Wealth Management | Global

After the Storm

Covid 19 has permanently changed the way Wealth Managers deliver advice and serve their clients. To drive outperformance over the next 5+ years, firms should double down on technology investments, strategically cut costs, build differentiated product offerings and consider inorganic opportunities.
Contents

4 Messages for the C-Suite

6 Executive Summary

13 State of the Industry

17 Imperatives for Wealth Managers
Covid-19 has fundamentally changed the Wealth Management industry, evolving client demands and diminishing outlooks for top-line growth. However, Wealth Managers have so far risen to the challenge, with integrated Wealth Managers proving to be a stable anchor to group valuations, and they can continue to earn a high multiple relative to other Financial Services sectors if management teams have the right strategy. As senior banking leaders determine the future shape of their firms, Wealth Managers should be central to the discussion.

The global economy has entered a period of significant uncertainty, with Covid-19 presenting a dramatically changed reality. Our base case sees global high net worth (HNW) wealth lose more than a year of growth versus pre-Covid-19 forecasts before rebounding to growth in 2021. We see HNW wealth declining by 4 percent or $3.1 trillion in 2020, a major departure from the previous decade’s consistent annual growth trajectory.

The full impact of Covid-19 on Wealth Managers’ economics is yet to show. While management teams should prepare for a more challenging revenue outlook in the near term, we think pretax margins can expand idiosyncratically over the medium and long term. Wealth Managers have previously benefited from strong growth in high net worth (HNW) client wealth, which has offset declining revenue margins and masked operating model inefficiencies. With this tailwind gone for the immediate future, Wealth Managers need to act now to position their business for growth in the “new normal”.

Priorities for the C-Suite

This bluepaper identifies several imperatives for Wealth Managers to win in the new environment:

- **Adapt to the new normal:** With digital engagement increasing 7-10x across leading Wealth Managers following the onset of the pandemic, Covid-19 has altered clients’ expectations for financial advisor (FA)/relationship manager (RM) interaction, while also underscoring the value of human advice. Wealth Managers must move quickly to design an omni-channel advice delivery model and accelerate their digitization efforts. The advice delivery model of the future will see RMs remaining central to client relationships, supported with strong digital capabilities.

- **Defend business economics:** Costs will be in the spotlight as bottom lines are pressured by diminished growth and challenged revenue margins. Wealth Managers must improve their approaches to cost management to deliver positive operating leverage. We estimate that efficiency plays can reduce average industry cost income ratios by up to 12 percentage points through focus on three key areas:
  o Tactical cost cuts (short term) – Despite recent efforts to address the additional complexity created post the global financial crisis, there remains ample room for tactical cost cuts through removal of excessive management layers, optimization of RM headcount or reduction in front office support headcount.
  o Streamlined group service delivery (short to medium term) – Streamlined group service delivery, especially from second line functions, Finance, Human Resources (HR), Legal and Operations.
  o Transforming the operating model (medium term) – Transformations to operating models and associated IT infrastructure driving both cost savings and incremental revenues. Although these transformations have the potential to deliver significant CIR improvement, they are a complex undertaking for any player and can introduce significant risk.

- **Consolidate share and drive growth:** Wealth Managers who can act from a position of strength should move to consolidate share and increase growth by enhancing their product offerings and footprints through organic and inorganic means.
  o Wealth Managers must develop differentiated propositions to protect and grow their revenue base. Management teams should focus on four key priorities:
    • Wealth Managers that can credibly build out their sustainable investing offerings will be positioned to grow wallet with a highly attractive and often younger client segment. We project HNW and ultra-high-net-worth (UHNW) sustainable investments to grow by 18 percent each year to a total of $9 trillion by 2024.
Wealth Managers should significantly expand their private markets offerings to recapture UHNW wallet lost to disintermediation over previous years. By 2024 we expect illiquid/alternatives UHNW assets to increase to $24 trillion from $16 trillion today, representing an annualized growth rate of 8 percent. The opportunity is lower for HNW, given suitability challenges and reduced HNW interest in alternatives following Covid-19.

Adding protection offerings like life insurance, health insurance and P&C insurance can firmly cement Wealth Managers’ position at the center of client financial needs while capturing low-hanging incremental revenues. We estimate that offering protection products can provide a top-line uplift of ~4 percent and defend client relationships against further encroachment by insurers that are expanding into the investments space. Wealth Managers should also consider larger ecosystem plays.

