

Asset & Wealth  
Management  
Community



# The Monthly *Briefing*

Powered by PwC for the AWM Community

15 March 2018



*Executive  
Summary*

## AWM 2025: Digital technologies, do or die

Aligning innovation with your objectives.

Dariusz Yazdani | PwC Luxembourg

Given the on-going scrutiny of regulators and institutional investors on fees, revenues of the industry are set to remain under pressure going forward. In order to secure their margins, asset and wealth managers will need to leverage new innovative technologies to increase efficiency, reduce costs, and provide for a frictionless client experience. Front office is not the only area where leveraging these technologies can make a difference, such as robo-advisors. Rather, they should be considered for the industry's entire value chain, from RFPs to after-sales. Although the AWM industry has

been slow to adopt innovative technologies, the market leaders are already adopting the use of AI and paving the way for the rest of the pack. In order to be successful, AWM players should evaluate emerging technologies and integrate them into their legacy systems, concentrate on the customer's voice and shift thinking to outside in, consider partnering with innovative players, create an IT culture that is agile and modern, and foster a culture that supports talent and innovation. Doing so will allow them to align innovation with their objectives.



## Responsible Artificial Intelligence

AI is primarily an enabler of productivity. It will eliminate jobs, to be sure, but it will also fundamentally change work processes and might create jobs in the long run.

Anand Rao | PwC US

Divisions in the AI world depend on whether a system is adaptive or hardwired, and whether a human is involved (Assisted and Augmented Intelligence), or not (Automated and Autonomous Intelligence). Companies use AI to standardise, simplify and automate their processes, create new offerings, and disrupt business models.

We define Responsible AI as the combination of building Robust AI systems that will engender 'trust' in today's AI system as well as work towards the development of AI that will be beneficial to society today and in the future. In the AM industry, the Global GDP Impact by Effect is expected to reach \$2Trillion by 2030 based on increasing consumption due to more effective personalised services, and greater efficiencies on the production side. Opportunities to adopt AI throughout the



AWM value chain exist both immediately (Assisted Customer Emotion Detection, and Augmented RoboAdvisors) and in the foreseeable future (Automated Compliance Monitoring).

Our current ability to create "digital twins" and agent-based models of "households like yours", and frame situations in terms of games, enables us to simulate 'what if' scenarios and provide differentiated advice. For retirement planning, it is possible to take holistic cross-silo perspective on current and future assets and liabilities with advanced scenario analysis. Looking forward, applied NLP and deep learning could be used to assess sales calls to predict sales and possible risks of redemptions. Other applications could be in areas of customer complaint analysis, service request clarification, tax processing, etc.

## Blockchain: transforming the AWM industry?

Patrick Hennes | PwC Luxembourg

Blockchain is the most transformative technology since the coming of internet. Relying on cryptography and a distributed ledger, it acts as an immutable database with potential benefits such as reduction of fraud, increased savings and near real time transactions.

Blockchain is a subject of experimentation in many fields, including the Luxembourg fund industry with the Fundchain research initiative. In 2016, participants developed the 'Smart-TA', a Proof-of-Concept based on an Ethereum private network automating fund

subscription and redemption processes. The initiative resumed in 2017 to focus on new use cases, which are subject to Blockchain redefinition such as AML/KYC, fund referential data or transaction settlement.

For the AWM world, Blockchain will enable new products and service offerings if managers adopt the proper safekeeping procedures for crypto currencies and assets. As a trusted store of data and a real-time audit tool, Blockchain can also facilitate client on-boarding and transaction settlement.



## German tax reform: How did we survive?

The German Investment Tax Reform Act passed in July 2016 and to help our clients with compliance concerns, we have had to handle a series of questions.

Anne-Sophie Etienne | PwC Luxembourg

The German Investment Tax Reform Act passed in July 2016, to address investment fund income, came into effect on 1 January 2018. By that date funds had to be registered as either "opaque" Investment Funds, where Funds and Investors would be subject to lump sum taxation, or as Special (transparent) Investment Funds subject to on-going reporting and filing.

To help our clients with compliance concerns, we have had to handle a series of questions ranging from, for example, on tax exempt investors, on computing Deemed Distribution Income, calculating Equity Ratios for Funds of Funds, daily basis monitoring requirements, fictitious redemption and doing tax neutral merger.

