How Client Demands and Cost Pressures Are Driving Asset Manager Consolidation

Deal activity is surging as firms large and small seek greater efficiency, reach and capabilities.

In an interview with Wall Street Journal Custom Content, Mike Janiszewski, Chief Operating Officer for Asset Servicing and Digital at BNY Mellon, shares his views on what's driving the current wave of mergers and acquisitions (M&A) consolidating firms of all sizes. As one of the world's largest custodians safekeeping over $45 trillion worth of assets under custody as of Sept. 30, 2021, BNY Mellon touches virtually every corner of the financial markets, giving it a front-row seat to the trends sweeping the asset management industry. The latest surge in M&A activity is largely driven by three factors, he says: the need for greater efficiency, efforts to expand into growth areas, and a desire to gain enhanced data and analytics capabilities.

Q. Just how active have acquirers been in the asset management industry?

Mike Janiszewski: The global asset management industry saw a spate of M&A activity in the first half of 2021, a period marked by multibillion-dollar megadeals. Still, the industry remains highly fragmented across hundreds of players. This fragmentation, together with pressure for scale and for technical capabilities, means that deals remain to be done across the marketplace. We're also seeing vertical integration continue at pace as well as deals for advanced technology capabilities, which is not surprising in a world that has experienced the COVID-19 pandemic.

Q: What are the key factors and trends driving this consolidation activity?

Janiszewski: We're seeing a broad pursuit of greater scale and efficiency, particularly among firms on the high volume, lower price side of the barbell, such as ETF managers. Then there are firms seeking to expand their geographic reach and client offerings. We're also seeing more deals related to the pursuit of technology innovation and capabilities adjacent to current offerings, such as traditional asset managers investing in alternative strategies. And finally, there are firms seeking to expand the distribution of their offerings—across geographies, client segments, and so on—and leveraging larger, more diverse players to help drive that.

Q: Are there particular geographies, capabilities or expertise in high demand?

Janiszewski: Increasingly, smaller providers are looking for differentiation, such as with client experience, though other firms are taking over like-sized peers to start achieving scale. Other managers favor transactions to quickly add new products or reach new clients.

The need to innovate is also driving M&A. We will continue to see deals done with the purpose of acquiring capabilities or technologies across key disruptive innovation categories, such as AI, robotics and fintech. I should note M&A by itself is not necessarily the way for firms to achieve absolute growth or escape their inherent challenges. Deals must be fully accretive not only to the bottom line but to the capabilities they are trying to achieve.

"The stakes couldn't be higher, so asset managers should be asking themselves to what extent they are ready for the future."

-Mike Janiszewski
Chief Operating Officer, Asset Servicing and Digital, BNY Mellon

Q: How is the marketplace impacting whether an asset manager can compete or needs to find a buyer?

Janiszewski: We're in a new world transformed by integrated platforms, demand for greater transparency, disruptive technology and ever-evolving regulation. Performance remains top of mind and competition is increasingly tough. Meanwhile, clients are demanding more than ever from their managers. They want

This article was previously published on partners.wsj.com on December 13, 2021.

transparency in platforms and services, new digital tools to help make decisions, more education and, in the case of financial advisors, more advice on better practice management and sales in a digital world. This growing demand is forcing asset managers to transform or consider strategic alternatives.

These demands come on top of industry economics that were weighing on asset managers before COVID-19. The bottom line is the stakes couldn't be higher, so asset managers should be asking themselves to what extent they are ready for the future. A number of players simply will not be equipped to make the journey due to lack of conviction around change, resources or both.

Q: How critical is it for firms to maximize operating efficiency?

Janiszewski: For more mature firms, operating efficiencies are critical to profitable growth in an environment of fee pressures, increasing client demands and regulatory burdens. As clients seek performance commensurate with price, all firms need to find new ways to continually innovate and drive positive operating leverage. Thankfully, the tools for doing so have never been better. Advances in technology, data and third-party capabilities have made these all far superior to capabilities even five years ago and provide the tools for delivering the efficiencies needed to be competitive.

Delivering on efficiencies is a virtuous cycle. Successful firms will do this well and pull ahead as they marry new and innovative offerings with capabilities to deliver them. Those who do not focus on operating efficiency will find themselves targets for others or failure.

Q: Beyond finding economies of scale through M&A, what can asset managers do to increase efficiency?

Janiszewski: Firms are pursuing efficiencies in a few different ways. They are digitizing previously manual processes and working with firms that, by virtue of their scale and expertise, can provide quality services and superior costs compared to internal capabilities. In the end, it takes a ruthless focus on the profitability and viability of their own products and services, shutting down those that are not providing optimal outcomes for their clients and shareholders.

Q: What are some ways asset servicers can help investment managers optimize their business?

Janiszewski: Asset managers are increasingly focused on managing and using data to drive competitive advantages that can offset fee and cost pressures. Fundamentally, asset managers are looking for solutions interconnected by data that span the investment continuum. They're looking for greater choice when it comes to owning or outsourcing the various components of technology, and they expect their platforms to work in a way that lets them focus on growth and serving clients. Asset servicers must therefore become orchestrators of solutions and of information from both in-house sources and an industry of third parties.

BNY Mellon OMNI℠ is a great example of an interconnected platform that brings together leading solutions and tools across the investment process. Clients can access technology tools in a seamless, fully integrated ecosystem that includes third parties and solutions from other parts of BNY Mellon. OMNI helps power our clients' growth through distribution, data and analytics, and is designed to increase their efficiency and agility so they can react more nimbly to an ever-changing landscape.

This article was previously published on partners.wsj.com on December 13, 2021.