Wealth Managers should consider developing digital assets offerings to differentiate their proposition and to attract a potentially high-value client segment.

- Management teams should have a renewed look at inorganic growth opportunities, as Covid-19 has challenged the organic growth outlook and repriced some potentially interesting targets. Certain markets, like the US, the UK and Switzerland, are the most ripe for consolidation and we expect to see a continuation of activity in the coming years. While management teams should continue to consider traditional mergers and acquisition (M&A) plays, strategic partnerships are emerging as the new M&A, particularly for cross-border expansion.
During Covid-19, integrated Wealth Managers have proven to be a stable anchor to group valuations

As senior banking leaders assess their business portfolio on the back of Covid-19, Wealth Managers should be central to the discussion. Global bank-owned Wealth Managers have contributed an increasing share of group valuations since 2013. As Covid-19 puts pressure on businesses such as corporate lending, consumer lending and investment banking, the more stable Wealth Management business once again increases in attractiveness on a relative basis.

Exhibit 1:
Average Wealth Management unit valuation as a percentage of total group valuation (2013-Q1 2020, average of leading bank-owned Wealth Managers)

Covid-19 represents a new reality; given the uncertainty we model three scenarios for global HNW wealth growth

After a golden decade in which Wealth Managers benefited from more than 8 percent annual wealth growth on average, Covid-19 has introduced a different reality. The global economy has entered a period of significant uncertainty. As a result, we have modelled three scenarios for HNW wealth growth:

- Our base case, “Recession and rebound”, sees policy responses effective in containing the pandemic, while rate cuts and fiscal stimuli support the economy to drive a U-shaped or similar recovery.
- Our bull case, “Accelerated rebound”, sees only modest upside to our base case, with a stronger near-term rebound in asset prices leading to a significantly improved picture for wealth in 2020. Longer-term, the economic outlook and asset price path remain largely in-line with our base case.
- Our bear case, “Sustained downturn”, sees policy measures unable to support the global economy, with a significant downturn in 2020 and a slow recovery thereafter.

Exhibit 2:
Global HNW wealth: base, bull, and bear case (2018-2024, USD Trillion)

For the purposes of this report, we focus our analysis on our base case, “Recession and rebound”. However, given the high degree of uncertainty in the current environment, Wealth Managers must adopt flexible, scenario-based approaches to strategic planning. Institutions that have not invested in building flexible forecasting processes are facing pressures internally and externally to answer increasingly complex what-ifs for their businesses. Traditional planning processes are often manual, labor intensive, and disconnected from financial resource considerations. With economic conditions uncertain and volatile, nimble planning infrastructure is crucial to inform strategic decisions and management actions amidst uncertainty.
Our base case sees global HNW wealth lose more than a year of growth vs. pre-Covid-19 forecasts

In our base case we expect global HNW wealth to fall by 4 percent in 2020, before rebounding to growth in 2021. Oliver Wyman’s pre-Covid-19 estimates saw wealth growing consistently at 6 percent from 2019 onward. As a result, we expect Covid-19 to represent roughly one lost year of wealth growth.

Exhibit 3:
Global HNW wealth: base, bull, and bear cases vs. pre-Covid-19 estimate (2019-2024, USD Trillion)


The growth outlook for assets under management (AUM) in developed markets is slower

As global wealth recovers from this lost year, we expect the AUM growth outlook to shift further away from developed markets. While industry AUM grew 7 percent annually in developed markets in the five years prior to Covid-19, we expect slowed growth of 3-4 percent annually in these markets from 2019-24. Amplifying the impact of reduced asset performance, we anticipate that bankruptcies, along with muted executive pay, will impair overall NNM growth. By contrast, emerging market AUM growth is likely to slow in the short-term, but we expect a stronger rebound relative to developed markets driven primarily by NNM on the back of gross domestic product (GDP) growth.

The concentration of AUM growth in emerging markets will have a meaningful impact on priorities for the industry. Notably, global Wealth Managers should continue to assess opportunities to participate in emerging market growth, particularly in China. Within developed markets, we expect asset performance to drive North American growth ahead of Western Europe and Japan, despite slightly lower NNM.

