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BLUEPAPER

Wealth and Asset Management

Time to Evolve

Tech is democratizing wealth management. Substantially larger client and revenue pools are becoming accessible. Wealth managers with a modular, scalable model – "Wealth Management 3.0" – are poised to win share. To capture the growing wealth opportunity, asset managers must evolve their connectivity and service delivery.

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Executive Summary

The wealth industry is on the cusp of the next evolution stage towards **"Wealth Management 3.0"**. *To tap into the substantial revenue pools across wider wealth brackets and customer segments, wealth managers need to diversify and modularize their service and operating models, taking full advantage of technology. This will help address the fundamental growth and profitability challenges the industry faces.*

For over a decade many wealth managers have put their growth focus on the ultra high net worth (UHNW) and higher high net worth (HNW) segments, thus not prioritizing less wealthy clients. In their home markets, wealth managers also had propositions for "affluent" clients, but in practice they mainly focused on the lower HNW segment. Only players with a premium brand or strong investment banking capabilities have been able to profitably grow in the highest wealth band segments, as the UHNW market as a whole is both hard to scale and highly competitive. At the other end, the lower HNW and affluent segments have been undervalued and underinvested in, which has limited value creation at the industry level. Wealth managers are increasingly realizing that they are leaving money on the table in the lower segments. Indeed, we see a revenue pool of ~$230BN in the lower HNW and affluent segments.

We believe the next decade will be about the transformation to a scalable and modular wealth management proposition. Facilitated by technology, wealth managers can make superior financial advice and investments accessible to a more diverse client base at lower, differentiated costs to serve. Clients can pick and choose different modules of advice, products and services to create their own, personalized solution. Wealth managers will support their clients along the journey through different channels, from human- to digital-led. Digital solutions will also form the base layer to cater to more traditional, higher wealth bracket clients, who increasingly expect enhanced digital experiences along with traditional human-led bespoke service offerings.

For many wealth managers, this will require significant change and investment in their coverage and service models as well as operating models and technology in order to win market share profitably in the future. Leading firms which are accelerating the transition to Wealth Management 3.0 have been investing a high single-digit percentage of their revenues in this transformation effort and are planning to continue to do so for the next 3 to 5 years.

For asset managers, the wealth management channel becomes ever more important. We expect the share of the wealth and retail client segment of total assets under management (AuM) to grow from 58% to 64% in the next 5 years. Asset managers face fundamental choices: partner and distribute through wealth managers, build captive digital-led wealth management distribution solutions, or establish open platforms geared towards this segment. A combination thereof may also work for some. Each model comes with benefits and drawbacks, but they all require re-architecting the wealth channel and associated operating model.

Macroeconomic and geopolitical regime shifts to accelerate transformation

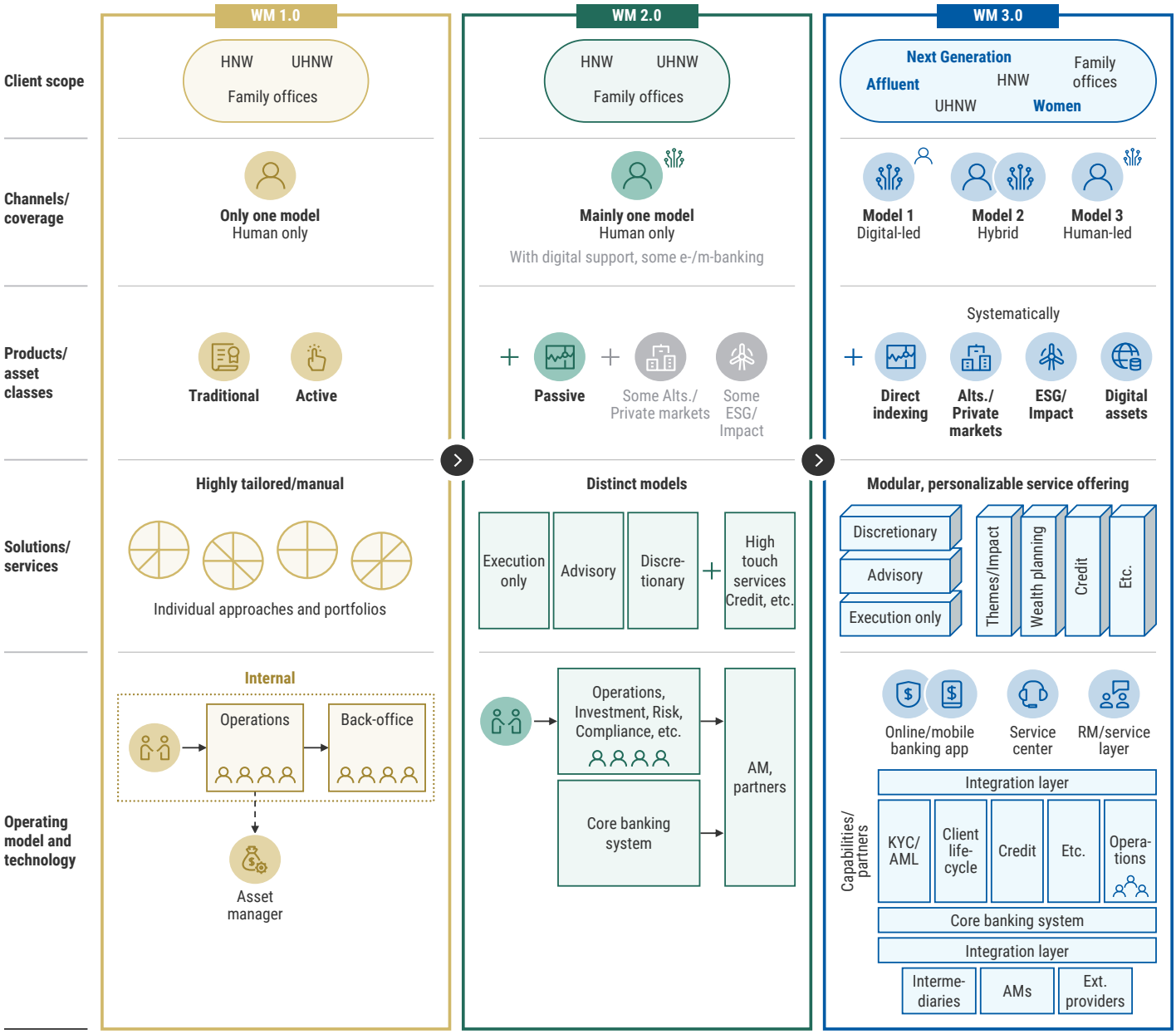
After a decade-long bull market across asset classes (supporting ~9% CAGR of industry AuM), the market outlook is much more uncertain and muted (we see ~4-5% CAGR over the next 5 years). There is a considerable risk of sustained inflation and much tighter liquidity disrupting economic growth. Moreover, the war in Ukraine raises the prospect of a new era of geopolitical escalation and deglobalization, not only in terms of supply chains but also asset allocation.

This regime shift will accelerate the transformation of service and operating models, as complexity, margin and cost pressures intensify. At the same time, client demand continues to evolve rapidly towards new products and features such as ESG, private markets and digital assets, more personalization, and seamless digital and hybrid experiences. As a result, technology will play an ever more critical role in this transformation.

Substantial opportunities and challenges for both wealth and asset managers

We see "Wealth Management 3.0" as this next stage of evolution triggered by the paradigm and regime shifts outlined above. Over the last couple of decades, wealth managers have successfully moved to more digitalized, data- and IT-driven models ("Wealth Management 2.0") from their brick & mortar, paper-based, white-glove only origins ("Wealth Management 1.0"). The next stage will be defined by substantial modularization and diversification of offerings, service models and operating models, allowing lower, more differentiated costs to serve - all facilitated by technology.

Exhibit 1: Evolution from Wealth Management 1.0 to 3.0



Source: Oliver Wyman analysis

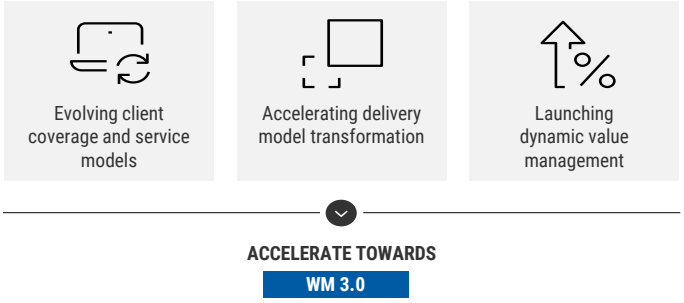
Wealth Management 3.0 is the amalgamation of trends across these key areas: The **client scope** is broadening to include client segments in lower wealth bands as well as segments with more diverse needs. **Channels and coverage models** are diversifying and more clearly differentiating into digital-led propositions, hybrid models with pooled advisors and specialists, and the traditional human-led approaches. The **product universe** is continuing to broaden, encompassing alternatives and private markets, ESG and digital asset investments. Wealth managers' **solutions and service offerings** continue to be modularized, enabling better customization to specific client needs. To lower and differentiate costs to serve across models, wealth managers need to continue investing in more efficient **operating models and technology**, streamlining and automating key client journeys, processes and value chain steps front-to-back. They will move from monolithic legacy core banking systems to more modular architectures centered on an aggregation layer that leverages capabilities from legacy as well as new, third-party and partner components. Advanced technology such as Cloud and API, and potentially distributed ledger technology (DLT), will need to be leveraged for fast deployment and better interaction across the wider wealth management ecosystem.

Wealth managers: three priorities in Wealth Management 3.0

We see three priority investment areas for wealth managers to accelerate their transition:

1. **Coverage and service model:** Introduce full omnichannel capabilities, complementing human-led with distinct hybrid and digital-led interaction models.
2. **Delivery model:** Make delivery more flexible, differentiate and lower costs to serve clients through operating model and tech transformation. A wealth manager's costs to serve an average client today in the traditional UHNW/HNW bracket is $8-20K (and we expect this to remain rigid for traditional human-led premium propositions), but this can drop to $2-8K in a hybrid model and $0.5-2K in a digital-led model.
3. **Value management:** Create transparency on client-level economics, develop a systematic approach to measure, manage and communicate value creation with the support of digital dashboards with real-time information. This will enable dynamic management of revenues, costs and profitability at the product, advisor and client level.

Exhibit 2: Three priorities for a fast transition to WM 3.0



Source: Oliver Wyman analysis

The future success of wealth managers will be determined by executing on these priorities while keeping sight of their primary purpose of protecting and building clients' wealth in a more uncertain environment. We acknowledge that several wealth managers have already started on the path to Wealth Management 3.0, by offering digital-led service models to affluent clients or hybrid propositions.

Asset managers: from intermediation to integration

As the wealth channel becomes more dominant and wealth managers transform their service and delivery models, asset managers need to rethink their positioning with wealth managers and ultimately the end clients. We expect a significant shift in the way they interact, from a simple intermediated distribution between an asset manager's wholesale team and the wealth manager's fund selection team towards a deeper technical integration. This will support delivery of more customized content, products and solutions, enabling a more personalized end-client experience at lower costs. We expect a few asset managers will create their own end-to-end wealth ecosystem with direct captive or open digital investment and wealth management platforms.

