE

- Expense ratios have declined sharply on actively-managed funds



From 99 to 74 BPs, 2000-2013

- Index funds and ETFs have taken share from actively-managed mutual funds



- As a result, new efficiencies needed from in-house & BPO service providers

Source: All data from ICI 2014 Investment Company Fact Book.

6. REGULATORY CHALLENGES CONTINUE TO ARISE

- Regulations are constantly changing in the mutual fund arena
 - Examples include Money Market Reform, AML, FATCA, fee transparency
 - Cybersecurity and data privacy concerns exist as well, slowing adoption of new technologies
- All financial companies face daunting regulations
 - Banking, brokerage, insurance and other financial services
 - Leaders have made significant progress in digital services and internal automation, overcoming external regulatory and internal legal concerns
- Mastery of regulatory constraints can be a competitive advantage
 - First-mover advantage to service providers able to identify upcoming regulatory challenges and develop workable solutions
 - Advisory services to clients grappling with compliance issues
 - Application of data-driven analytics to efficiently address compliance needs

7. INNOVATION IN PRODUCTS AND DELIVERY

- New investment products continuously being introduced
 - Example: ETMFs recently launched by Eaton Vance
 - Appealing to boomers for rollovers
- Hybrid models evolving to serve independent, tech-minded investors
 - Society of Grownups
 - CapitalOne 360 Café
 - Schwab's Intelligent Portfolios
 - Fidelity teaming with Betterment
- Mutual fund industry is a behemoth ... and here to stay
 - \$15 trillion in AUM
 - New ways will be found to attract investment dollars and drive profitability
- One-way Omnibus trend could change
 - SEC and other pressures for fee visibility may strengthen funds' position vis-à-vis intermediaries
- Change is a certainty
 - Involving new products and distribution ... though exact path is unknown

HOW WILL THESE TRENDS IMPACT SERVICE PROVIDERS?

Challenges and opportunities:

- **Digital service** is essential, for individuals, distributors and fund companies
- **Hybrid model** of convenient technology and light advisory emerging
- **Agility and fast response time** needed for all interactions
- **Technology development cycles** must be accelerated
- **Staffing model must change** – more geeks, fewer manual processors
- **Culture shift** is needed, to realize these opportunities

FOR FURTHER INFORMATION

- We hope you have appreciated the insights from our research
- We would be glad to assist with your research and analytical needs

For further information, please contact:

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