The full impact of Covid-19 on industry economics is yet to show, and while wealth management remains an attractive industry, management teams should prepare for a more challenging revenue outlook in the near term

We expect Wealth Managers’ gross revenue margins to continue to fall at an industry level as Covid-19 accelerates the decline in net interest income (NII) margins, while the structural forces compressing fee and commission (F&C) margins and trading margins are
sustained. Although F&C margins saw a strong uptick in the first quarter of 2020, this was because fees were yet to fully reflect the market sell-off. In the longer term, we expect F&C margins to continue to shrink due to more aggressive pricing and the shift towards larger mandates, a traditionally lower margin business. We expect continued pressure on NII, particularly for players with high USD exposure in the zero-rate environment. Trading margins saw a noticeable uptick in Q1 on the back of significant market volatility which resulted in higher client activity and a surge in demand for structured products and hedging solutions. As market volatility reduces, we expect trading margins to fall below pre-Covid-19 levels as competitive pressure from zero commissions accelerates and expands beyond North America.

Management teams must act to position their business to shine after the storm

Wealth Managers have previously benefited from strong growth in HNW client wealth, which has offset declining margins and masked operating model inefficiencies. With this tailwind gone for the immediate future, Wealth Managers need to act now to position their business to capture longer-term growth in the "new normal".

To succeed, Wealth Managers must:

- Adapt to the new normal by rolling out new advice delivery models and accelerating digital use cases
- Defend business economics by finding operating leverage through improved approaches to cost
- Consolidate share and drive growth via differentiated product offerings and inorganic opportunities

Adapt to the new normal

Build the advice delivery model of the future today with RMs firmly at the center

The market turmoil prompted by Covid-19 has highlighted the clear value clients place on high-quality human advice. Even prior to Covid-19, more than 85 percent of HNW investors polled in a proprietary Oliver Wyman survey said they valued the ability to talk with an advisor, versus less than one third who valued advice delivered via robo-advisors. The surge in complexity, diversity and urgency of client requests during Covid-19 has only underscored the value of having access to human advisors.

Covid-19 has also precipitated a forced transition to new remote ways of working and required advice to be delivered through multiple channels. As detailed in Exhibit 5, client engagement has increased significantly across all channels as a result of the Covid-19 lockdown and market turmoil.

Exhibit 5:
Digital engagement for select leading Wealth Managers in Q1 2020

The existing advice delivery model has proved somewhat resilient, but its limitations have also been exposed. In particular, large bank-owned Wealth Managers have found greater success leveraging channel upgrades made over recent years, while smaller independent Wealth Managers have had more difficulty managing client engagement due to a lack of remote working protocols and digital client engagement infrastructure.

Wealth Managers need to design the advice delivery model of the future, which will have to be ‘omni-channel’, marrying the expertise and emotional reassurance provided by an RM, with the efficiency, convenience and scalability of digital solutions.

Our estimate of anticipated use of channels by clients in 2024 and their potential role is highlighted in Exhibit 6.

Exhibit 6:
Anticipated use of channels by clients and their potential role (2024)

Source: Oliver Wyman analysis
Wealth Managers need to develop a clear channel strategy that reflects the client personas they serve, including their needs and channel preferences, and prioritize actions to improve the client experience accordingly.

Accelerate digital implementation efforts to improve effectiveness in the new operating environment

Despite some successes, Wealth Managers have showcased little consistency in digital use case prioritization and implementation to date. As a result, their technological capabilities remain immature relative to other Financial Services industries. Our proprietary analysis shows that mobile apps by Wealth Managers are updated only half as frequently as retail banking apps, and only 20 percent as frequently as digital-only challengers, underscoring the lack of focus on digital investment. As other Financial Services providers continue to improve their digital experience, clients will naturally expect a similar level of experience from their Wealth Managers.

To meet client and RM demands, Wealth Managers need to step back and assess their digital portfolio. Since achieving best-in-class digital experiences at each step of the value chain remains unfeasible given capital and resource constraints, Wealth Managers need to prioritize the use cases that are most valued and impactful for their clients following a consistent prioritization approach, such as that shown in Exhibit 7.

They also need to develop a comprehensive impact framework to measure digital use case success. This will ensure the right prioritization of the various competing digital opportunities.
Defend business economics

Deliver positive operating leverage through improved approaches to cost

With Covid-19 dampening the outlook for AUM and revenue growth, Wealth Managers faced with challenged profitability will need to address their cost base in order to protect economics.

