

Open architecture Business Models: new challenges of distribution

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Definition

- **Open architecture :**

- Product directly offered in a network different from that of the producer or in a portfolio managed outside the producer
- Management of a product delegated to another producer (sub-advisory)
- Product of a producer used for the conception of a product of another producer (Funds of funds)

- **Motivation and objective :**

- To meet clients' requirements
- To complete the existing products range
- "Not everything to everybody"

www. There is no official statistics concerning the open architecture market neither in Europe, nor in France. But there is at least one recent survey in France made by Image et Finance

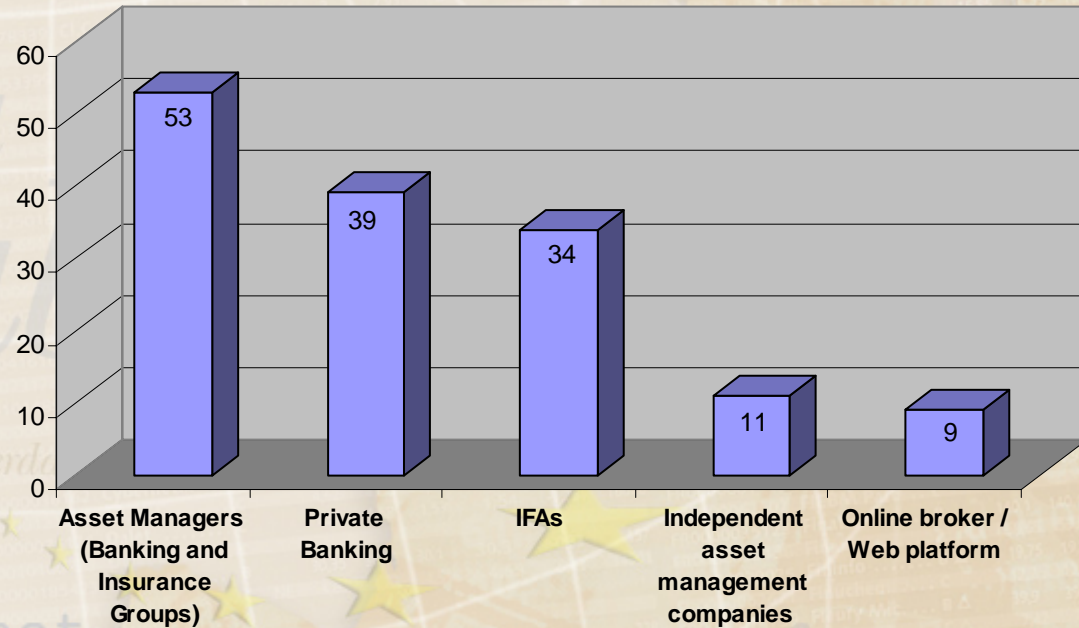
Overview of the French open architecture market

- Approach based on survey and applicable to the French market only -

- French open architecture market is estimated at more than **145 € billion at the end of 2006** (70€ billion in 2004 survey) (Source : Image et Finance)
- Total assets under management at the end of 2006 : **2 450 € billion** (Source : AMF)
- French open architecture market is estimated at **6% of total AUM**

France Open Architecture Market

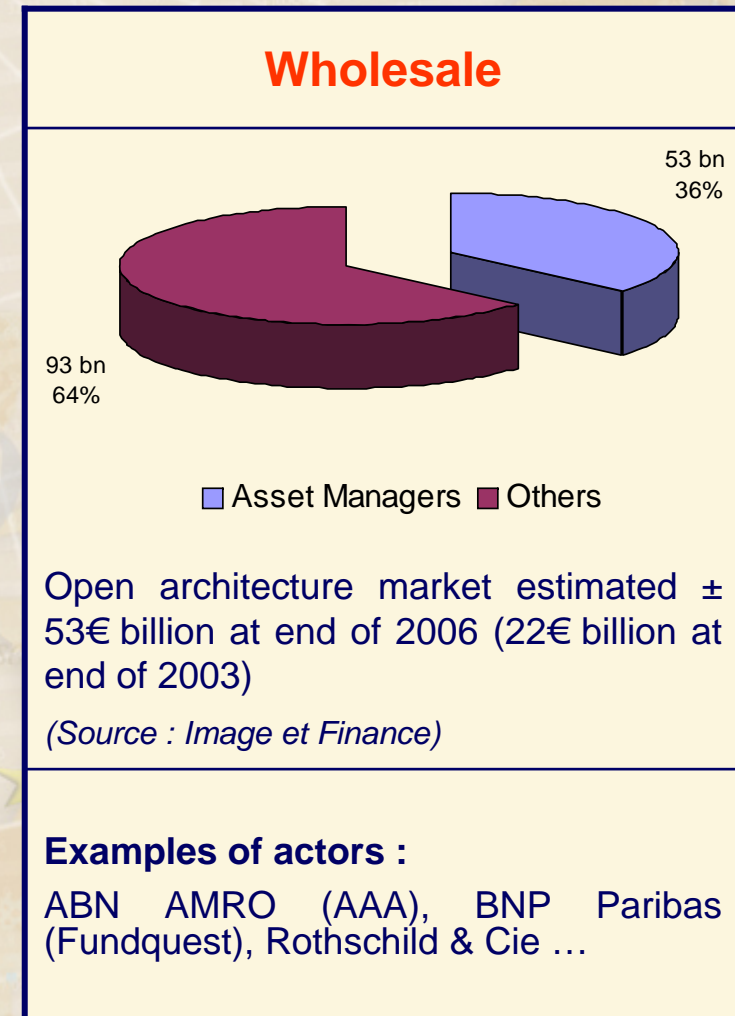
Distribution channels
€billion - end 2006