Despite the opportunity for direct distribution models, we expect intermediated channels via wealth managers to dominate. A strategic priority of asset managers will be refining the interface with wealth managers and adapting their operating models accordingly. We see three emerging themes that asset managers need to address to succeed:

1. **Increased importance of integration and customized content:** In selecting asset managers, wealth managers will place increased weight on the ability to build technical integrations with their own operations to streamline content delivery, facilitate development of customized products and outcome-oriented solutions. Enhanced end-to-end client experience through more tailored experiences and reporting capabilities will also matter.
2. **Technological adoption and sophistication as drivers of economics:** Technological capabilities are becoming more important than pure scale as a driver of operational efficiency, allowing smaller players to compete more effectively against scale players. Asset managers need to invest into optimizing the application landscape, employing cloud-optimized technology infrastructure, creating a lean, flexible data environment, and renewing focus on identifying opportunities for outsourcing and managed services across the value chain. Scale advantages we expect will remain critical when distributing and servicing the global wealth management players in the medium term (e.g. to engage and explain products to stakeholders across continents), though we see a possible opportunity for tech savvy managers to narrow this advantage by deploying these new technological capabilities.
3. **Supercharging advisors and clients:** As end-clients in WM 3.0 need more (digital) guidance on a broad suite of products and a higher quality digital customer experience, asset managers must develop the (digital) content capabilities that truly elevate their advisor partnership. Tailored market insights, data and analytics, and better access to investments through digital- and human-led channels and portals will enable advisors to deliver value to their clients across the full lifecycle.

1. State of the Industry

In 2021, wealth and asset managers capitalized on continued strong AuM growth. 2022 is off to a much more challenging start.

A profound macroeconomic and geopolitical inflection point is forming

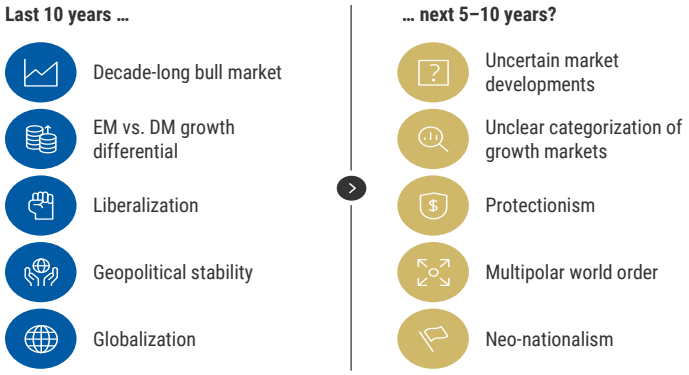
After a decade-long bull market across asset classes, the market outlook is now much more uncertain. There is a considerable risk of sustained inflation disrupting economic growth and central bank liquidity supply. Moreover, the war in Ukraine raises the prospect of a new era of geopolitical tensions and deglobalization. Wealth and asset managers need to prepare for a fundamental macroeconomic and geopolitical regime shift. Investment performance and asset growth is likely to moderate and become more volatile as these structural changes unfold. Increased protectionism will curtail money flows across markets and regions, making operations of wealth and asset managers more complex and hence more costly. We expect this to accelerate a move towards onshore wealth management, a trend we have already been observing in markets over the past years. For example, wealth managers in South East Asia particularly in Thailand, Indonesia and Malaysia are growing their onshore footprint due to regulatory pressures. In APAC more broadly, offshore flows will be partially redirected with Singapore growing as an offshore hub relative to Hong Kong.

This regime shift will accelerate the transformation of operating models. Complexity, margin and cost pressures will intensify. Client demand will continue to rapidly evolve towards new products and features such as ESG, private markets, digital assets, more personalization, and seamless digital, hybrid experiences. Technology will play an ever more critical role in facilitating this transformation.

Wealth managers' growth and profit opportunities are under pressure

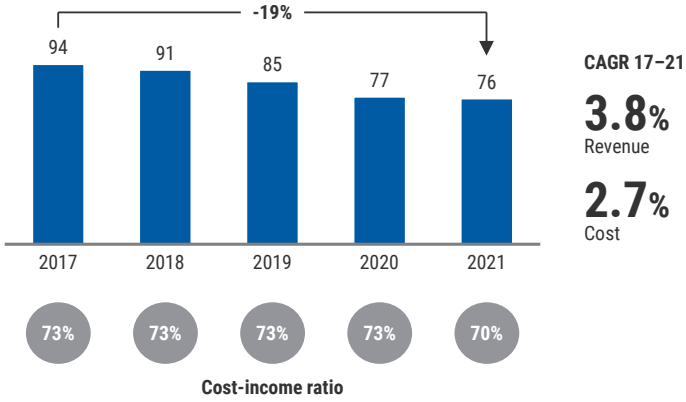
Wealth managers have been facing revenue margin pressure in recent years driven by a mix of deposit margin contraction (although some institutions have launched countermeasures such as negative interest rates), pressure on mandate margins and a change in client mix towards UHNW as well as continued change in product mix towards cheaper passive products. Rapid AuM growth coupled with tactical efforts to realize productivity increases allowed large wealth managers to succeed in maintaining cost-income levels. Pressure on smaller firms and booking centers has grown significantly, leading to increased consolidation and footprint rationalization, particularly in Europe where the lack of a real banking union still hinders a fully integrated operating and funding model across markets. Considering the cyclical headwinds and structural changes outlined above, we foresee that profit pools of wealth managers are under threat unless there is a fundamental transformation of service and operating models.

Exhibit 3: Current inflection point in the industry



Source: Oliver Wyman analysis

Exhibit 4: Revenue margins and cost-income ratios (sample of large global wealth managers, in bps)

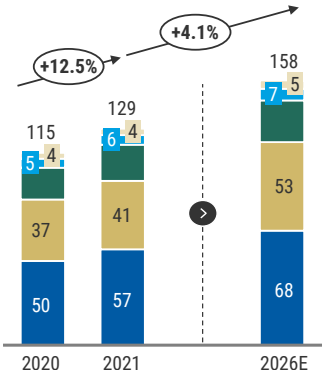


Source: Oliver Wyman Wealth Management Benchmarking Database

Lower growth and changing regional growth differentials

Heightened geopolitical tensions, inflation, and uncertainty regarding economic growth will negatively affect global AuM growth in 2022, where we expect a slight decrease in personal financial wealth for the first time in over a decade. We expect growth to be around 4% p.a. over the next five years through 2026, materially slower than the 8% seen in the last five years (2016-2021). While APAC and North America look set to drive roughly 80% of worldwide new wealth creation until 2026, the growth differential between regions is narrowing. Wealth managers should reassess whether the return on their global footprint and investments in select emerging markets is still adequate in light of this change in the relative growth outlook and the greater complexities from operating between markets, or whether they should focus on fewer core markets.

Exhibit 5: Global household wealth[1] by region, 2020–2026E ($TN)



Region	Growth 20–21	CAGR 21–26E	CAGR 22–26E
Latin America	12.1%	4.9%	6.3%
Middle East + Africa	7.3%	4.0%	4.8%
Europe	12.6%	3.0%	4.3%
APAC	11.4%	5.4%	7.2%
North America	14.0%	3.5%	4.4%

1. Wealth is defined as investable personal financial assets including investable assets (deposits, equities, bonds, mutual funds and alternatives), excluding assets held in insurance policies, pensions and direct real estate or any other real assets. Numbers for all years were converted to $ at the year-end 2021 exchange rates to exclude the effect of currency fluctuations; Excludes low mass affluent segment (<300k)

Source: Oliver Wyman Wealth Management Model

Broadening access to wealth management

Over the past decade, the primary focus of internationally-oriented wealth managers was on higher wealth-band clients as they drove the majority of AuM growth and given their oftentimes institutional needs, provided the opportunity for larger bank-owned wealth managers to foster cross-divisional revenue opportunities with their corporate and investment banks. Many wealth managers struggled to profitably serve lower wealth-band clients given uniformly high costs to serve, and consequently they managed cost-income ratios by offboarding and restricting the access of these clients. In the US, selected wealth managers have moved in the opposite direction and have started to expand their client base towards affluent and workplace-based propositions given the size of these markets. Moreover, for universal banks with scale in a domestic market it has been natural to serve a broader client wealth band spectrum.

We expect UHNW investors with more than $50MM in wealth to continue to drive wealth creation and to account for more than 40% of total wealth growth by 2026. However, this segment accounts for less than 15% of the overall potential wealth management revenue pool and for less than 20% of its growth. Broader banking revenues linked to the UHNW segments, such as from investment banking, will likely also come under more pressure due to deleveraging, slowed deal activity and potential reduction in banks' risk appetite. This growth will also come with higher uncertainty and risks compared to the last decade, where for example European collateral could finance a transaction in the US for a Chinese client. Nevertheless, UHNW will remain a core segment for global wealth managers.

The largest revenue growth opportunity will be in the affluent and low HNW client segments with more than $300K and less than $5MM in wealth. This segment looks set to create ~$45BN of new revenues and account for about 60% of the total wealth management revenue pool by 2026. Currently, we see a revenue pool of ~$230BN in this segment, of which only 15-20% is penetrated by wealth managers. To serve this client segment profitably, wealth managers need to reduce costs to serve, particularly at the lower end.

Not all wealth managers will be pivoting to this revenue opportunity. We expect certain wealth managers with a premium offering to continue focusing on delivering high-touch human-led and hybrid advice to upper HNW and UHNW clients, with some support by digital channels. The opportunity to deliver solutions to affluent investors might not be worth the investment spend and strategic change required (for example, due to lack of economies of scale or fear of potential brand dilution).

Exhibit 6: Global household wealth[1] and revenue pools[2] by client segment, 2021–2026E)

	Affluent/Low-HNW $0.3–5MM	HNW $5–50MM	UHNW >$50MM
Total Wealth[1] 2026E, $TN	53 / 61	35 / 43	42 / 54
CAGR (21–26E)	3%	4%	5%
Share of total	39%	27%	34%
Total revenue 2026E, $BN	229 / 273	108 / 132	54 / 69
CAGR (21–26E)	4%	4%	5%
Share of total	58%	28%	14%

2021 2021–26

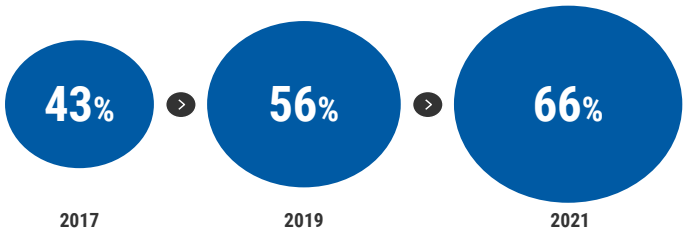
1. Wealth is defined as investable personal financial assets including investable assets (deposits, equities, bonds, mutual funds and alternatives), excluding assets held in insurance policies, pensions and direct real estate or any other real assets. Numbers for all years were converted to $ at the year-end 2021 exchange rates to exclude the effect of currency fluctuations; Excludes low mass affluent segment (<300k);
2. Includes revenues for (standard) wealth management products for all clients, including complex clients

Source: Oliver Wyman Wealth Management Model

Continued evolution of client needs

The Covid-19 pandemic has accelerated digital and hybrid interactions in wealth management. Penetration of digital channels with traditional wealth managers has increased significantly with around two-thirds of clients having used a form of digital interaction in 2021. Even more senior client cohorts have followed this trend with digital penetration of clients older than 65 almost doubling to ~40% since 2019. Lower wealth bands with less need for highly bespoke services increasingly prefer service models with a high degree of digital interaction. However, higher wealth bands are also expecting a digital base layer to underpin their interactions and shifting towards digital and hybrid platforms.

Exhibit 7: Use of digital wealth management channels – Selection of global wealth managers, penetration of online and digital channels by total customer base



Source: Oliver Wyman analysis

People are becoming used to and are demanding more and more personalized offerings across all service industries, e.g., vacation and travel, entertainment services such as video content streaming, banking and card payments. Around 70% of wealth management clients believe the degree of personalization is one of the most critical factors when deciding on a wealth management advisor.

Wealth bands are no longer the defining criteria when it comes to personalization. All client segments are expecting more personalization in their investment services and products. While in the past wealth managers had to make trade-offs between personalization and scalability, new technologies and data analytics capabilities are increasingly enabling personalization at scale.