We estimate that the industry can reduce average cost income ratios by up to 12 percentage points, through a combination of targeted efficiency plays and directly related revenue uplift opportunities.

We see three key focus areas across the short and medium term for achieving this outcome:

1. Tactical cost cuts (short term)
2. Streamlined group service delivery (short to medium term)
3. Transformative changes (medium term)

Tactical cost cuts – we estimate that tactical cost cuts can lower cost income ratios by 4 percentage points. Despite recent efforts to address the additional complexity created following the global financial crisis, there is still ample room for Wealth Managers to action the usual tactical cost cutting levers such as removal of excessive management layers, optimization of RM headcount and reduction in front office support headcount. Additionally, Covid-19 has introduced an opportunity to cut other expense lines, like travel and entertainment (T&E), further than before.

Streamlined group service delivery – we estimate 3 percentage points in cost income ratio improvement can be unlocked through streamlined group service delivery, particularly second line functions, Finance, HR, Legal and Operations. Additionally, reduced needs for physical office space may allow for lower real estate costs in the medium-term.

Wealth Managers should engage their functional counterparties in understanding how strategic decisions contribute to cost. Successful engagement will involve constructive discussions on where services should be performed, and whether they are critical vs. ‘nice-to-have’.

Transforming the operating model – transformations to operating models and associated IT infrastructure has the potential to decrease cost income ratios by 5 percentage points in the medium-term.

Although there are numerous opportunities for business process redesign and modernization of technology infrastructure, not all will translate into improved bottom line performance. The crux for Wealth Managers is in identifying the changes that will drive RM effectiveness and increase satisfaction for both end-clients and RMs. API-driven technology transformation approaches can rapidly improve client experience and avoid risks associated with typical large-scale technology programs.
Consolidate share and drive growth

Develop differentiated propositions to protect and grow revenues

As a reaction to the challenged industry growth outlook, Wealth Managers must develop differentiated propositions to protect and increase their revenue base.

We see four ways in which they can do this.

**Strengthen sustainable investing offerings to grow wallet with a highly attractive and often younger client segment**

Investor interest in sustainable investing has grown significantly. In 2019, we estimate that HNW and UHNW clients had ~$4 trillion invested in sustainable investments.

The structural drivers supporting growth will persist. The next generation of clients, who are on average more interested in sustainable investing than previous generations, will become an increasingly important demographic for Wealth Managers. The Covid-19 pandemic may well accelerate this as clients further engage with the broader societal impact of their investments. We estimate sustainable investments will grow 18 percent annually to a total $9 trillion by 2024.

Wealth Managers that develop a more sophisticated proposition that assists clients throughout their sustainable investment journey will be the winners in this space. We see four broad roles that Wealth Managers can play for clients, shown in **Exhibit 9**. Beyond developing investment capabilities, it is also crucial for Wealth Managers to effectively brand their offerings to establish ownership of the space. This may lead to a positive impact on flows as clients consolidate wallet with perceived champions in the space.

**Exhibit 9:**
Role of Wealth Manager in sustainable investing

1. **Educate** clients by upskilling advisors to discuss sustainable investing strategies and options
2. **Assist** clients by incorporating sustainable investing into goal-setting and scenario-planning processes
3. **Invest** client assets in sustainable products that are manufactured internally or sourced through trusted partners
4. **Measure** investment impact through development of reports using third-party or proprietary impact metrics

**Expand private markets offerings to recapture lost UHNW wallet**

UHNW investor interest in private market investments has grown substantially in recent years, a trend we expect to continue despite near-term headwinds from Covid-19. Over the next 5 years, we see illiquid/alternative UHNW investments growing by 8 percent annually to $24 trillion by 2024. We believe direct investments in illiquid/alternative asset classes are primarily an opportunity relevant for UHNW clients, given suitability challenges for HNW investors due to significant minimum capital commitments, long lock-up periods, and regulation like the Alternative Investment Fund Managers Directive (AIFMD) in Europe.