Source : Image et Finance, Open Architecture Survey, April 2007

Asset managers (Banking and Insurance groups)

- The asset managers use open architecture solutions for :
 - Asset allocation and funds of funds
 - Diversification and complete fund range
- In-house development of know-how concerning the selection of funds and/or the delegation of funds
- Creation of structures entirely dedicated to the selection of funds
 - Development of the Funds Selection Unit (FSU) with funds analysts



Private Banking

- The offer in open architecture is systematically a part of the private banking offer. Various reasons for that :

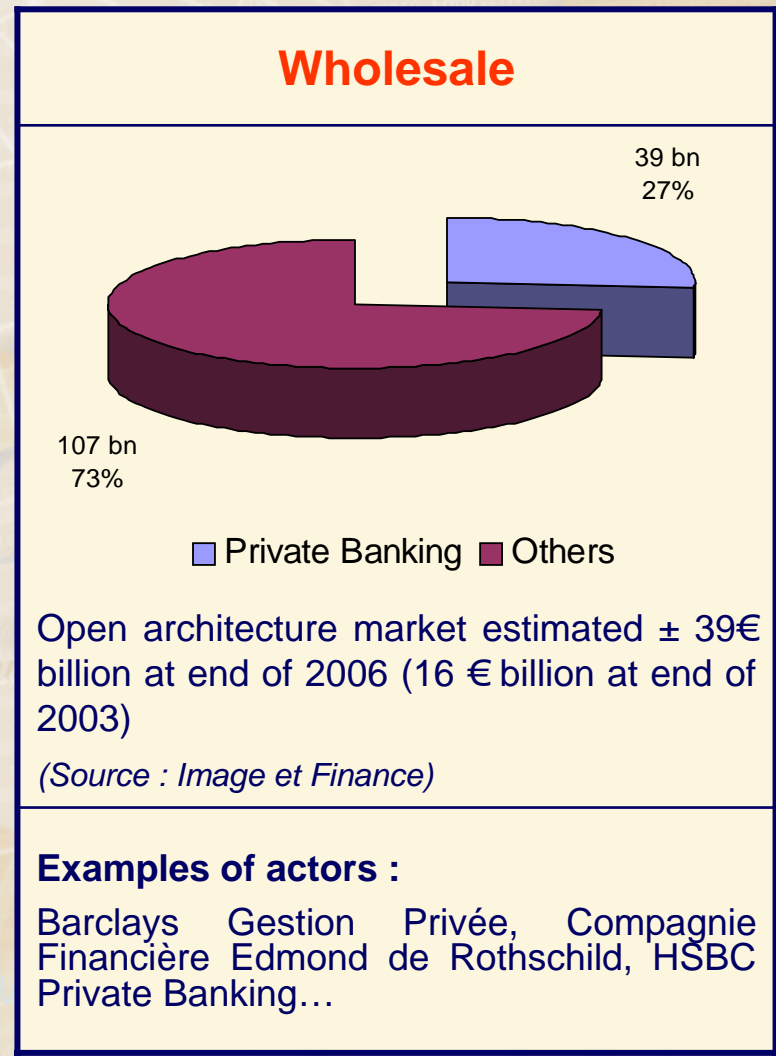
Investment process need

- know-how shortage in various asset classes
- need to diversify management styles
- quest for best returns