For the German market, that relies so heavily on financial and tax information from the private company (WM Datenservice), it is important make sure that any information submitted to its website is accurate and up to date.

## Benchmark your Global Fund Distribution: the 2018 trends

Non-UCITS alternative funds are increasingly being registered as cross-border funds.

Christophe Saint-Mard | PwC Luxembourg

The number of funds registered as cross-border funds reaching 12'607 have shown a steady growth of 7% each year since 2004. With over 35'000 funds registered in Europe, there is still room for growth. Luxembourg leads as the domicile for funds with 62% of the market share with registrants primarily in Germany, Switzerland, France, Austria and the UK. Ireland, where half of the funds are ETFs, is currently second with 26% of the market share taking registrants from the UK, Germany, France, Switzerland and the Netherlands.

The top 5 cross-border management groups are Franklin Templeton, Fidelity International, Blackrock, HSBC and BNP Paribas averaging at 45 countries of distribution. In terms of the distribution footprint, 60% of the funds are distributed in less than 10 countries.

For the European market in the 2016-2017 period, the biggest increase in Funds registration were in Germany, France, Switzerland and the UK. Outside of Europe, it was Korea in Asia, UAE in the Middle East, Curacao in the Americas, and South Africa in Africa that were the targets for distribution.

## Regulatory update

February and March have been active months on the regulatory front, particularly at the EC.

Nathalie Dogniez | PwC Luxembourg

The EC published on the consequences of Brexit on banking and financing, and is conducting a survey on how well AIFMD is working out in practice. It issued proposals to integrate and improve the efficiency of the covered bonds market, and on facilitating cross-border distribution of investment funds. It unveiled its Action Plan on sustainable finance for a financial system that supports the EU's climate and sustainable development agenda, noted the benefits of the Blockchain, and published its Consultation on crowdfunding.

Meanwhile, ESMA provided an interactive tool to facilitate access to documentation. ESA warned consumers about the volatility of virtual currencies. ESRB published a recommendation to ESMA and the EC on addressing systemic risks related to liquidity mismatches, and Luxembourg transposed AML4!

## Spotlight on a PwC solution

### the Experience Center

We anticipate future trends and transform your business to help you create and sustain value.

PwC Luxembourg launched its Experience Center at the end of February, 2018 to provide a new approach to problem solving. The purpose of the Experience Center is to serve as an ecosystem of talent and solutions, in an innovative environment where our clients can embark on transformations.

At the Experience Center we will leverage the capacity of PwC to:

- **EXPLORE** new trends, ideas and define strategic transformation with our clients;
- **DESIGN** new services or product by reimagining the client user experience; and
- **BUILD** prototypes based on emerging technologies.



Save  
the  
date

Join us on  
Thursday 19 April  
for the next session

# Agenda

## Thursday 19 April 2018

08.30 – 09.00	Welcome coffee
09.00 – 09.05	<b>Introduction</b> <b>Frédéric Vonner</b> , PwC Luxembourg
09.05 – 09.30	<b>Digital skills bridge: get ready for the digital evolution</b> <b>Laurent Probst</b> , PwC Luxembourg
09.30 – 09.55	<b>Robotics Process Automation: how to get started?</b> <b>Hugo Larginho Bras</b> , PwC Luxembourg
09.55 – 10.20	<b>Cloud: threats and opportunities for the financial sector</b> <b>Florian Bewig</b> , PwC Luxembourg
10.20 – 10.25	<b>Launch of the AM News Channel</b> <b>Dariusz Yazdani</b> , PwC Luxembourg
10.25 – 10.55	Coffee break
10.55 – 11.20	<b>US Tax Reform: what are the impacts for the AWM industry?</b> <b>Sébastien Drevet</b> , PwC US
11.20 – 11.50	<b>Regulatory update</b> <b>Nathalie Dogniez</b> , PwC Luxembourg
11.50 – 11.55	<b>The last 5 minutes: Spotlight on a PwC solution</b>
11.55 – 12.00	<b>Wrap-up</b> <b>Frédéric Vonner</b> , PwC Luxembourg
From 12.00	Walking lunch

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#monthlybriefing  
#ampwcl



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