Demand for "newer" and broader asset classes continues to rise steadily; therefore, the main growth areas we ascertained in last year's report have only gained in relevance: private markets, ESG and digital assets. Private markets platforms have succeeded in establishing themselves as integral parts of the wealth management ecosystem. ESG plays an even more important role in investor portfolios.

While crypto assets remain extremely volatile, digital assets continue to gather interest with a potential to tokenize traditional and new assets/asset classes (such as digital art in NFTs), enabling a broader approach to wealth management ("total wealth").

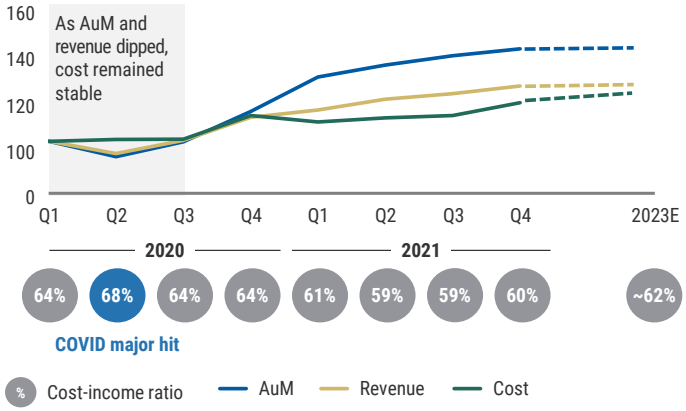
All these changes require fundamental reshaping of the service and delivery models and the use of technology.

Asset managers face substantial growth and profit challenges

2021 was a record year for the asset management industry, as buoyant asset performance combined with strong net inflows more than offset the continued pressure on top-line margins. The high intrinsic operating leverage of the asset management business model clearly benefitted from the global surge in central bank liquidity and fiscal support since the depths of the pandemic in early 2020, with revenue growth outpacing the persistent growth in costs. Looking forward, we expect AuM growth to slow as a result of the structural shifts outlined above. Along with continued industry price compression and the impact of inflation on a relatively stubborn cost base, we expect profit pools to come under significant pressure.

While extreme, Q2 2020 and the aftermath serve as a cautionary tale for asset managers, illustrating the need to take more drastic steps to make their cost base more flexible in less favorable market environments. The challenge asset managers face is highlighted in Exhibit 8 , where during the depths of the pandemic, AuM fell precipitously while costs remained stubbornly elevated. Part of that is invariably due to the commitments firms made during this time to keep their staff and the practical constraints of significantly cutting costs over such a short time frame. The pressure (and opportunity) that the pandemic exerted to start and/or accelerate historical efforts to transform asset managers' cost bases and operating models was short-lived as massive fiscal and monetary stimulus propelled markets upwards. Indeed, despite the potential cost benefits of remote work, the industry's cost base has continued to march higher, making asset managers vulnerable to an environment of weak or negative market growth. As the tailwinds propelling markets since the financial crisis are changing to potential headwinds, asset managers will need to work on transforming their operating model in a way that allows them to maintain operating leverage regardless of the path the markets end up taking.

Exhibit 8: AuM, revenue and cost of asset managers indexed to Q1 2020, 2020–2023E



Source: Oliver Wyman analysis

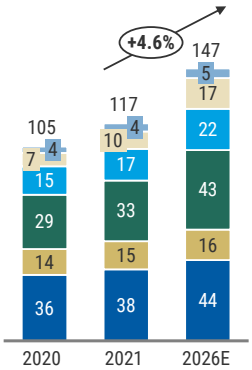
Future growth will be challenging and focused on private markets

We expect 4-5% CAGR growth (2021-2026) of global externally managed AuM. Over the short term, growth is likely to be more muted, potentially even negative for 2022. Nevertheless, mid- to long-term growth is likely to be underpinned by strong wealth creation in Emerging Markets and APAC, and a continued shift from internally to externally managed money, in institutional channels (e.g., life insurers) as well as retail/wealth segments (i.e., from brokerage to managed accounts).

The structural shifts outlined above will have different implications across asset classes.

We expect private markets to continue growing strongly into 2026 and to take a larger share of total AuM driven by investor demand for higher real returns and the pressure on managers to deploy capital. At some point less favorable financing and/or value realization conditions could weigh on private markets in an absolute sense, but relative to other asset classes, we still expect the AuM and revenue share to grow. Moreover, private markets stand to benefit from investor commitments to sustainable investing and formal net zero pledges as they offer greater scope for targeting specific assets (e.g., sustainable infrastructure) as well as greater opportunities to engage with a portfolio company's management team on its decarbonization strategy. While institutional demand will continue to be strong, much of the growth will be driven through the wealth channel as more private-client-friendly product structures and technology solutions democratize access. Leading private markets firms have announced ambitious fund-raising goals predicated on attracting private client money and have invested heavily in building their wealth distribution capabilities. Insurers (particularly life) will provide additional marginal demand, especially as private equity reshapes the insurance landscape, shifting much of the internally managed corporate bond and real estate portfolios to externally managed private strategies. We project private markets to be the segment that will grow the most, reaching ~$110BN in revenues by 2026 or close to 27% of total revenues despite representing just 12% of AuM, highlighting the strong pricing these strategies can command.

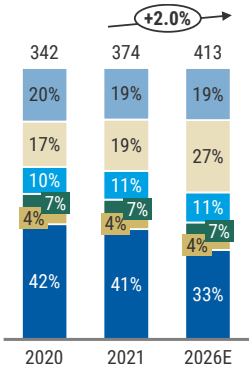
Exhibit 9: Global AuM composition, 2020–2026E ($TN)



Product	CAGR 21–26E
Hedge Funds	4%
Private Markets	12%
Solutions	6%
Passive	6%
Money Markets	2%
Core Active	3%

Source: Oliver Wyman Asset Management Model

Exhibit 10: Global revenue composition, 2020–2026E ($BN)



Product	CAGR 21–26E
Hedge Funds	2%
Private Markets	9%
Solutions	3%
Passive	2%
Money Markets	2%
Core Active	-2%

Source: Oliver Wyman Asset Management Model

In terms of market dynamics for private markets, we expect thematic fund strategies (e.g., funds with a pure ESG or a specific tech focus) as well as flagship funds to maintain or even increase their fee levels as demand for (ESG) impact strategies and proven track records in downturn cycles increases. In contrast, other fund strategies will experience moderate pricing pressure, especially lower-yielding core/core plus strategies as well as fund of funds that see an increased challenge from new digital platform models. In terms of fund-raising, we expect more dispersion in experience amongst general partners (GPs) of funds, given the congested fund-raising environment in 2022. This will make it harder to raise for any fund outside the top quartile, making the large funds grow faster, and harder for new fund strategies to launch at target and on time. For real assets,

we expect to see an incremental lift in demand in an inflationary environment, while venture capital/growth could see some pressure given the recent downdraft in performance.

After a strong comeback in 2021, we expect hedge fund net new money to stabilize and grow slightly overall, building on the positive trend of the last two years as macroeconomic uncertainty, reduced reliance on central bank liquidity and decoupling of global markets will create the paradigm shifts and market volatility that nimble hedge funds need to shine again. Macro, quant/systematic and multi-strategy look well placed and we expect non-correlated strategies should prove their worth as both equities and fixed income struggle.

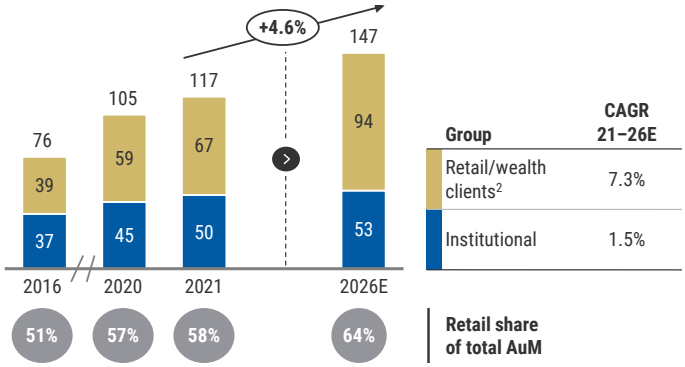
Money markets should also buck their long-term downward trend of losing share, as rising rates combined with highly negative real cash yields on bank deposits make them more attractive cash alternatives again. Moreover, due to the rise in interest rates on money market instruments, there may be some scope for increasing fees, or at least, less pressure on cutting them any further, helping to bolster margins.

Passive markets should continue to see positive flows, but the growth rate is likely to slow relative to past years (from 8% CAGR to 6% CAGR), as tailwinds fade and the prospect of flat or negative markets makes pure index products less attractive. Solutions products should benefit marginally, absorbing some flows that would have otherwise gone into passive or core active products as investors look for more outcome-oriented products, particularly in a world of inflation, higher rates and greater uncertainty.

The growing importance of the wealth channel for asset managers

The share of the retail/wealth segment is continuing to outgrow the institutional segment and is set to account for ~64% of global externally managed AuM by 2026. Targeting the additional $27TN opportunity, the wealth channel has become a top priority for many asset managers. There is ample evidence of asset managers investing into wealth management distribution, with several companies already building out their relationships with wealth managers, investing in digital wealth solutions or entering the direct-to-client channel. As wealth managers are transforming their service and operating models, asset managers need to evolve their interface with wealth managers over the next years.

Exhibit 11: Global AuM[1] composition by client segment, 2016–2026E ($TN)



1. AuM defined as the sum of externally managed institutional assets (including insurance, pensions funds and SWF) and externally managed retail assets (including assets in open-end, close-end and money market funds, alternatives and ETF); 2. Includes DC

