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The Rising Expense That's Pressuring Asset Managers

Firms are now struggling with increasing technology and other non-compensation costs, according to a new analysis.

By Julie Segal June 25, 2019

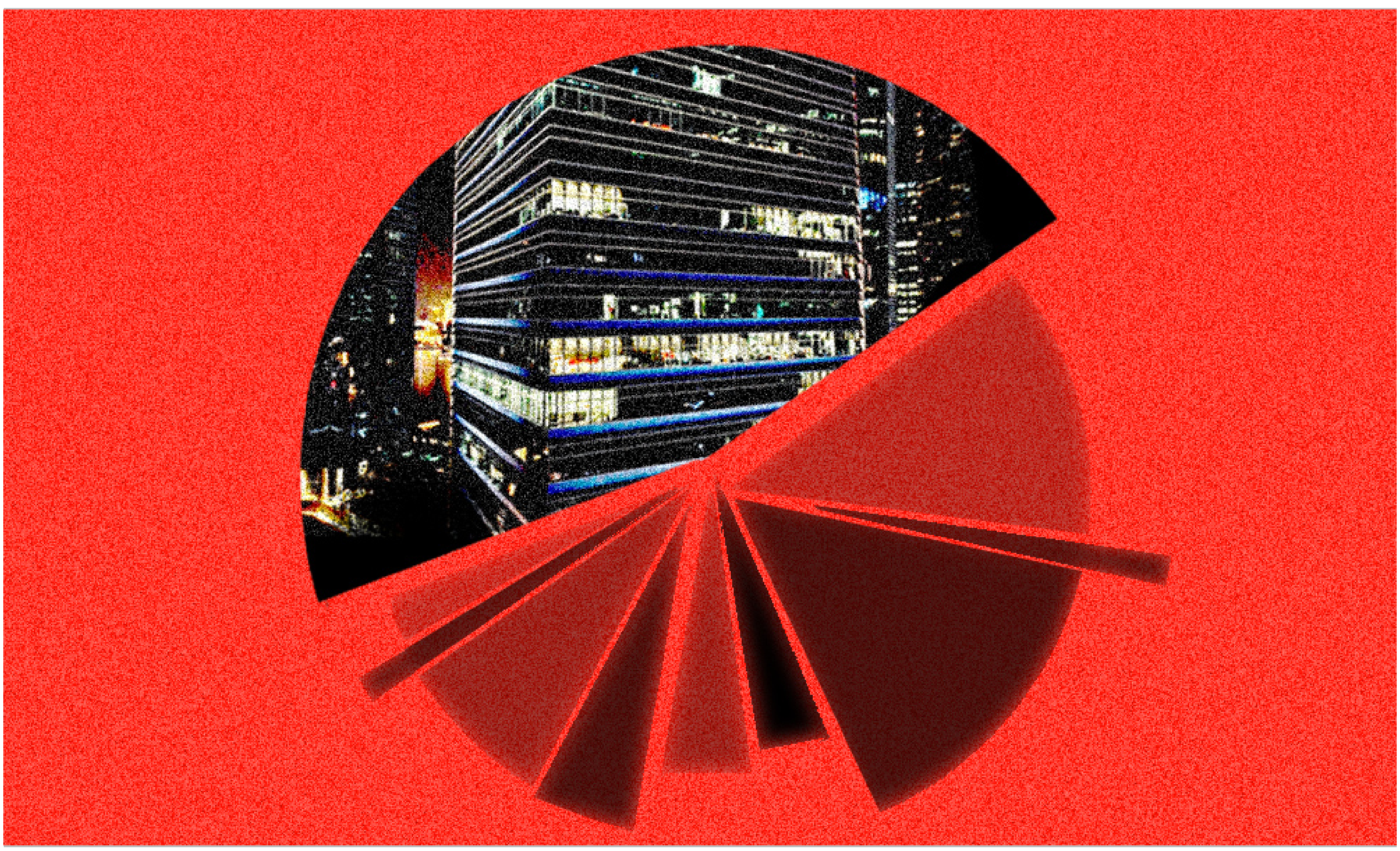

Illustration by II

Fee pressure isn't the only problem asset managers are facing.

The median spend for non-compensation costs — including regulatory expenses, technology, and office space — now accounts for nearly one-third of a firm's total budget, compared with 26 percent in 2014, according to an analysis by strategy consultant Casey Quirk and compensation analyst McLagan.

Technology is a big driver of non-compensation costs.

"Two things are happening. Until the past few years, the asset management industry has not invested in tech in the same way as other industries have," said Amanda Walters, senior manager at Casey Quirk, in an interview. "That includes data infrastructure, investing in distribution technology, and artificial intelligence. One of the biggest drivers is all of the retooling of the technology platform and infrastructure that is needed."

[*II* Deep Dive: These Asset Managers Are Growing Revenue Faster Than Others]

The increase in non-compensation costs came as fees fell 20 percent during the same period. As a result, the revenue growth that came as the industry gained assets under management didn't result in growing margins. Assets grew to $71.8 trillion in 2018, from $68.3 trillion the previous year — but margins fell to 32 percent in 2018 from 34 percent the year before.

Casey Quirk and McLagen analyzed data through the end of 2018. As an example, the study shows that an asset manager with $150 billion in assets experienced an additional $18 million in expenses — bringing the total to $23 million — due to regulatory requirements, technology, and back and middle office operations over four years.

"In many ways it's the landscape of the asset management industry today," said Walters. "Investors are demanding a lot more, such as customization, more complex products, more

"Investors are demanding a lot more, such as customization, more complex products, more complex vehicles, different reporting."

All of that leads to higher costs in servicing assets, she added.

"In talking about scale, it's hard to do that when everybody gets custom mandates or makes ad hoc requests," Walters said.

The average cost of managing each dollar of assets under management has gone up 4 percent since 2014, according to the study, which included information from 70 firms in North America, Europe, and the Asia-Pacific region.

At the same time, spending on compensation for people also rose. The analysis showed that the cost of salaries and other benefits rose 5 percent in the last year for people outside of the top ranks. The costs of senior executives rose less at 3 percent. Walters said these figures also reflect additional hiring by firms.

The study recommends cost cutting through a number of measures, including outsourcing and moving non-investment and distribution staffers to cities in Europe and the U.S. that are outside major financial centers. In the U.S., Walters said Austin, Nashville, and Charlotte have become popular destinations and more affordable locations for asset managers to operate than traditional hubs like Boston or New York.

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