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Press release Gerle Financial Communications

Survey among foreign asset managers: What are the biggest challenges in Germany?

Forde Abbey (UK), 5th of June 2020 – Specific customer requirements, fund-related regulation and access to distribution partners are the biggest challenges for foreign investment companies in the German market – or at least they were until the Coronavirus lockdown began. The highest personal hurdle for employees and service providers of investment companies was, until recently, the fact that Germany is highly decentralised and has many different financial centres. These are the key findings of the survey "*Which hurdles do foreign fund managers have to overcome in the German market?*", which was initiated by the specialised communications consultancy Gerle Financial Communications (GFC).

Between January and March, representatives of 18 companies working for or providing services to foreign fund houses, mainly in sales, took part in the online survey. The participating investment companies come from Europe (nine companies), North and South America (eight) and Asia (one company) and represent a total of approximately EUR 4.3 trillion in assets under management worldwide (as of December 2019).

Will Germany's decentralised structure still matter after Covid-19?

In the survey, more than a quarter (26 per cent) of the participants named special requirements of German fund customers – for example, with regards to reporting for separate share classes, individual target groups and mandatory key figures – as the greatest challenge, followed by fund-specific regulation and access to the right distribution partners, with 22 per cent each. "Information material in German" came in next place (17 per cent).

Almost half of the respondents (47 per cent) described Germany's decentralised structure with its various financial centres as the highest personal hurdle when they came to Germany. "However, this is an obstacle that should be lower in the future in view of social distancing, severely restricted travel and growing popularity of video conferencing," says GFC's Managing Director Hagen Gerle.

Hiring qualified personnel (16 per cent), the German language (13 per cent) and the German tax system (nine per cent) followed at a distance. Finding a suitable job for one's partner (one mention) or access to good schools for the children (no mention) did not seem to be a problem at all.

ESG and regulation cause more work than in the home market

In comparison to their home markets, foreign investment companies find regulation and the screening and selection of sustainable and socially responsible investments (ESG/SRI) more complex in Germany. More than half of the participants (56 per cent) have more work with the topics "Regulation" and "ESG/SRI" in Germany than in their respective home countries. "Digitalisation" (88 per cent) and "New Work", i.e. new flexible work concepts (65 per cent), on the other hand, are less or just as labour-intensive in Germany.

"When we started the survey, of course, there was no telling what profound consequences Covid-19 would have. And answering the question about the 'biggest challenges for foreign asset managers in the German market' no longer seemed appropriate to us as the crisis progressed," Gerle comments. "This is even more so, since these challenges are currently being reduced to the mere continuation of the company, especially for smaller asset managers."

A total of 18 answers only represents a small fraction of the foreign asset managers and their view on the entire German fund industry. “However, as the participants in our survey cover a good range – from global top ten houses to specialised investment boutiques from all over the world – they provide an interesting insight into the difficulties foreign asset managers face when starting out in Germany – still one of the most sought-after markets worldwide," comments communications consultant Gerle.

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Nine out of ten fund managers have increased their assets since their market entry

Further results of the survey revealed:

- The assets under management of the foreign asset managers have increased for almost all of them since their market entry in Germany (87 per cent); only two investment companies state the same assets under management. Eleven fund houses have expanded their product range since their launch in Germany, four have the same product range and two companies have closed or merged funds.

- 61 per cent of the participating companies have been in Germany for more than five years. In each case, eleven per cent are represented in Germany either between three to five, one to three years or not at all. One asset manager has only come to Germany in the past twelve months.

- With regards to the various asset classes, equity (twelve mentions) and bond funds (eleven mentions) continue to dominate at present. The range has thus hardly changed since the companies started their business activities in Germany: At that time, 13 of them offered equity funds and eleven bond funds. Hedge Funds and Absolute Return products have grown in importance (the range of products on offer here has increased from five to seven mentions), as have multi-asset funds (three then, five now).

- The most important target groups for sales in Germany are fund-of-fund managers and asset managers (36 per cent), institutional clients such as insurance companies, pension funds and retirement funds (31 per cent) and private banks (27 per cent). Just under seven per cent named "other target groups" such as family offices. Independent financial advisors were not named as a core target group by any of the participants.

- The majority of the participating foreign asset managers (nine mentions) are now supported in sales by a self-employed Third Party Marketer (compared to five at the beginning of their business activities in Germany). Four companies rely on a "flying salesperson" - a dedicated sales representative who used to travel to Germany from the company's headquarters abroad for customer appointments; when the company started, there were only five of those. The number of own branch offices in Germany has fallen by one to three. None of the participating companies has any dependent branches or subsidiaries anymore.

- When external assistance was needed for market entry in Germany, foreign investment companies mainly relied on locally based sales experts (six mentions), international law firms (five) and international tax consultants (four).

"Networking takes longer in Germany than anywhere else"

The participants were also asked what they or their company would do differently today if they entered the German market. The answers suggest that many fund houses would now attach more importance to specialists and local presence.

"*We would have hired specialised professionals (e.g. legal personnel) to better deal with the wide German regulation and specific requirements (e.g. Spezialfonds)*," wrote one participant. Two others noted: "*We would have increased our local presence at an earlier stage,*" and "*We should have hired German-speaking staff immediately.* "

Germany was perceived as "*highly fragmented*" and as a "market *dominated by access restrictions in the form of fund platforms*".

With regard to the way of dealing with German contacts, one participant regretted the somewhat formal nature of the Germans: "*In all other countries (Great Britain, France, Switzerland), it was easier in my long years to get into conversation with people without having to make a very concrete business proposal to them. This makes integration and getting to know the customs and practices much more difficult. Building up a network takes much more time than elsewhere*."

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About Gerle Financial Communications

Gerle Financial Communications is a specialised PR consultancy for companies in the financial services industry. Based in the Southwest of the UK, the communications consultancy's clients come from the sectors asset management (wholesale and institutional), life insurance and private equity. The focus is on communications for foreign investment companies that have recently entered the German market or are planning to do so.

You will find an infographic of the survey attached. If you have any questions on this topic, please contact me.

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