In the short term, we expect investment allocations to private markets to remain stable, or even fall. The current market volatility on the back of Covid-19 may limit clients’ appetite for investments that are by-definition illiquid, difficult to mark-to-market/compute NAVs, and with multi-year lock-up periods. However, we expect this to be a temporary phenomenon. Our long-term outlook builds on our research that finds that UHNW clients remain structurally under-invested in illiquid/alternative assets relative to their target allocations.

**Exhibit 10:**
UHNW Private Markets allocations (2019-2024, USD Trillion)

Most Wealth Managers recognize strong demand for illiquid/alternative asset classes but have only partial offerings in place. This is not enough for more sophisticated clients, who are choosing to source investments directly, and has resulted in a significant loss of wallet share.

To play a meaningful role in the space, Wealth Managers need to deliver ongoing access to high quality direct investment opportunities as part of their UHNW propositions.

Wealth Managers that are part of universal banking groups are best-placed to capture the opportunity and should create formal collaboration structures or dedicated teams to leverage their expertise across the deal value chain.
Add protection offerings to defend Wealth Managers’ position at the center of client financial needs

Developing a protection offering allows Wealth Managers to firmly cement their position at the center of clients’ financial needs and to quickly boost revenues by ~4 percent, which can help them offset some of the revenue pressures on their core business.

Covid-19 could cause many clients to re-evaluate their current insurance levels and residual risk appetite. This may drive an increased demand for a “trusted advisor” that can help them navigate the insurance products landscape, as clients decide they are currently under-insured, or, more likely, have unmet needs.

Wealth Managers are naturally positioned to play this role, as the industry moves towards holistic advisory. However, our primary research indicates that Wealth Managers’ current offerings are severely lagging, with only 9 percent of HNW survey participants reporting that they were satisfied with their Wealth Manager’s protection offerings. We see three different participation options that can be used to develop protection offerings, including in-house referrals (for groups with Insurance capabilities), trusted partnerships, and open-market brokerage.

Forward looking Wealth Managers can move beyond simple product offerings and consider broader ecosystem plays. For example, Wealth Managers could orchestrate a Healthcare ecosystem play by partnering with leading medical groups to create preferred access programs. While creating an ecosystem-based offering would require that Wealth Managers build credibility with clients to move beyond their core offerings, it would result in a truly differentiated proposition and a firmly cemented value to clients.

Consider developing digital assets offerings to further differentiate

Digital assets are currently a niche asset class for HNW and UHNW investors, however we expect asset structures to evolve and the market to mature, driving greater client demand and adoption.

Digital assets could become a unique selling point for a certain segment of clients. Asset tokens could be a market-disrupting opportunity that permits digital assets to become a sizable share of client AUM. However, for such a scenario to materialize, it would require a consortium of leading Wealth Managers to jointly develop the market given the high cost and long timelines to implementation and market adoption.

There is not a ‘one size fits all’ path and Wealth Managers need to choose how to participate based on their own view of the outlook. Wealth Managers who believe that digital assets will become a major market should aim to become ‘full-service providers’, whereas others should consider lower effort participation choices.

Evaluate inorganic opportunities to reset the growth trajectory

Covid-19 presents a unique trigger point in which inorganic growth is likely to rise to the top of management agendas for those players that can act from a position of strength. M&A and strategic partnerships can act as a means to compensate for the lower organic revenue growth outlook the industry faces. As assets have repriced, acquisitions are often more compelling now than during previous boom years, especially for targets in the product or technology space. Certain markets that remain heavily fragmented, like the US, the UK and Switzerland, are the most ripe for consolidation and we expect to see a continuation of activity in the coming years.

Exhibit 11 outlines the four usual archetypes of inorganic growth plays. In contrast to previous periods of significant deal activity, partnerships may prove to be the new M&A.

Exhibit 11: Examples of partnership opportunities across four inorganic growth plays

<table>
<thead>
<tr>
<th>New products</th>
<th>e.g. ESG-focused asset manager</th>
</tr>
</thead>
<tbody>
<tr>
<td>New geographies</td>
<td>e.g. local emerging markets champions</td>
</tr>
<tr>
<td>New clients</td>
<td>e.g. affluent focused digital investing platforms</td>
</tr>
<tr>
<td>New technology</td>
<td>e.g. analytics or AI-focused fintech</td>
</tr>
</tbody>
</table>