Source: Oliver Wyman Asset Management Model

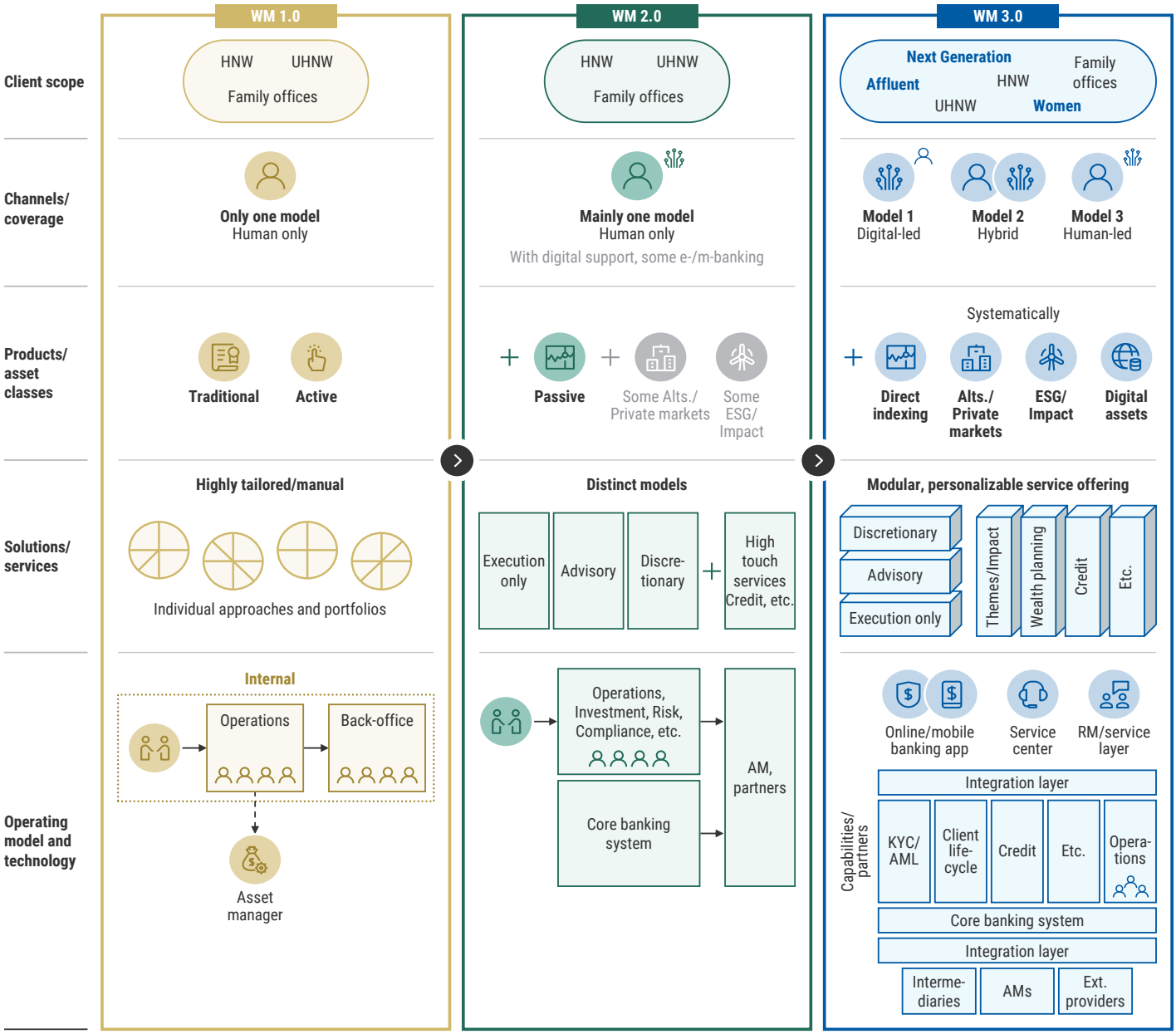
2. Towards Wealth Management 3.0

Transition to a truly scalable and customizable WM offering

Wealth management has a long tradition of banks and partnerships catering to the needs of private clients around their wealth. In the pre-digitalization era, this was a highly personalized offering reserved predominantly for the wealthiest clients globally, **"Wealth Management 1.0"**.

Over past decades, wealth managers have successfully digitalized and streamlined parts of the value chain, while largely retaining the personal interaction model with clients, **"Wealth Management 2.0"**. Discretionary portfolio management, advisory models and wealth services have been increasingly standardized. The focus has remained on higher wealth bands given the challenge of serving lower wealth bands at an appropriate level of costs.

Exhibit 12: Evolution from WM 1.0 to WM 3.0



Source: Oliver Wyman analysis

We see the industry as on the cusp of the next evolution stage towards **"Wealth Management 3.0"**. This is to some extent a natural continuation of developments over past years but at the same time represents a fundamental paradigm shift. To tap into the substantial revenue pools across wider client and wealth brackets, address fundamental growth and profitability challenges, and take full advantage of technology, wealth managers need to substantially diversify and modularize their offerings, services and delivery models.

Wealth Management 3.0 is the amalgamation of trends across six key areas:

- **Client scope:** The client scope is broadening after a decade of more focus on higher wealth bands.
- **Channels/coverage:** Channels and coverage models are diversifying and more clearly differentiating into digital-led propositions, hybrid models with potential pooled advisors and specialists with digital support, and the traditional human-led approaches re-focused on more bespoke and premium offerings. A digital base layer will form the backbone across all models.
- **Products/asset classes:** The product universe is continuing to broaden towards alternatives and private markets, ESG and digital asset investments and solutions.
- **Solutions/services:** Wealth managers continue to modularize offerings to tailor and personalize solutions, e.g. combining a self-service discretionary mandate with expert advice on more complex asset classes such as private markets or when taking out a credit line.
- **Operating model/technology:** To lower and differentiate costs to serve, wealth managers need to continue investing in more efficient technology and operating models, streamlining, and automating key client journeys, processes and value chain steps front-to-back. They need to move from monolithic legacy core banking systems to more modular architectures centered on an aggregation layer that feeds apps and customer channels and in turn leverages capabilities from legacy as well as new, third-party and partner components. Advanced technology such as Cloud and API, and potentially blockchain at some stage, should be leveraged for faster deployment and better interaction across a wider ecosystem.
- **Value management:** To profitably serve a more diverse client base, transparency of the economics at a client and product level becomes increasingly vital. There is an opportunity to develop digital dashboard-based approaches, giving advisors tools to manage client relationships and profitability through better recommendations, re-pricing and adjustments to the servicing approach while incorporating data-driven client analytics components. These should be put in sync with the key financial targets set by the bank and communicated to investors.

The transformation to WM 3.0 and the evolving models will not be uniform as wealth managers will differentiate their propositions from each other. Some will continue to focus more on high-touch personal interactions or investments in a premium boutique approach, focused more on the upper end of the market, while others will pursue more digital-led and hybrid approaches, targeting a broader client base. However, all wealth managers will need to evolve along these dimensions in some way to remain relevant.

The transformation of wealth management will require substantial commitment, investment and focus on execution. We see three priorities for wealth managers:

- **Evolving client coverage and service models**
- **Accelerating delivery model transformation**
- **Launching dynamic value management**

3. Three Priorities for Wealth Managers

3.1. Evolving client coverage and service models

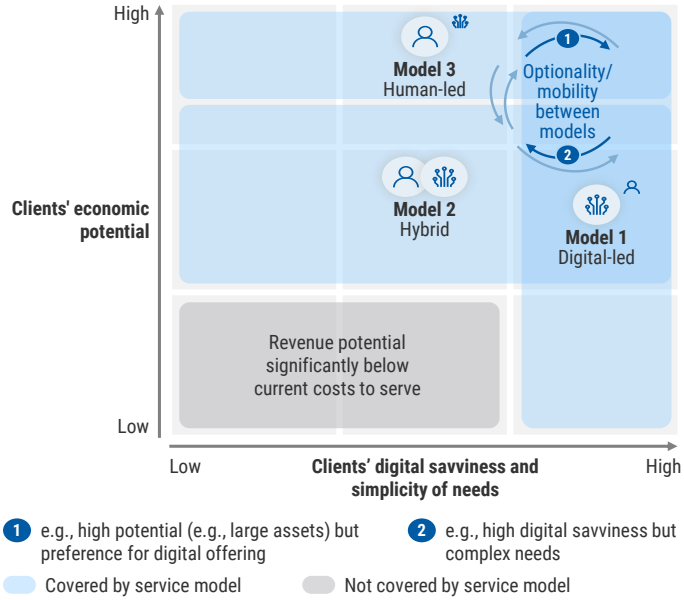
Digital savviness and revenue potential as the starting point to select the best-suited service model for clients

Modularizing the client coverage, and service models, to personalize the experience and solution for individual clients while lowering the costs to serve for less bespoke services is at the heart of Wealth Management 3.0. Channels and service models need to be more clearly differentiated into digital-led propositions, human-led offerings as well as hybrid solutions in-between. Digital solutions, such as online and mobile banking, brokerage and investment dashboards, will form the base layer across all these service models.

Not only will these new service models enable wealth managers to tap into broader client and wealth pools, but digital and seamless hybrid interactions will also be increasingly demanded by the more traditional client base of wealth managers. We recognize that the cost to execute this transformation is substantial but we see it as critical for wealth managers and a top priority over the coming years.

There are two key dimensions to consider when designing the coverage and service models: how much can the interaction be digital-led, based on digital savviness and simplicity of the needs of the clients, and what is the economic potential of the client relationship to justify the costs to serve of a given model?

Exhibit 13: Differentiating services based on digital and economic potential



Source: Oliver Wyman analysis

Clients' digital savviness and simplicity of needs is a key factor influencing the right service model. Clients' preferences regarding service and advice channels have shifted towards digitally enabled remote solutions, especially for simpler products and services. This opens up an opportunity for wealth managers to maintain or even improve client experiences through digital-led services while substantially reducing the costs to serve, reaching a much broader client base. However, this only works for less complex and less bespoke services. Even a digital-savvy client may require a human-led interaction model to address more complex financial needs.

The other key factor is the economic potential of the client. The higher the revenue potential of a client, the higher costs to serve can be, for example driven by human-led advice. If the client's willingness to pay for services is limited, the only way that relationship can be profitable for the wealth manager is through a leaner, more digital-led service model.

A human-led service model will be deployed for clients with more complex needs and/or lower digital affinity that also have sufficient economic potential for the bank to justify the higher costs to serve. A digital-led service model will be suitable for clients with simpler needs and higher digital affinity even with lower economic potential. A "hybrid" proposition combining digital services with more personal advice may be adequate in intermediate situations for clients. For example, a client with $800K financial wealth who needs access to blue-chip stocks and ETFs in an execution-only set-up, historically an unprofitable relationship for most wealth managers, can be served profitably with a digital-led or hybrid model. Less digital savvy and/or clients with complex needs with limited economic potential will stay out of reach for wealth managers.

Across all service models and client groups a seamlessly integrated digital base layer is increasingly a necessity, including apps with wealth and portfolio overviews and simple mobile and online banking and trading functionalities. Across all models, human interaction will remain crucial, although to a varying extent depending on the model. For a digital-led model, focused access to a service center is sufficient, but a successful hybrid approach requires more human interaction, and a human-led model resembles the traditional high-touch service model.

Three service model archetypes

As a result, we see three archetypical models evolving. These archetypes should be viewed on a continuum from digital-led to human-led. Wealth managers may be offering all, only a selection, or continue to use one (e.g., a pure digital player or a boutique wealth manager focused on a traditional human-led approach). Each institution will tailor the individual models to their relevant client base and segments to differentiate their value proposition.

Model 1 – Digital-led: *Digital-led wealth management service will evolve to be the default service model for digital-savvy clients with simpler needs.*

A digital-led model will enable wealth managers to access and serve a much broader client base, including lower wealth bands, profitably. The core services will be centered on self-execution and discretionary portfolio management, while focusing on educating the client digitally and supplying relevant digital advice nudges. Human interaction will be limited to remote access on-demand to a pooled advice center. In order to position the model against discount online brokers and robo-advisors, the investment content, solutions and product shelves needs to be differentiated (e.g., conveying strong CIO house view), while the digital experience still needs to be strong. Around-the-clock access to a high-quality service center in case of issues or questions and the ability to seamlessly rotate to human-led models depending on how needs evolve will be crucial. Finally, having a digital-led model embedded in a trusted institution will provide additional value and differentiation.

Model 2 – Hybrid: *A hybrid model combining digital-led and human-led components with a differentiated advisor and specialist model, potentially pooled, will combine the best of both worlds for clients with intermediate complexity of service needs and digital affinity.*

As an intermediate model between a digital-led and the traditional human-led proposition, we see hybrid propositions emerging. These have been spearheaded by retail banks in digitally advanced markets for affluent as well as SME clients (e.g. Spain), establishing sophisticated service centers for clients to have access to a pool of advisors and specialists via different channels such as phone, chat, video conference and physical (at bank or client locations). Wealth managers are starting to experiment with these set-ups for specific client groups. A digital layer forms the foundation both for the client as well as the advisors and specialists to be able to see a log of the last interactions, the portfolio, the past transactions and so on, for a seamless handover between the digital channel and the service center, and

Exhibit 14: Three service model archetypes

		WM 3.0		
		Model 1 Digital-led	**Model 2** Hybrid	**Model 3** Human-led
Service model offer		Digital-first services with remote 1st level support	Hybrid advisory model with seamless digital support	Bespoke and customized service model with digital layer
Core services	Execution only	✓	✓	✓
	Discretionary	✓	✓	✓
	Advisory	-	✓	✓ (premium)
	Bespoke solutions	-	-	✓
	Credit	(✓) digital	✓ vanilla	✓ sophisticated
Advisor access	Inbound service center	✓	✓	✓
	RM Relationship	-	1:n (inbound) 1:1 (outbound)	1:1
	Access to specialists	-	✓	✓
	In person possible	-	-	✓
Level of advice	Info./educational content	✓	✓	✓
	Advice nudges	✓	✓	✓
	Human advice	-	✓	✓
End-to-end/seamless digital layer/experience		Digital onboarding, digital KYC, account access, real time portfolio overview, trading capabilities, automatic portfolio creation and balancing		
Focus of the model		Digital experience & lower costs to serve		Tailored service/advisory experience

Source: Oliver Wyman analysis

between different advisors and specialists. Advisors are pooled, potentially with a lead advisor dedicated to each client. For inbound interactions, advisors can pull in and connect the clients to specialists, and for outbound activation, advisors use digital advisor cockpits to screen for potential client needs not yet covered.

