UK asset managers' priority markets for trade and investment

With Brexit on the horizon and markets changing, EY has revisited the original strategy written for Her Majesty's Treasury in 2013 and identified which trade and investment markets should be priority targets for the UK asset management industry going forward.

While generating the priorities, we have considered a number of global trends that will impact the savings and investment market.

by 2030

It's estimated that the **Asia-Pacific** middle class will grow from 28% to **66%** (0.5b to 3.2b) [1]

China will continue to dominate global savings and will increase its total savings to **$9t** [2]

The developing world will increase their share of global savings from 45% in 2010 to **60%**

[1] Wolfensohn Center for Development at Brookings (2010), 'The New Global Middle Class: A Cross-Over from West to East'
[2] World Bank. 2013. Global Development Horizons: Capital for the Future – Saving and Investment in an Interdependent World. Global Development Horizons; Washington, DC. © World Bank. https://openknowledge.worldbank.org/handle/10986/13431 License: CC BY 3.0 IGO

Below are the countries, split into three priority groups, that the UK should target in order to optimise trade revenues and inward investment.

This diagram sets out the priority target countries for trade and investment, and reflects that there are a number of countries that fit into both categories. For example, Canada is priority 2 for trade, reflecting the additional challenge of different marketing requirements in individual provinces and territories, but a priority 1 for investment given Canadian financial services firms are looking to expand into international territories.

Our analysis looked at macroeconomic data from the World Bank and the Organisation for Economic Co-operation and Development relating to 188 countries. From this long list we used asset management-specific metrics to rank and shortlist 35 countries. We then used both quantitative and qualitative reasoning to identify which markets should be prioritised.

1 Where is global wealth now?

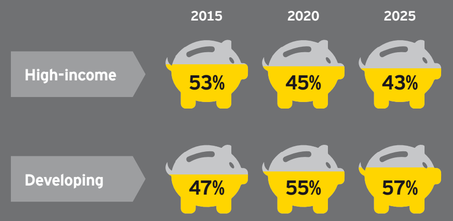
This table illustrates the relative size of savings of the top 15 nations across the globe:

- Gross domestic savings (GDS) expresses the total value of savings in a particular country in US$b.
- The ratio of GDS as a proportion of Gross domestic product (GDP) indicates the relative importance of a savings culture in a particular country, and indicates a higher propensity for savings now and growth in the future.

Country	GDS	GDS/GDP %
Canada	331	21.32
United Kingdom	444	15.52
Russian Federation	387	29.07
China	5,413	49.17
Japan	1,034	23.58
United States	3,148	17.45
France	508	20.99
Germany	902	26.81
India	625	29.83
Korea, Rep.	488	35.45
Brazil	292	16.43
Spain	278	23.15
Italy	366	20.07
Indonesia	300	34.81
Australia	337	25.17

The level of cash savings in China helps to put it top of the list for GDS. While all of the top 15 markets are attractive, India, Korea and Indonesia, with savings ratios of 30% or more, are appealing as they are currently relatively large markets with promising growth prospects.

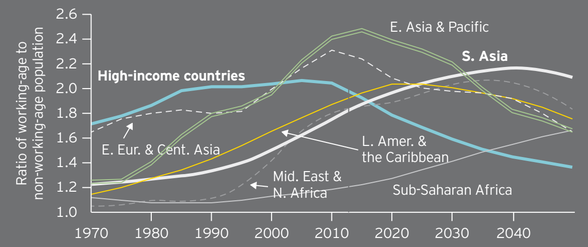
2 Where will global wealth be in the future?



2017 is the tipping point when developing nations collectively gain the majority share of global savings.

The World Bank has predicted that the developing world will increase their share of savings from 45% in 2010 to 60% by 2030.

- Asset managers need to accommodate locally changing demographics.



Sources: World Bank projections, supplemented with calculations using data in the World Bank World Development Indicators database and United Nations Population Division 2011.

The chart shows the ratio of working-age to non-working-age population for different areas across the globe and is an indication of the changing relative demand for savings and drawdown products over time.

Dynamic distribution strategies are required to meet the evolving needs in different parts of the world. As illustrated, high-income countries are likely to need an increased level of drawdown-type products in the future as the ratio reduces from 2.0 to 1.6 by 2030. South Asia is set to be a strong accumulation market for the next 20 years.

3 What are the considerations for the future trade and investment markets?

The demand and opportunities differ in each market across the globe. China and the US remain consistent top priority countries for trade; however, there have been some changes since 2013.

Japan

Third highest GDP globally

Fourth highest GDS globally. Private pensions have grown by 17% CAGR over the last 10 years

Government reforms are looking to channel part of the large proportion of individual assets held in cash into proper fee-based asset management product for better long-term growth. To support these reforms the Japanese government aims to attract four global asset managers per year for the next three years

Europe

The UK leaving the EU provides an opportunity to focus on attractive EU jurisdictions:

Globally, Germany is the fourth biggest economy by GDP. It has a large private pension provision with good growth of 7% CAGR over 10 years

Other mature European markets such as Italy, Netherlands and France also have the attractions of size and familiar distribution models, but post-Brexit will need to be serviced by EU-based entities

Developing economies

Opportunities for UK asset managers to service the burgeoning need for long-term savings include:

Indonesia: 16th largest economy globally, $15b in private pensions which have grown by 9% CAGR over the last 10 years

India: Private pensions have grown by 23% CAGR over the last 10 years

Turkey: Private pensions have grown at a CAGR of 28% in 10 years to over $37b

Conclusion

International clients are key to the success of the UK asset management industry. This success can be measured by both attracting international assets into the UK and also the promotion of our skills and capabilities to international clients.

It's important to recognise that international markets are changing because of demographic shifts, increased economic activity and geopolitical changes.

A relentless focus on the priority markets and how they are evolving will be vital for success.

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