Strategic partnership opportunities

Source: Oliver Wyman analysis

Given historical challenges to entering new markets overall and a poor track record of entering through M&A, Wealth Managers are increasingly exploring large scale partnerships with established local champions as the means to enter new markets. While partnerships may well be the new M&A in this regard, they are not without their own challenges. To succeed, management teams on both sides must develop a detailed understanding of the partnership scope and roles and design a robust revenue (and cost) sharing structure that is transparent and can evolve over time.
During Covid-19, integrated Wealth Managers have proven to be a stable anchor to group valuations

As senior banking leaders assess their business portfolio on the back of Covid-19, Wealth Managers should be central to the discussion. Global bank-owned Wealth Managers have contributed an increasing share of group valuations since 2013. Even in the severe market shock due to Covid-19, Wealth Managers have remained a significant anchor to broader financial services groups. As Covid-19 puts pressure on businesses such as corporate lending, consumer lending, and investment banking, the more stable Wealth Management business once again increases in attractiveness on a relative basis.

Exhibit 12:
Average Wealth Management unit valuation as a percentage of total group valuation (2013-Q1 2020, average of leading bank-owned Wealth Managers

Covid-19 represents a new reality; given the uncertainty we model three scenarios for global HNW wealth

After a golden decade in which Wealth Managers benefited from more than 8 percent annual wealth growth on average, Covid-19 has introduced a different reality. The global economy has entered a period of significant uncertainty: assets have re-priced, interest rates have dropped, and market volatility has increased. As a result, Wealth Managers’ underlying revenue drivers face significant challenges.

The duration of the pandemic, the policy response, and the extent to which it causes lasting economic damage is uncertain. As a result, we have modelled three scenarios for the growth of HNW wealth over the next five years:

- Our base case, “Recession and rebound”, sees policy responses effective in containing the pandemic, while rate cuts and fiscal stimuli support the economy to drive a U-shaped or similar shaped recovery. In this scenario, Covid-19 will set back global HNW wealth levels by more than a year from our pre-Covid-19 forecasts.
- Our bull case, “Accelerated rebound”, sees only modest upside to our base case, with a stronger near-term rebound in asset prices, due to prolonged central bank support, leading to a significantly better picture for wealth in 2020. After 1 percent wealth growth in 2020, the longer-term economic outlook and asset price path remain largely in-line with our base case.
- Our bear case, “Sustained downturn”, sees policy measures unable to support the global economy. This outlook anticipates a significant downturn in 2020 with a slow recovery thereafter. This scenario would imply a four-year horizon before global HNW wealth returns to 2019 levels, with HNW wealth decreasing 10 percent in 2020.

Exhibit 13:
Global private HNW wealth: base, bull, and bear case (2018-2024, USD Trillion)

For the purposes of this report, we focus our analysis on our base case, “Recession and rebound”. However, the high levels of uncertainty in the macroeconomic outlook increase the importance of developing flexible planning approaches for Wealth Managers.

At most Wealth Managers, strategic planning and budgeting processes are behind the times, relying on resource-intensive, often disconnected manual processes. Given the uncertain outlook, these
processes have taken on increased importance from management teams and regulators asking for answers to important what-if questions. This exacerbates the demand on already-burdened resources and puts management teams at risk of flying blind.

Given this rapidly evolving landscape, the planning infrastructure that informs management agendas must adapt to be equally nimble. This requires a shift from static forecasting approaches to a continuous planning process where forecasts are constantly up to date. It also requires investment in integrated planning infrastructure, bringing forecasting models and calculations online to enable drivers-based analysis of internal and external impacts to the business – for example, those outlined later in this report. To move forward, Wealth managers should assess their current planning capabilities, accelerate their in-flight capability upgrades, and define a long-term path to transform their planning approaches.

**Our base case sees global HNW wealth lose more than a year of growth vs. pre-Covid-19 forecasts**

In our base case we expect global HNW wealth to fall by 4 percent or $3.1 trillion in 2020 before rebounding to growth in 2021. Oliver Wyman’s pre-Covid-19 estimates saw wealth growing consistently at 6 percent from 2019 onward, with HNW wealth reaching $85 trillion in 2020. Our base case now projects wealth to reach only $83 trillion in 2021. As a result, we expect Covid-19 to represent roughly one lost year of wealth growth.