Client reception and feedback have been positive with these set-ups, given improved access around the clock and expertise for the specific problem at hand, as well as the use of different channels including chat and video conferences, if the set-up is well organized. Advisor and specialist productivity typically is increased by 50-100% based on the experience of banks that already are at a more advanced stage with hybrid models. They are suitable for a range of interactions, products and services and solutions of medium complexity and customization, such as advisory, selection of discretionary solutions, higher volume trading (similar to an execution desk access), lending, banking needs, for clients who are comfortable with digital and new communication channels and are looking for the best expert for a given problem at hand as well as improved access. Hybrid models can lower costs to serve substantially while enhancing the customer experience. However, if not well executed, these set-ups can quickly lead to a dissatisfied customer base and defections.

Model 3 – Human-led: *The traditional wealth management coverage and service model remains a key proposition for clients needing more complex services or who are less digital native and have sufficient economic potential for the bank.*

The human-led model will be increasingly focused on high value client relationships, premium and bespoke offerings, requiring a "high touch"-approach and justifying the elevated costs to serve.

All three models, even the human-led, build on a digital base layer enabling online access to the portfolio, analytics, ability to execute simple trades, investments and transactions.

Self-selection of degree of bespoke service through the right set of incentives, modules and constraints will be crucial to make these models successful, following other industries such as automotive, insurance or video-streaming; while all models have a predefined service package, clients can upgrade with select modules for additional fees. The entire proposition will be modularized. The offered choices, increasing in range and degree of service level across models, allow clients in a lower model to pick specific preferred elements of a higher model (e.g., access to certain specialists, products, etc.), or just general add-on services (e.g., wealth planning, in-person advice sessions, etc.).

With the offering of different models and the componentization of offerings with modular add-on choices, clients will have numerous service configurations to choose from to match their needs. Careful design of a guided service architecture will be important. Wealth managers can learn from the experiences in other industries such as retail banking, consumer and luxury goods, and communication and technology.

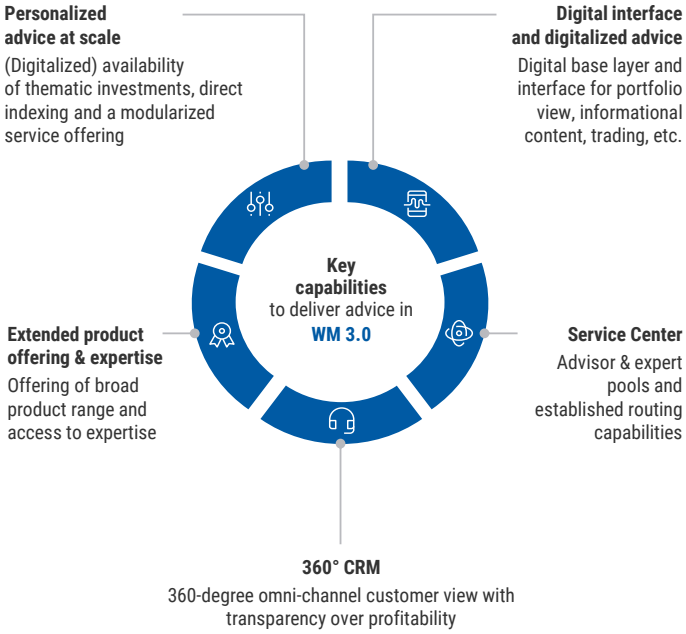
Delivering superior advice in diversified service models

Delivering personalized advice at scale will be a key differentiator and value proposition driver for wealth managers across all models. According to Oliver Wyman proprietary HNW client surveys, about 70% of clients believe the degree of personalized advice is one of the most critical factors when deciding on a wealth management advisor. Clients expect more personalization of advice over time as systems as well as advisors learn and adapt to their preferences. While in the past wealth managers had to make trade-offs between personalization and scalability, the ability to aggregate and analyze data across disparate systems (including CRM, financial planning, portfolio construction and other third-party tools) and automate workflows supports a transition to personalized advice at scale. Direct indexing, fractional shares and other technological advances allow wealth managers to customize portfolios to client-specific preferences at scale, e.g., regarding ESG, tax needs and other criteria.

The changing role and capabilities of the advisor

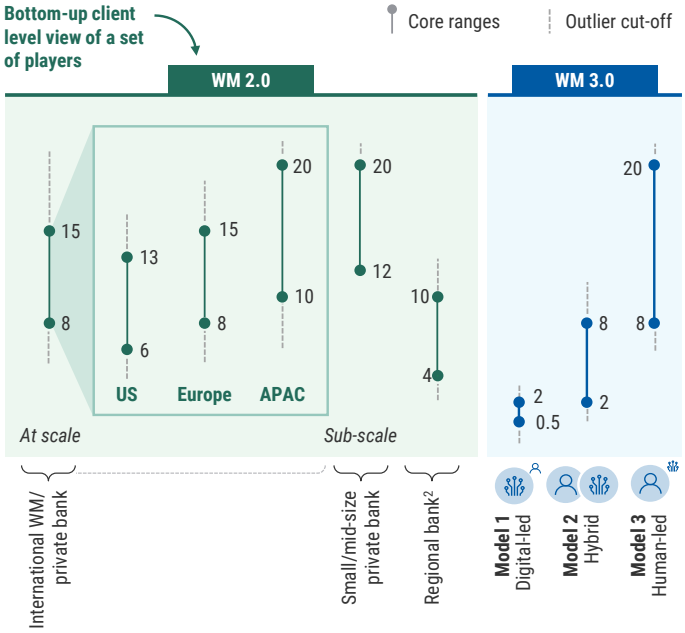
The role of the advisor will naturally also change and differentiate across the models, particularly in hybrid, remote-advisory and pooled set-ups. Advisors are required to handle a larger number of client interactions. They will face situations where they need to provide quality advice to clients they do not know via remote channels. They will also need to team up flexibly with different specialists and work in teams. Potentially, generalist advisors are not required in specific models, with specialists leading the dialog. Technical support, the infrastructure and toolkits need to be upgraded to provide advisors with a holistic view on the client, co-browse alongside the client in the apps and execute trades and investments.

Exhibit 15: New key capabilities to deliver advice in WM 3.0



Source: Oliver Wyman analysis

Exhibit 16: Annual costs to serve[1] ($K)



1. Analysis shows client level view; no ramp up IT costs shown but rather steady costs; 2. Lower wealth band focus

Source: Oliver Wyman proprietary data, Oliver Wyman analysis

3.2. Accelerating delivery model transformation

Most wealth managers still operate on a stubbornly high and inflexible cost base. Annual costs to serve a client average around $10K for leading wealth managers (in the premium market) and can reach up to $20K at many institutions, levels that are unsustainable if wealth managers want to profitably serve lower HNW revenue pools and tap into higher affluent client pools.

As evidenced by firms venturing into new wealth management propositions, a transition to a Wealth Management 3.0 operating model, empowered by technological advances, can significantly reduce the costs to serve depending on the service model. We foresee steady-state annual cost levels of $0.5-2K per client in a digital-led model and $2-8K in a hybrid model as achievable at scale, with an average spread of $8-20K for human-led models (potentially much higher for complex and institutional-like clients). This is in line with today's observed cost levels of pure digital players such as robo-advisors and existing hybrid models in the affluent and SME space, with an appropriate upward adjustment to a wealth management context.

To reach lower and more flexible costs to serve clients, wealth managers will need to drive substantial changes to their delivery models, requiring significant investment in process optimization and tech transformation over the coming years. Peers in the upper quartile are planning to invest in total around 6% of revenues, with leaders investing over 8% of revenues in digitalization and transformation, while laggards spend in the region of 2-3%. Benefits of reduced costs to serve are expected to quickly outweigh investments in terms of profits and cost-income ratios, and more tactical cost levers may compensate for initial ramp-up investments.

Today, the operating model of traditional wealth managers still predominantly relies on undifferentiated customer journeys with a high share of manual process steps, legacy core systems with closed-off, on-premise architecture. While wealth managers have been investing in more efficient technology and operating models critical to the outlined transformation to Wealth Management 3.0, the level of success has been mixed so far across institutions. The focus of digitalization initiatives has been mostly on improving client-facing applications and selectively improving existing processes within the legacy infrastructure.

We see three levers for wealth managers to transform their delivery models to significantly reduce and make flexible their costs to serve:

1. Front-to-back process simplification and streamlining across all critical client journeys
2. Modularization of the wealth management value chain to allow for easier partnering, near-shoring, offshoring and outsourcing
3. Acceleration of the shift to more flexible and agile deployment of solutions, such as cloud

1. Front-to-back process simplification and streamlining across all critical client journeys

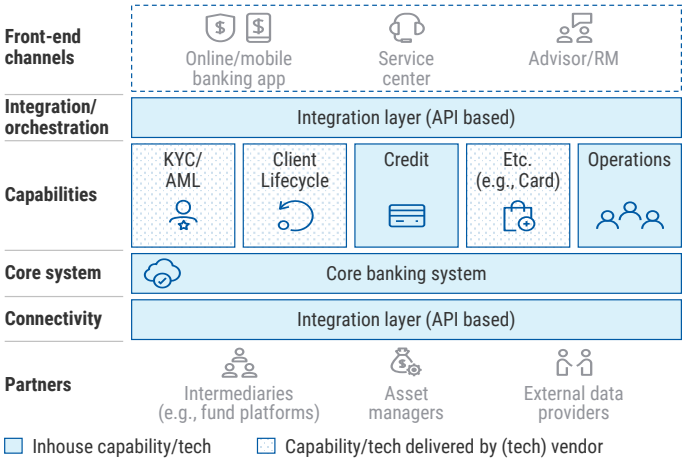
Wealth managers need to radically simplify their core processes (such as onboarding and the client lifecycle, credit, trading, investments and transactions). This includes the harmonization of processes across the firm as well as their simplification and reduction of duplication. The ambition should be to digitalize the top ten or so processes across the firm that are the most critical in terms of frequency, time and cost, and to take a zero-based cost budgeting approach for central functions. Triaging journeys between simpler client types, needs and transactions vs. more complex ones, aligned with service models, also is critical. Oftentimes, this includes collaboration with third-party technology vendors to digitalize and automate select processes along the client journey.

The average time that advisors and specialists spend on low-value adding, non-client-activity-related tasks should be reduced to a minimum. Today, advisors still allocate on average ~50% of their time on non-revenue generating tasks, such as compliance or managing onboarding processes. Industry leaders are identifying and implementing levers to significantly increase the advisors' time spent on client-related activities and thereby increasing their productivity. Service center set-ups have shown substantial improvements in advisor utilization.

2. Modularization of the wealth management value chain to allow for easier partnering

Today's operating model architecture lacks flexibility and scalability and provides unsatisfactory capabilities to partner with vendors to support or outsource entire process steps along the value chain. Wealth managers will increasingly face the need to identify the value chain steps or client journey components (including products) where they can clearly differentiate between processes that must be kept in-house and those that would benefit from a partner to improve scalability, noting that the in-house solution will not always be the best or the most efficient option. In a world where wealth managers must meet new client needs, as well as face continued tech talent shortage, the reliability and importance of partnering with vendors to deploy new products as well as technological capabilities will increase (e.g., to partner on credit decisioning, KYC/AML). As a result, the build-out of integration layers to ingest and expose standardised APIs to allow for easier integration of vendor solutions should be a key priority for wealth managers.

