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Lorem Ipsum

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29. Juni 2017 (Frankfurt)
BAI Workshop Investmentsteuerreform

29. Juni 2017 (Frankfurt)
20-Jahr-Feier des BAI (nur für Mitglieder und auf besondere Einladung)

Inhalt

by Ross Hunter, Copylab Limited

The growing complexity of alternative investment products, and their regulation, calls for a new approach to communication. The customer needs 'investment speak' to be demystified. And fund managers need to condense and convey their technical knowledge. To achieve these goals – especially when switching from one language into another – companies have to be able to transcreate their content, not simply translate it.

We live in a world abundant in sophisticated products and services. The most successful are those that give customers a fantastic user experience despite their complexity. There's much that fund management groups can learn from this.

The development of the touchscreen for Apple's iPod meant this highly complex electronic device with thousands of features was easy to use because it was so intuitive. Since then, we have seen a tidal wave of innovation in this area: smart phones, smart watches, smart homes and soon, driverless cars.

Despite being packed with technology, these devices become increasingly simple to use – we can now just talk to some of them – because the inventors are constantly thinking through their customers' experience of the product during the design process.

'But what does this have to do with the fund management industry?', I hear you ask. In my experience, fund management groups are fantastic at engineering clever new investment strategies. But most of them remain terrible at explaining those products and engaging investors with them.

Smarter fund strategies meet fundamental customer needs – but can customers understand them?

To understand the 'communication gap' in the investment industry, we first need to understand what has led fund management groups to develop innovative products.

Low interest rates since 2009 may have been supportive for global economic growth and company profits, but low rates have been unhelpful for investors in bank savings accounts and have also made fixed income markets relatively expensive. As 'lower for longer' interest rates seem to have morphed into 'lower forever', investors have demanded higher-yielding investments, but without necessarily wanting to take higher risks with their money.

In response, the investment community has introduced more sophisticated investment strategies to market, such as liquid alternatives. Or in some cases, they have brought niche products or typically institutional-only strategies and made them more readily available to end investors. Examples here include hedge funds, absolute return funds, secondary property, renminbi and sharia-compliant bond funds, frontier equity markets, structured bonds, infrastructure assets, private equity and debt, insurance bonds, and timber funds. There are many more examples of these.

Some of these assets have been made available to private investors directly through UCITS funds. Others, which have less-liquid or higher-risk underlying assets, have been packaged together into diversified multi-asset vehicles, where risk and liquidity can be spread across multiple asset types.

No longer are investors' decisions based on a simple allocation between equities and bonds. There are literally hundreds of investable opportunities. And these have been made more easily accessible through the invention of exchange-traded funds (ETFs) and the proliferation of fund platforms, which allow investors to trade in and out of something as specific as a US telecoms sector index several times a day. In spite of all these opportunities, do fund managers and their clients really understand each other?

Fund design and regulation have outpaced communication innovation

Investor demand for better risk-adjusted returns and true diversification has pushed asset managers to develop ever more innovative products. That's clearly a good thing. But customer comprehension has failed to keep up with this explosion of opportunity and now customers are unwilling or unable to engage confidently and take advantage of the enormous range of products available.

In the UK, customer engagement with pension planning is so poor that only 20 per cent of people in company pension schemes choose to make an investment decision; the remaining 80 per cent accept the default investment fund that their employer has pre-selected for them. Meanwhile, in Germany, the new Betriebsrentenstärkungsgesetz (BRSG) is hopefully working to close the growing gap in occupational schemes between employees subject to social insurance contributions in the bigger companies and those working in small to mid-sized firms (KMUs).

The lack of customer engagement comes down to two things: poor user experience and poor communication. Above all, there is a need to demystify "investment speak". Financial services are known for jargon and ambiguity, particularly in turbulent times when clarity should be even more important.

The bad news is that financial jargon is set to get even worse because complexity is also increasing in the area of financial regulation. You'll be pleased to know I'm not going to provide an in-depth discussion of PRIIPS, MiFID II or GDPR – that is for another day and another article or three. But the reason I have listed these dreadful acronyms is to underline the increasing amount of regulation that is being loaded onto financial services companies.

Inevitably, much of this regulation will affect customers. When you combine this regulatory burden with more sophisticated product design and a growing proliferation of investment choice, it's obvious that fund managements groups will come under huge pressure to communicate more effectively with their investors. If they don't, they risk huge fines for mis-selling financial products to customers who don't understand, for example, that their emerging-market high-yield long-short bond ETF is actually a pretty high-risk investment.

So what is the solution?

The challenge is this: "A little learning is a dangerous thing", as English poet Alexander Pope so elegantly wrote. Yet, the sum of knowledge required to understand the entire investment universe is way beyond any one individual. And the task is to condense and convey so much technical information into something that really matters to the client.

Let's go back to the analogy of the touchscreen iPod – the original smart device was not supplied with a 400-page manual explaining the technical specifications of each feature. Apple relied on clever design, intuitive user experience, plus clear navigation and communication – the rest it left to the common-sense of the user.

'But the financial sector is heavily regulated', I hear you complain. Of course, you would be perfectly right. But so are automobile producers and pharmaceutical manufacturers. These are sectors where laws and regulations restrict how products are designed, manufactured and marketed. And yet, consumers know perfectly well what the purpose, features and benefits are of Audi, Porsche, Penicillin and Viagra.

We, in the financial community, can learn from this. We must stop hiding behind the jargon that blights our industry and fosters consumer mistrust. Remarkably, the regulators that oversee the investment industry recognise this: the fact that regulations force asset managers to produce KID documents for their UCITS funds in plain language (and soon their PRIIPS funds too) underlines just how bad the regulator thinks we all are at communicating clearly with consumers.

Why specialist financial writing will become the norm

So, the need for high-quality information that is suitable for investors is growing – not just driven by consumer demand for clear information or new fund developments, but also by the commands of financial regulators. And the stakes are even higher when the audience is internationally orientated and asking for high-quality material in English language.

The answer is to employ communication experts who understand the products, understand the regulations, and can use language that resonates with people. The increasing focus on cost reduction has forced investment companies to look for outside resources to enhance their operations while maintaining, or ideally growing, margins.

At Copylab, this is why we exist – because our clients tell us that generic marketing agencies or generalist freelance copywriters are unable to grasp the complex technical aspects of an inflation-linked bond fund and describe it to an end-investor. The trends in the market towards fund sophistication, easier access to these funds and stricter regulation only reinforce the desperate need for what we stand for – clear and compelling investment writing, in English or in German.

This growing requirement is even more important when you consider the potential pitfalls of using translations for an increasingly complex set of products in an environment of regulation that is promoting plain language. The risk of mistranslation – and the impact on your brand's reputation – is increasing as fast as the growth in innovative new products.

The investment industry across Europe, we believe, will inevitably move towards a model where 'transcreation' will be preferred to translation. This means hiring individuals or agencies with a deep understanding of financial markets, investment writing expertise and linguistic capabilities – rather than just linguistic ability and some financial knowledge.

The tech revolution should remind us that evolution and innovation is unstoppable – in every industry. With consumer trends changing and younger (more impatient) customers demanding intuitive and clear experiences from the companies they deal with, the most successful companies in each sector will invest time and resources into how they distribute their products and communicate with their customers. As investment writing experts, we at Copylab recognise the role we play in enabling fund management groups to engage with their consumers much more effectively. We're already creating smarter communications for the next generation of fund management customers.

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