RMI
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RADICAL TRANSFORMATION AND DISRUPTION IN RETAIL INVESTMENTS

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The term “radical economic transformation” is the latest new buzzword in the South African political landscape. However, we have been witnessing “radical retail transformation” for numerous years in broader financial services, both in South Africa and abroad. This transformation has left no party unscathed, whether it be investment platforms (LISPs), asset managers or financial advisers. Every component of the value chain has been radically scrutinized, with the relationship between “value” and “price” having brought about new conversations amongst industry participants.

KEVIN HINTON

Kevin joined RMI Investment Managers as Head of Retail Distribution in January 2016. Prior to this, Kevin held various senior investment distribution and marketing positions at Momentum for a period of 16 years, where amongst this, he also held the position of CEO of RMB Unit Trusts. Kevin has been involved in the investment management and linked investment services' (LISP) industry for his entire working career where he held positions at Syfrets Managed Assets (prior to the management walk out in 1993 to establish Coronation Fund Managers) and TMA Investment Products Services – the pioneer of South Africa's linked-investment industry.

There are many drivers of this transformation in retail financial services, including:

1. A new regulatory framework that is pushing for better protection and outcomes for consumers. According to a 2015 study done by Europe Economics post the UK's implementation of the Retail Distribution Review (RDR), the impact on consumers has been mixed. The quality of advice given has improved through better professional qualifications, but fees in aggregate to consumers have not fallen and an "advice gap " has been created. The additional cost of regulation may have kept pricing levels at bay.

2. The "corporatisation" of financial advice where the rate of corporate activity among financial adviser groups is at an all-time high. We witness numerous independent financial adviser groups joining networks, affiliated groups or selling their businesses to other adviser groups or institutions. This is done in order to create efficiencies and regulatory protection on the one hand and in other cases, to leverage their buyout price by converting wealth management businesses into asset management businesses.

   In the UK private equity groups have developed a taste for the UK's wealth management industry and there are many examples of multi-million pound mergers and acquisitions. Bankers and private equity dealmakers say the activity will continue. A major contributing factor to this bout of deal activity has been the regulatory shake-up brought about by the UK's RDR and its new set of rules for wealth managers, which came into force at the beginning of 2013. The RDR has created a new paradigm where there are distinct losers and winners, and private equity groups are trying to figure out how to back the winners.

We have seen the same trend in South Africa where "product houses" have been buying up distribution companies by acquiring shares in wealth management firms in the hope of achieving a vertically integrated model where the wealth manager is aligned to the asset manager/life assurer. Many say these mergers/acquisitions don't work over the long term as the conflict between the fiduciary responsibility of financial planners and the asset gathering mentality of the product provider conflict. Time will tell.

3. In South Africa, we also witness increased competition on a daily basis yet our market is not growing the overall savings base. This competition comes from many sources: investment boutiques challenging the larger investment houses, foreign competitors, discretionary fund managers as well as the increasing number of passive products on offer. All of this is contributing to a compression of margins for active asset managers. In addition, "robo-adviser" models are emerging that seek to provide a low cost access point for consumers that want to transact directly without getting advice from a financial adviser. There is also an abundance of new fintech startups that you probably have not even heard of yet. These robo-advisers and fintech firms all seek to eradicate and replace inefficiencies in products, services and markets in retail financial services.

+ RMI'S RESPONSE

RMI Investment Managers is alert to these developments. Our priority over the past twelve months has been to bed down the investments that we have made in our various affiliates and ensure that we raise their profiles with wealth managers, discretionary fund managers and multi-managers. Furthermore, we have taken the decision to not invest in our own administration platforms, develop our own branded products nor enter the advise arena. Our preference for now is to pursue an independent and purist model to ensure that we can solve client needs and provide solutions in a non-conflicted manner.