Exhibit 17: Target operating model – illustrative industry example



Source: Oliver Wyman analysis

3. Acceleration of the shift to modern tech ways of working, such as cloud

Wealth managers will need to accelerate their transition to modern tech ways of working, such as transitioning to cloud, to accelerate development, scale their platform and remain agile as times continue to evolve. For this shift to be a success, it is crucial to not just view it as a shift in tech but also as a shift in the organization where the governance, people skills and way of working changes. To enable the organization to adapt to working with enhanced tech, it is necessary to upskill and reskill employees, and restructure to more decentralized and automated ways of working (e.g., DevOps). An accelerated shift to the cloud would allow wealth managers to capitalize on a number of benefits including:

- An increase in the agility, resilience and ability to change, especially to scale up and down operations and features to suit the wealth manager's business needs
- Better ability to innovate and offer an enhanced client experience through leveraging modern, cloud- based tech (AI, data & analytics) for new use cases
- An improved quality of service, e.g., more and faster straight-through-processing, 24/7 solutions, less downtime

- An increase of collaboration options and efficiency across employees as well as third-party vendors, and more productivity and flexibility in working, e.g. work from anywhere
- A reduction of the costs to manage and maintain IT systems by creating more levers to manage costs
- An acceleration of development speed and cycles with higher frequency of releases and higher interoperability

Deep Dive: Partnering for Private Markets excellence

Delivering on clients' Private Markets product needs is a prime example of a situation where partnering might represent the better option for wealth managers. As this product segment is becoming more sought-after and has historically not been a key competence of most wealth managers, quick time-to-market and convenient access and processes are key. Increasing the collaboration with vendors in this product segment could help to:

- Enhance the client experience with superior products (e.g., top quartile funds, thematic products), smoother process (e.g., capital call management) and market innovations (e.g., tokenized investment opportunities)
- Yield faster go-to-market than can be delivered in-house and reduce execution risk overall (e.g., secondary market capabilities)
- Reduce the development costs and establish lower running costs as the value chain is kept lean through sourcing modules from a partner (e.g., commitment planning, data capture, tax management)

We believe that a hybrid delivery model approach will result in the best outcomes for clients and most wealth managers.

Exhibit **18:** Delivery model for private market products

	A Full reliance on external partnerships	B Hybrid	C Full delivery inhouse
Most relevant to	**Wealth managers with limited private markets capabilities**	→	**Wealth managers with excellent private markets capabilities**
Product offering	**Entire product access provided via third party asset managers/intermediaries**	**Select products sourced via third party and other products via own asset managers**	**Entire product access provided via own asset management offering**
Value chain (incl. middle- and back-office)	**End-to-end reliance on partners for value chain and processes**	**Partnering for select value chain steps vs. inhouse delivery for others**	**Delivery model fully inhouse**
Pros	✓ Access to broad set of options ✓ Operational/admin support	✓ Best of breed approach; keep key strengths inhouse, source other parts from partners	✓ Full control over end-to-end proposition and value chain ✓ No revenue share
Cons	× Give away part of value chain and fee × Fully reliant on third parties × Significant risk management	× Not capturing full revenue opportunity × Manage third party vendor relationships	× Full responsibility for operations × High investment × Likely not a best-of-breed proposition for clients

Source: Oliver Wyman analysis

3.3. Launching dynamic value management

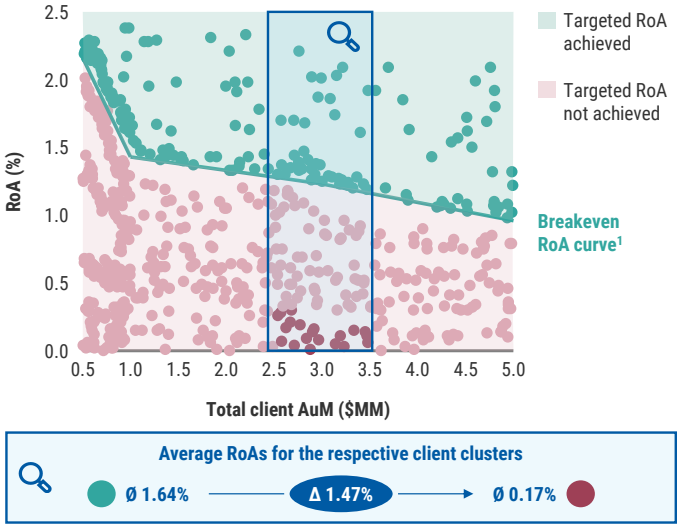
A key priority for wealth managers as they transition to Wealth Management 3.0 is to develop a systematic approach to measure, manage and communicate value in terms of revenues, costs and profitability at the bank, channel, product, advisor and client level. Real-time visualisation of economics via dashboards can enable top management as well as individual advisors to monitor and manage their business towards serving clients appropriately while achieving target KPIs on a dynamic basis.

Historically, wealth managers have had limited transparency on economics on a channel, client and product level, be it revenues, costs and/or profitability. Many wealth managers have given significant discounts (more than 30-50%) on their rack rate pricing, have not fully aligned pricing with costs or have served low activity/revenue clients in a premium model. As a result, 40-50% of client relationships have been unprofitable on an individual level in extreme cases. Often larger and more profitable client relationships have cross-subsidized others, masking the problem, with decent profitability on an aggregate level.

Exhibit 19 illustrates what profitability divergence can look like, with each dot representing one client (this illustrative example shows the client portfolio of an exemplary European wealth manager with the described profitability issues in the client base). We see three key characteristics when looking at the client portfolio on an individual client level:

1. There is very little correlation between the return on assets (RoA) and AUM.
2. There are large RoA differences among clients within similar wealth bands.
3. While clients being served unprofitably can be found across wealth bands, a large share lies within the lower AuM segment (i.e., <$1MM) given the limited differentiation in the "traditional" service model.

Exhibit 19: Client level profitability divergence – Illustrative sample of European wealth clients



1. The breakeven RoA curve shows the required RoA per AuM, and is composed of the true breakeven RoA + an additional profit buffer

Source: Oliver Wyman proprietary data, Oliver Wyman analysis

In a Wealth Management 3.0 world, firms will be serving a more diverse client base through different channels with more modular products and services. Therefore, a view on channel, client and product level economics is becoming indispensable to guide the provision of the right service models, and the business towards profitability and growth end-to-end.

Overall, we see three improvement steps to increase profitability in a sustainable way:

The first step for wealth managers is to create client-level transparency on economics, including on the levers that drive it (for example, how economics are driven by client risk ratings, specific products or service levels), always considering that the costs to serve a particular client need to be covered by the revenue potential.

In a second step that builds on the greater transparency, wealth managers can derive tailor-made improvement actions on a client level. These improvement levers could include appropriate recommendations on products, the shift to servicing the client with a more suitable service model, or re-pricing.

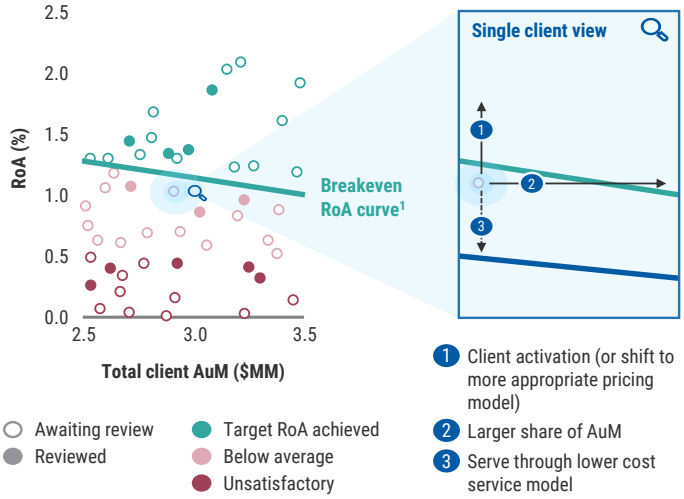
The third step is to empower the front office, team heads and advisors by providing them access to the transparency on a client-level, as well as tailored enhancement recommendations via intuitive dashboards integrated into the advisor desktops.

Most crucially, transparency needs to be provided on an ongoing basis through a dashboard solution linked to the core banking system. The capability should cover uploading the latest data on each client and sending back instructions to improve client outcomes and increase share of wallet. Having this data should allow the advisor to offer clients more appropriate service models that align costs to serve with client revenue or to offer high quality services for a different price (e.g. change in scope and price on the advisory mandate, the discretionary mandate, transaction support).

Firms that have built transparency and guiding mechanisms based on client profitability have been able to capture sustainable revenue uplifts of 10-15%, i.e., a 6-10 bps uplift on current average revenue margins, and enhance profitability on a sustainable basis.

In hybrid set-ups where, potentially, different advisors work with a given client, these dynamic revenue management solutions become even more crucial to ensure appropriate client servicing and matching client revenue to the cost to serve.

Exhibit 20: Improvement recommendations for individual clients



1. The breakeven RoA curve shows the required RoA per AuM, and is composed of the true breakeven RoA + an additional profit buffer

Source: Oliver Wyman proprietary data, Oliver Wyman analysis

Overall, this new degree of client-level transparency can be part of a broader integrated planning and profitability management system at the group finance level. Improved data and analytics capabilities provide the opportunity for wealth managers to cascade, monitor and manage top-of-the-house strategy and KPIs on an individual advisor and client level. Based on firm-wide strategies and KPI targets, some of them communicated to investors, management can translate and break these down into specific KPIs for various aggregation levels (e.g., regions, desk level, individual advisors). This integrates strategy, core KPIs, investor communication and execution at the advisor and client level in a powerful way.

Exhibit 21: Value creation cascading from the firm level to advisors and clients

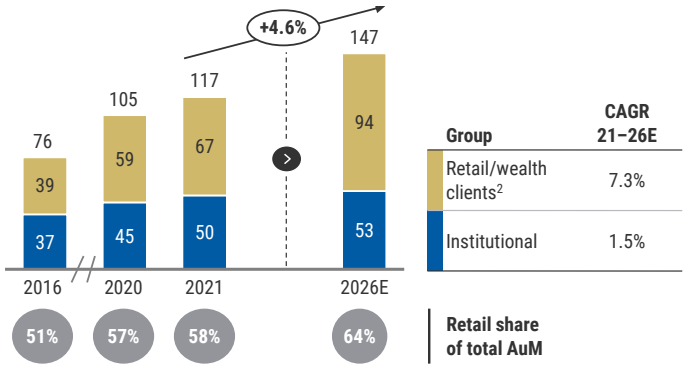
Process step	Illustrative examples
Set firm-wide strategy	Sustainably enhance bank profitability
Break down strategy into KPIs	Fee income growth of 8% p.a. Bring down cost-income ratio to 65%
Make KPIs tangible and break down on several aggregation levels (e.g., desk, advisor)	Breakdown of profitability per product and region/desk

Source: Oliver Wyman analysis

4. Implications for Asset Managers in Wealth Management 3.0

As the retail and wealth segment for asset managers continues to outgrow the institutional segment, and with wealth managers tapping into lower wealth bands (targeting the ~$60TN in assets in 2026), the wealth management channel will play an increasingly important role in driving growth for asset managers. However, asset managers need to evolve their distribution approaches in a Wealth Management 3.0 world. While there will be direct/integrated wealth distribution platforms owned or controlled by asset managers, we expect the intermediated channel will continue to control the bulk of assets. Success will increasingly become a function of how effectively asset managers can forge partnerships with wealth managers through building more integrated operating models underpinned by technological interoperability.