Marketing commercial argument

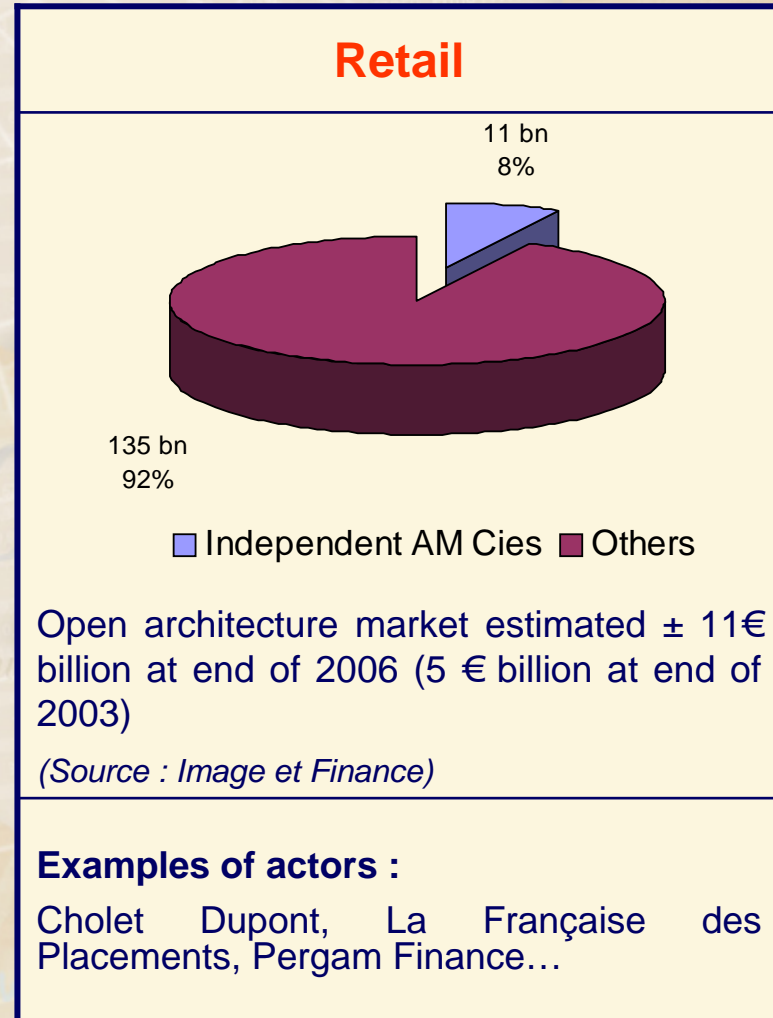
- demand of clients and sales teams
- commercial argument strength in winning clients
- pressure from the competition

