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Banks ‘make hay’ ahead of Mifid II

By Ed Moisson 22 November 2017

Banks are pushing third-party funds to take advantage of current inducement rules before the arrival of Mifid II, a distribution expert says.

Andreas Pfunder, chief executive officer of research firm InstiHub Analytics, says sales of sub-advised funds at banks have recently slowed, indicating that banks are instead selling third-party funds.

Assets in sub-advised funds sponsored by bank-owned asset managers fell by €1.3bn in the third quarter of the year, following a drop of €4bn in the second quarter, according to InstiHub.

Mr Pfunder says bank distributors “make hay while the sun shines ahead of Mifid II” by continuing to sell third-party funds that offer commission to distributors.

The revised Mifid directive, which comes into force in January 2018, will require that non-independent distributors demonstrate that the inducements they receive are designed to enhance the quality of service.

Mr Pfunder says: “[Mifid II] will make third-party distribution more restrictive, burdensome and costly.”

The Mifid II restrictions on inducements are eventually expected to encourage banks to make greater use of sub-advised funds to the expense of third-party funds.

Most successful sub-advisory sponsors

Bank-affiliated firm	AUM increase (€m)	Sub-advised assets (€m)
BG Fund Management	339	10,863
Mediolanum	274	22,146
ABN Amro Advisors	213	9,693
BancaPostalFondi	151	5,480
Nordea	125	20,819

Source: instiHub Analytics
Data for third quarter 2017

Mr Pfunder says he expects “a shift in focus to in-house branded products, including those that are sub-advised” once Mifid II comes into effect.

Some banks have already increased their use of sub-advised funds, however.

Five bank-owned fund units grew sub-advised assets by a combined €1.1bn over the third quarter.

Mr Pfunder says two of these firms, Mediolanum and BG Fund Management, were successful thanks to funds that are co-branded with well-known third-party sub-advisers such as JPMorgan, Pimco and M&G.

Banking groups that have seen sub-advised assets fall, such as Danske Bank, do not offer co-branded funds and “so might be more attracted to selling third-party funds”, Mr Pfunder says.

Establishing co-branded funds also means the sponsor gets a “better deal” on costs, he adds.

In some markets bank-owned asset managers continue to focus on funds of funds rather than sub-advisory products.

This is most notable in Spain, where banks dominate fund distribution, but only Banco Sabadell offers sub-advised funds.

Funds of funds in Spain have garnered net inflows of €13.5bn over the first three quarters of 2017, according to Morningstar data.

Meanwhile Mifid II’s rules on product suitability are having an effect on banks’ use of sub-advised funds.

“A number of bank-affiliated sponsors intend to change their sub-adviser lineup in the interests of suitability versus price focus,” Mr Pfunder says.

Some products that use passive funds have been switched to active managers as they better meet clients’ needs, despite being more expensive, he says.

Another example of suitability rules prompting changes to sub-advisory mandates is the inability of some firms to stick to the investment strategy or mandate agreed with distributors.

One beneficiary of this is T Rowe Price, which has won two mandates worth €1.2bn in the third quarter as a result of previous managers’ investment approach straying from their mandates, according to InstiHub.

Sub-advised assets in Europe reached €461.8bn of assets across 1,343 funds at the end of September.

Sub-advised funds sponsored by wealth managers, private banks and asset managers all increased assets in the third quarter.