Exhibit 22: Global AuM[1] composition by client segment, 2016–2026E ($TN)



1. AuM defined as the sum of externally managed institutional assets (including insurance, pensions funds and SWF) and externally managed retail assets (including assets in open-end, close-end and money market funds, alternatives and ETF); 2. Includes DC

Source: Oliver Wyman Asset Management Model

Central to this evolution is transitioning from a single channel, analog mode of interaction to a model predicated on deeper and more direct technical integration, that can deliver better end investor experiences, with greater levels of customization and transparency. It will require asset managers to interact more effectively with advisors and get closer to the end client, through improving the flow of data, all while simultaneously enhancing processes and reducing costs.

We see two models emerging: the "Intermediated 3.0" model and the "Direct/Integrated" model. In the Intermediated 3.0 model, the nature of collaboration between asset and wealth managers changes from human-led ad-hoc, analog interactions between the sales and investment units to broader technical integration and continuous, digital-led interaction across several units. In the direct model, asset managers build their own end-to-end digital-led direct offering.

Traditional (current) model

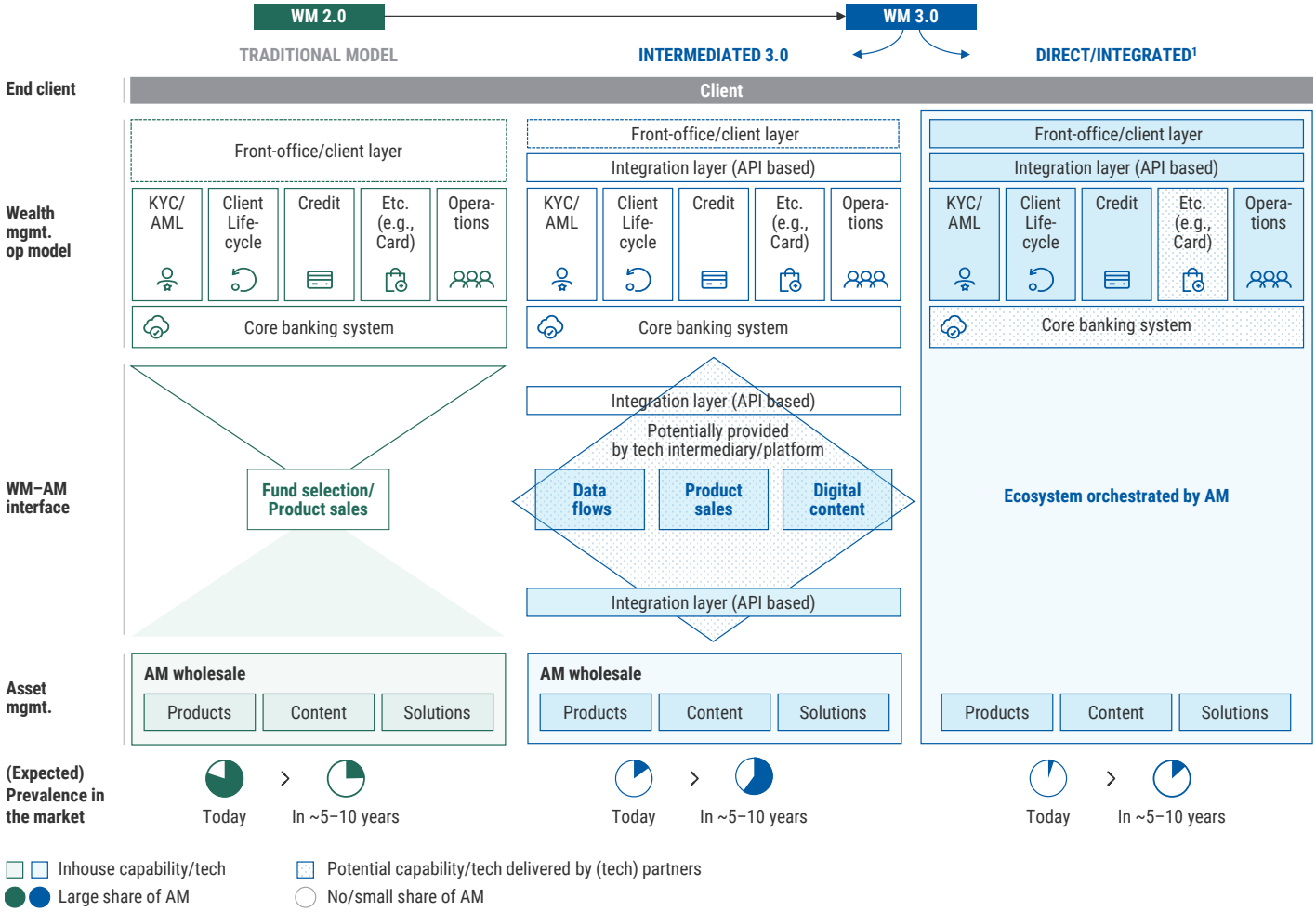
Currently, most asset managers act as pure product providers, fighting for a space on the product shelf of the wealth manager. Asset managers often organize their relationship in a bow-tie model (i.e., single point of contact through which the firm's services and capabilities are delivered), where the key account manager at the asset manager tries to position its products in the most attractive way to the wealth manager's fund selection team. Even integrated players often operate under this model, where the captive asset manager is just one of many product providers that is considered in an open architecture set-up.

Intermediated 3.0

Asset managers will adopt a more integrated, technology-enabled interaction model with wealth managers to support the delivery of more customized products and experiences, all at more competitive price points. We already observe a rise in sub-advisory mandates in Europe and APAC and the acceleration of AuM in separately managed accounts platforms (SMA) in the US. However, the inability to efficiently share relevant data remains an obstacle to providing a more streamlined and customized set of products and experiences to end-clients. With the rise in API adoption, we expect this to change significantly as it will enable wealth managers to share preferences (appropriately anonymized) of their client cohorts with asset managers, who (supported by the requisite separate account technology infrastructure) will be able to create (or co-create with the wealth manager) more personalized investment products and solutions for that wealth manager's clients. The "fund-of-one" will become reality in a Wealth Management 3.0 world.

To achieve that, the interaction model between asset and wealth managers will morph into a diamond-shaped one. In such a set-up, data architects, system engineers and developers on both sides will engage with each other to agree on standards and data exchange protocols, while marketing, product management and investment teams will design customized products, solutions, content and reporting informed by the data flowing seamlessly through the relationship ecosystem. Larger asset managers will be able to rely on their own in-house tech capabilities and investment spend to build these integrations directly with their wealth management partners (and even offer final solutions to other market participants). Other, often smaller asset managers will rely on intermediaries/fund platforms to achieve the required integration with the wealth manager.

Exhibit 23: Evolution of the distribution model under WM 3.0



1. Fully digital, but can also be with human interaction

Source: Oliver Wyman analysis

Direct/Integrated

Some asset managers will consider expanding beyond the Intermediated 3.0 model and explore a direct/integrated approach as an additional distribution channel. Some providers are already building these offerings, especially across the US and UK, and we expect more players globally to consider this avenue (occurring first across Europe and then potentially spreading towards APAC). This is especially true for those players for whom direct access is a more natural step due to existing clients in the retail/wealth space, i.e., banks and insurers, probably less so for independent asset managers. While we would not discount the challenge and investment need of building a retail/wealth brand, as well as the challenge of running it successfully (e.g., managing customer acquisition and related costs), there is scope for bolder moves to create a differentiated offering through leveraging external technology providers and FinTechs. The ability to modularize the operating model and "stitch together" platforms via APIs will allow a manager to create innovative products and deliver customized experiences directly to end-clients more cost-effectively. These products and services might also address a wider array of clients' needs beyond asset management to include savings (e.g., from savings accounts linked to MMF), credit (e.g., overdraft credit line linked to a private debt fund) or payments (e.g., selling fund holdings to pay for purchases). The intermediated model is not going away, but for some asset managers, their intermediated distribution model will be complemented by a direct one, which will give rise to a model of healthy "co-opetition" where asset managers compete more directly on wealth managers' turf.

We expect the Direct/Integrated model to remain comparatively small vs. the Intermediated 3.0 model, but it is important that asset managers consider all their options to prepare for a future that for many will be characterized by a more challenging growth environment. Regardless of whether asset managers decide to pursue a direct/integrated offering, a strategic priority will be evolving their operating models towards an Intermediated 3.0 model. We see three emerging themes that asset managers need to address to succeed in this new world:

1. Evolution in selection criteria and increased importance of content-alpha
2. Technology adoption and sophistication as drivers of economics
3. Supercharging advisors and clients

4.1. Evolution in selection criteria and increased importance of content-alpha

In Wealth Management 2.0, wealth managers focused on providing a high-touch personal service experience to a traditional UHNW/HNW client base, with access to a range of predominantly traditional investment products sourced through an open architecture model. When selecting funds and asset managers to work with, wealth managers prioritized brand and reputation, track record and investment performance for active strategies and costs for passive strategies.

In a Wealth Management 3.0 world, wealth managers need to provide clients with more than just products that outperform versus a benchmark or that offer the lowest costs for passive exposures. While these factors will remain critical, wealth managers need to be able to deliver a broader, more customizable and modular offering seamlessly through physical and digital channels, with engaging, educational and personalized content and customer experiences. This means that wealth managers' evaluation of asset managers will evolve to include a wider range of criteria.

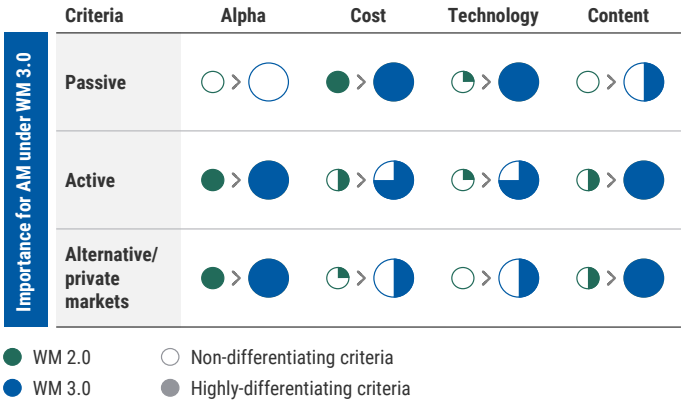
Pure product performance will lose some relevance to wealth managers on a standalone basis. This will be a consequence of investment strategies becoming increasingly personalized, making direct comparison between funds more difficult, at least on the individual client portfolio level.

As wealth managers are diversifying their service models to reach a broader client base and delivering their services more digitally, costs will become an even more important consideration but not just in terms of management fees or expense ratios. Asset managers need to deliver their products at a lower all-in cost, including costs related to implementing and supporting the technical integration, data sharing agreements and any other relationship or service fees.

On the technology side, wealth managers will increasingly require that their asset manager partners bring two core proficiencies: 1) technical capabilities to stand up, support and/or execute within robust connectivity and data exchange protocols, and 2) ability to support the delivery of personalized products and investment experiences, e.g., the creation of an engine tuned to delivering customized products/solutions and services based on ongoing analysis of advisor and end-client needs.

Finally, wealth managers will not be satisfied with generic content provision. As the pressure rises on wealth managers to provide tailored content and offer greater insights to clients, asset managers will need to respond by being much more deliberate and targeted in the way that content is delivered. This means avoiding indiscriminate blasts of content and thought pieces. Instead, asset managers will need to provide pointed research, tailored reporting, and targeted insights in a more digitally digestible format, all driven by data-informed analysis of advisor and end-client needs. This would include everything from basic informational and educational content to investment "stories" around funds/products to foster a sense of personalization and client centricity. For example, instead of just reporting fund returns, an investment "story" might provide a rich description of the ESG impacts achieved and a forecast of impacts that could be achieved in the future.