- There is a development of the Funds Selection Unit (FSU) with funds analysts



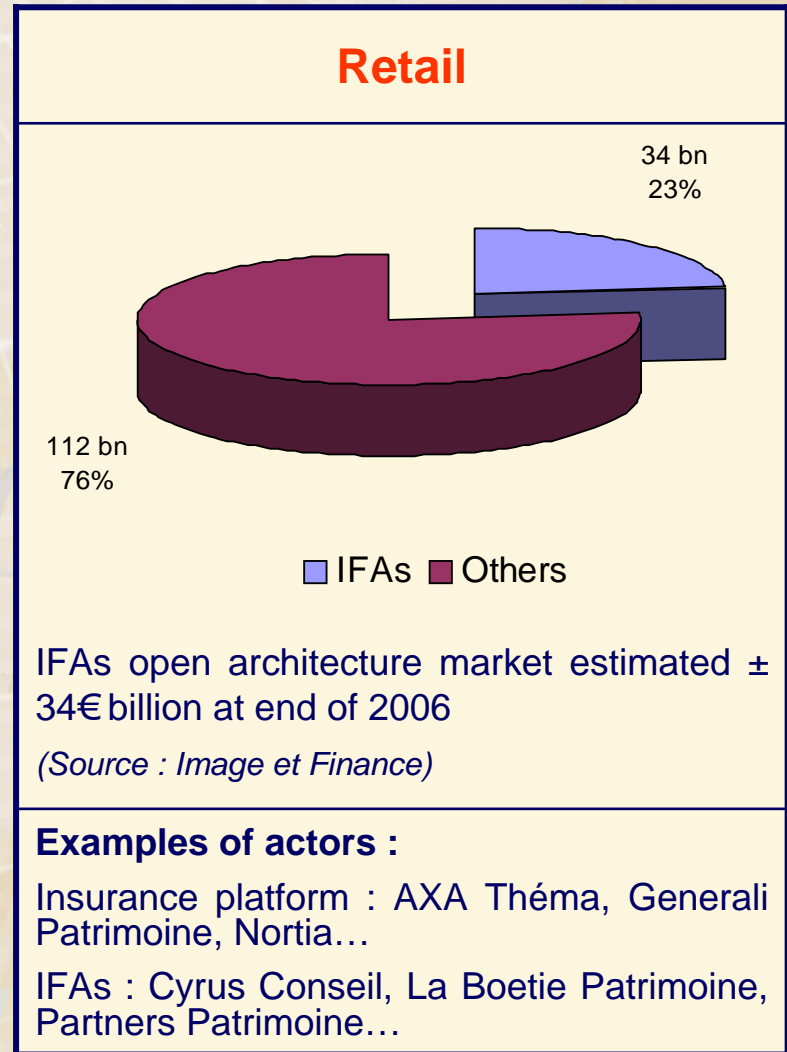
Independent asset management companies

- Traditionally, independent asset management companies offer their own funds
- These companies are confident in the future, as they have the feeling of bringing added value with regard to big houses and banks
- Nevertheless, half of the actors are buyers of external funds : they represent up to 11 € billion on a global 46 € billion
- Three mains reasons for that :
 - need to diversify management styles
 - know-how shortage in various asset classes
 - sales argument strength in winning clients



Insurance companies / Platforms / IFAs (CGPI's in France)

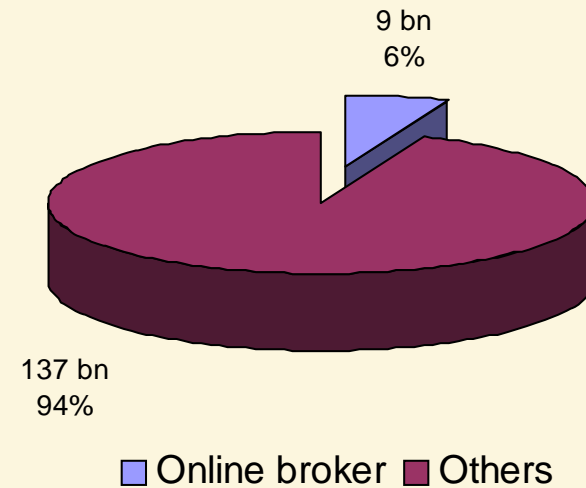
- Open architecture through life insurance is estimated at 46 € billion
 - 34 € billion coming from IFAs activity
 - 11 € billion from Private Banking activity
 - 1 € billion from independent asset management companies
- The open architecture of IFAs (Independent Financial Advisors) is apprehended through contracts of life insurance, subscribed through platforms
- Open architecture is more natural in the IFAs universe
- Insurance companies, platform and IFAs are interconnected



Web platform / Online broker

- Since the explosion of the internet bubble, the market is considerably simplified
- The internet sales market of financial products is not mature and presents an important development potential
- The relative importance of these channels is likely to change, as distribution moves predominantly to the internet
- In the same way as IFAs, the broker online strategy consists in offering a large range of products and services

Retail



Open architecture market estimated $\pm 9\text{€}$ billion at end of 2006. (Not available for 2003).

(Source : Image et Finance)

Examples of actors :

Boursorama, Cortal Consors, CPR On Line...

Retail bank

- In France, no large retail banks have yet crossed the step of open architecture
- The networks of the retail bankings still remain very captive
- But there are pressures on the market :
 - Keen competition of the IFAs
 - Development of online actors
 - New European directives on financial markets (MIFID – "Best Execution")

Retail

Open architecture market not estimated

Examples of actors :

Caisse régionale du Crédit Agricole, Caisse d'Épargne, Société Générale...

Conclusion

- Trends observed on the market -

Regulation	An evolution of the regulation which will help remove the barriers to a single market (UCITS III, MIFID implication...)
Demand from clients	2 main types of needs : <ul style="list-style-type: none"> - Asset allocation : strong request for external funds, particularly for private banks and funds of funds - Widening of the line of products : strong demand for a broad range of diversified funds with high added value
	Main selection criteria : fund performance, brand preference, client servicing...
Offer from actors	A reorganization across different fund product ranges domiciled in different jurisdictions (29 000 funds in Europe compared to 8 000 in the US for a similar investor base)
	Widening of the range of funds with innovative and truly creative products
	Development of the activity of management of funds (funds of funds, sub advisory management, white labeling...)
Organization of the actors	A consolidation (mergers and acquisition) among banks
	Increased expertise in the selection of funds and mandates, with the Funds Selection Unit (FSU) in particular
	Establishment of a multitude of foreign managers in France
	Development of Core / Satellite strategies helping to homogenize asset allocations within the portfolios, in a low cost manufacturing environment

Conclusion

- All the presented trends will inevitably contribute to developing the open architecture market
 - Improving service quality
 - Opening up opportunities for product innovation
 - Enhancing efficiency of distribution
- A purely marketing concept in France a few years ago, open architecture was carried by the growth of financial markets and has more than doubled in 3 years
 - Gradually, it becomes a trade with whole share
- The concept preserves a capacity of significant development

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