Exhibit 24: Key selection criteria of AMs for WMs

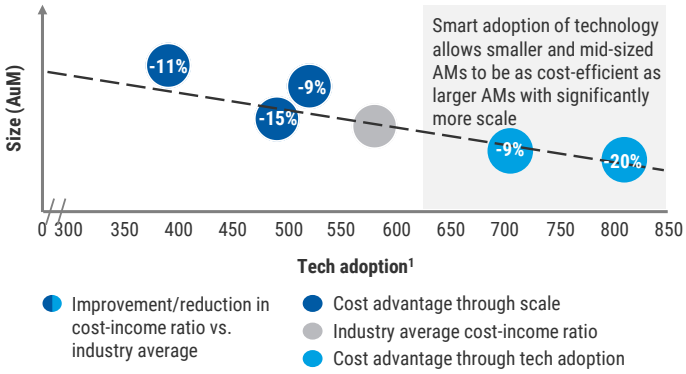


Source: Oliver Wyman analysis

4.2. Technology adoption and sophistication as drivers of economics

In the new Wealth Management 3.0 world, where technology-centric operating models allow for the delivery of personalized solutions and experiences to a wider array of clients all at lower costs, asset managers will have to transform their own operating models to deliver their services at lower costs as well. Our research suggests that asset managers who aggressively and strategically adopt technology-driven solutions across their business are far more cost efficient, reducing cost-income ratios (CIR) by up to 20% vs. industry averages. In fact, smart adoption of technology allows smaller and mid-sized asset managers to be as cost efficient as larger asset managers with significantly more scale. While there will still be benefits to scale when it comes to raw operating efficiency (distribution reach, investment resources, etc.), this will no longer be the main driver.

Exhibit 25: Effect of degree of tech adoption[1] and size of asset manager on cost-income ratio



1. Oliver Wyman Asset Management Digital Index based on proprietary benchmarking. Defined through level of digital maturity, expertise, engagement, promotion of tech culture

Source: Morgan Stanley Data, Oliver Wyman analysis

We see four levers for asset managers to drive efficiencies, make their costs base more flexible, and free up resources to reinvest in growth opportunities.

Optimizing the application landscape – potential CIR improvement of 3-5%: Most asset managers today still run a highly fragmented landscape of applications, typically split by asset class and business function across the value chain. Our experience and research suggest that over 60% of players in the industry deploy more than six operating systems. This fragmentation results in a multiplication of direct costs for application maintenance, development, and vendor license fees. There are also costs arising from inconsistent data standards and overly complex, manual workflows and reconciliations, preventing organizations from being able to run processes on a straight-through basis. Firms should seek to consolidate applications and re-think use of third-party applications vs. legacy in-house applications, even if the long-term gain comes at the expense of some short-term transitional pain. Specifically, this will entail:

- Combining applications where it makes sense: Combination of applications to create scalable front-to-back (F2B) workflows, initially starting with F2B setups for entire asset classes and then subsequently scaling across asset classes where feasible (e.g., within public market businesses), utilizing shared functionalities, increasing automation and straight-through-processing
- Focusing on differentiators: Development and utilization of custom applications and workflows should be increasingly limited to those areas where a firm can demonstrate that they lead to differential client impact and value (e.g., a proprietary portfolio construction tools, ESG rating engine, execution algorithms, etc.)
- Shifting to third-party technology elsewhere: Increase the use of available third-party applications vs. in-house self-developed solutions, including leveraging a vendor's upgrade and maintenance support vs. in-house development and maintenance teams, to allow asset managers to focus on their core competencies

Employing cloud-optimized technology infrastructure – potential CIR improvement of 2-4%: While the cloud transition within the asset management industry is in progress, over 40% of players in the industry still run most of their applications on-premise, and significant hesitation remains towards moving core applications (e.g., portfolio management systems) to the cloud. By moving legacy in-house and vendor applications to the cloud, asset managers can:

- Reduce hardware costs: Decommissioning of owned physical hardware that is costly to maintain, keep secure and upgrade
- Decrease time-to-market: Increasing the frequency of new releases (new products/features), and reducing the cost of new implementation significantly
- Achieve greater interoperability: Expanding the option space for partner integration, as required for WM 3.0, by allowing managers to more quickly and more cost efficiently establish connectivity and roll out a broader set of data-based tools and features (e.g., data analytics, investment individualization) to distribution partners

Creating a lean, flexible data enablement – potential CIR improvement of 2-4%: Data spend is one of the largest non-comp cost line items for asset managers, there is significant saving potential from more efficient procurement and handling of data. This can be achieved through:

- Data consolidation: Starting with a detailed review of how data is procured across various business lines and functions will provide the transparency needed to identify duplications and overlaps in data sources across vendors, illuminating opportunities for consolidation and cost savings
- Data management tools and infrastructure: Deploying tools for enterprise data management (EDM) that provide workflow support along the entire data life cycle (e.g., acquisition, validation, storage / stewardship, and distribution of data across the organization) and by doing so, increasing standardization, automation, and integrity of data. As an alternative to managing data in-house, the most innovative firms in the industry are using managed-data-services (MDS) by which they procure 'managed' data from specialist firms directly via streams into their systems

- Data management practices: Setting up a function that owns data management either centrally or in a federated model that is responsible for developing and enforcing data management standards, and overseeing data procurement business-wide
- Embedding a data culture: Training the organization on the importance and rules around data management to increase process efficiency, but also improving data integrity (e.g., which data to capture, how to work with golden sources, etc.)

Renewing focus on identifying outsourcing/managed service opportunities across the value chain – potential CIR improvement of 5-7%: Up to 40% of asset managers' cost base is made up of undifferentiated activities across the middle and back office (e.g., business management, operations, and other middle office activities). While outsourcing parts of the value chain has been around for decades in the asset management industry, the most innovative firms are pushing the boundaries on what is considered "outsource-able" and are creating more streamlined and cost-efficient operating models as a result. For example:

- ManCo and fund administration: Outsourcing of fund administration and ManCo activities (i.e., management company processes such as legal and compliance, risk management, portfolio valuation, etc.) has been around for decades. Yet, many firms have maintained their in-house setups based on the argument that their scale justifies keeping these activities in-house. At the same time, the minimum required scale to justify maintaining in-house ManCo and fund administration activities has been increasing; firms should revisit whether an in-house setup is still appropriate, especially as the third-party ManCo and fund administration provider landscape has evolved significantly over the past few years. Applying this mentality to new business lines will also be important even if the existing business is maintained in-house. For example, it may make more sense to outsource an array of operating activities associated with a new private markets business rather than building capabilities even if the existing traditional side of the business is maintained in-house.
- Middle office: Outsourcing highly manual activities in the middle office to service providers like custodians or fund administrators, specifically around securities operations (e.g., securities lending, cash management, performance measurement / attribution), but also potentially around evolving operational needs (e.g., measuring standard ESG KPIs)
- Data management: Either outsourcing data management entirely or restructuring the activity as a managed service that is delivered across the entire data lifecycle (e.g., data aggregation, storage and distribution)
- Trade execution: Working with outsourced trade execution providers, either specialists or custodians, who can achieve similar or better trade execution quality, thereby saving costs involved with investing in sophisticated trade execution technology and experienced traders

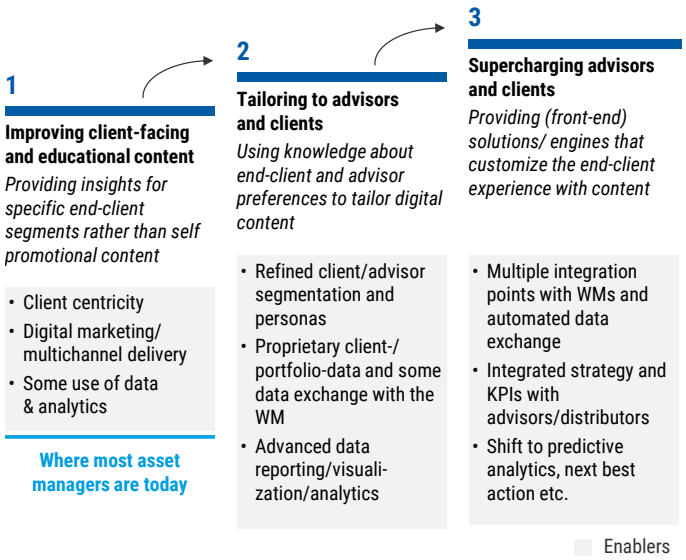
4.3. Supercharging advisors and clients

Today, the average wealth manager tends to work with eight or fewer asset managers, which could shrink as wealth managers consolidate relationships into a smaller number of strategic partners as part of a WM 3.0 setup. From a distribution perspective, this means asset managers will have fewer opportunities to win new business. Asset managers will need to be more deliberate in designing their distribution strategies and client service models with a focus on improving their wealth management partner's ability to deliver value to their clients across the full lifecycle. This implies going beyond the provision of fund fact sheets and self-promotional content to supercharging wealth advisors as well as end clients with market insights, data and analytics to improve sales effectiveness; best-in-breed models to support portfolio construction and advanced portfolio analysis (e.g., ESG assessments, thematic alignment, tax efficiency, factor biases, etc.); and better access to investment and product teams (which has become easier in the post-COVID remote world) as well as front-end investment platforms for clients to access content and investment/portfolio information.

Asset managers will also need to adopt a more data-driven approach to designing products and solutions for their partners. For instance, leading firms have leveraged data and analytics to augment the wealth manager engagement process through micro-segmentation (helping identify and understand which wealth managers are expanding their relationships to optimize marketing strategies) and next-best-action tools (dynamically providing estimates on the likelihood of success and on the best sales approach for a given wealth manager at all stages of the sales process).

For established relationships, asset managers will need to develop the (digital) content delivery capabilities that elevate the quality of the partnership with wealth managers. We observe three development stages for asset managers, which delineate a continuous evolution with respect to the type of content they deliver to wealth managers and their end-clients, and how they build connectivity to them:

Exhibit 26: Three stages to supercharge advisors and clients



Source: Oliver Wyman analysis

- **Stage 1 – Improving client-facing and educational content:** Asset managers need to go beyond product factsheets and standardized asset-class pitchbooks to more end-client-centric content. To do this, asset managers need to invest a larger share of their marketing budget into thought-leadership content creation and put a greater emphasis on designing digestible and insightful content, not just for the advisor but also the end client. This would include "timely" content like market and macro commentary, but also "timeless" content, like principles around portfolio construction, investing, financial planning, and increasingly topics like ESG, the role of private markets in portfolios, etc.
- **Stage 2 – Tailoring to advisor and client:** Asset managers need to leverage the improved technical integration and data flows with their partners to refine the segmentation of the advisor and end clients, allowing them to collect deeper insight into their preferences and needs. This refined segmentation and creation of deeper insights will allow asset managers to provide more personalized content, tailored to specific advisors and end-client types.
- **Stage 3 – Supercharging the advisor and client:** In this ultimate stage, asset managers will leverage direct connectivity with wealth managers to establish an automated exchange and flow of data that is analyzed with advanced analytic capabilities, including predictive analysis of end-client needs and actions, to distribute solutions to advisors that allow them to deliver customized content and end-client experiences. Achieving this requires close cooperation between wealth and asset managers, including development of a joint strategy with supporting KPIs to measure how well the desired end-client experience is being delivered.

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(as of May 31, 2022)

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	Coverage Universe		Investment Banking Clients (IBC)			Other Material Investment Services Clients (MISC)	
Stock Rating Category	Count	% of Total	Count	% of Total IBC	% of Rating Category	Count	% of Total Other MISC
Overweight/Buy	1398	39%	344	44%	25%	599	39%
Equal-weight/Hold	1576	45%	354	45%	22%	721	47%
Not-Rated/Hold	1	0%	1	0%	100%	0	0%
Underweight/Sell	565	16%	86	11%	15%	211	14%
Total	3,540		785			1531	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months. Due to rounding off of decimals, the percentages provided in the "% of total" column may not add up to exactly 100 percent.

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