**Exhibit 14:**
Global HNW wealth: base, bull, and bear cases vs. pre-Covid-19 estimate (2019-2024, USD Trillion)

As in pre-Covid-19 forecasts, we continue to project significant variation in wealth growth between regions. As equity markets have fallen due to the economic impacts from the pandemic and collapsing global oil prices, we expect steep declines in HNW wealth in North America and Latin America where wealth levels are most strongly linked to equity markets.

As expected, these impacts to HNW wealth will have a knock-on effect on Wealth Manager AUM. While industry AUM grew 7 percent annually in developed markets in the five years prior to Covid-19, we expect slowed growth of 3-4 percent annually in these markets from 2019-24. We expect lower asset performance will be coupled with dampened NNM due to bankruptcies and muted executive pay.

Within developed markets, we expect asset performance to drive North American growth ahead of Western Europe and Japan, in spite of strains from a lower savings rate which are expected to cause North American NNM growth to trail other developed markets. In the medium to long-term, as HNW wealth resumes its growth trajectory, our base case favors emerging markets.

**Our base case sees that growth will return, but from a lower base, supported by emerging markets**

While we expect growth will ultimately return, it will be from a lower base following a contraction in 2020. Our base case projects 5 percent annualized wealth growth for the next 5 years. This represents a marked decline from the 7 percent annual growth seen in the last five years, reflecting the significant impact of Covid-19.

**Exhibit 15:**
Global HNW wealth by major region - base case (2018-2024, USD Trillion)

As expected, these impacts to HNW wealth will have a knock-on effect on Wealth Manager AUM. While industry AUM grew 7 percent annually in developed markets in the five years prior to Covid-19, we expect slowed growth of 3-4 percent annually in these markets from 2019-24. We expect lower asset performance will be coupled with dampened NNM due to bankruptcies and muted executive pay.

Within developed markets, we expect asset performance to drive North American growth ahead of Western Europe and Japan, in spite of strains from a lower savings rate which are expected to cause North American NNM growth to trail other developed markets. In the medium to long-term, as HNW wealth resumes its growth trajectory, our base case favors emerging markets.
Emerging market AUM growth will slow in the short-term, but we expect a stronger rebound relative to developed markets driven primarily by NNM. We project NNM growth of 4-9 percent per annum for emerging markets as opposed to 1-2 percent per annum for developed markets. High rates of NNM in emerging markets are attributable to two factors: new investable wealth creation due to overall GDP growth, accounting for the majority of NNM, and HNW investors increasing the share of investable assets placed with Wealth Managers. Complementing the uplift from NNM, we expect higher asset performance for emerging markets AUM, reflecting greater risk premia for assets in these geographies.

The concentration of AUM growth in emerging markets will have a meaningful impact on priorities for the industry. Notably, global Wealth Managers should continue to assess opportunities to participate in emerging market growth and, in particular, growth in China. The full impact of Covid-19 on industry economics is yet to show, and while wealth management remains an attractive industry, management teams should prepare for a more challenging revenue outlook in the near term.

We expect Wealth Managers’ gross revenue margins to continue to fall at an industry level as Covid-19 accelerates the decline in net interest income (NII) margins, while the structural forces compressing fee and commission (F&C) margins and trading margins are sustained. Wealth Managers’ Q1 2020 results, although not a perfect proxy given that the pandemic arrived in March, can help inform the long-term outlook.

Fees and commissions have been significantly pressured in recent years due to increasing competition and greater transparency requirements. While F&C margins saw a strong uptick in Q1, this was because fees were yet to fully reflect the market sell-off, which only began in late March. In the longer term, we expect F&C margins to continue to shrink due to significant structural headwinds. Most notably, we anticipate increased competition among Wealth Managers will lead to more aggressive pricing while the shift towards larger mandates, a traditionally lower margin business, will provide further headwinds.

NII margins, which have served as the strongest anchor for Wealth Manager returns over the past five years, began to falter at the end of 2019 due to falling interest rates. NII margins declined further in Q1 on the back of central bank actions, surging deposit levels, and negative loan growth as a result of Covid-19. We expect continued pressure on NII, particularly for players with high USD exposure in the
zero-rate environment. Over the longer term, we expect loan growth to resume and loan-to-deposit ratios to stabilize as market volatility normalizes. As such, we expect NII margin pressure to be partially relieved on a five-year horizon, particularly given the likelihood of rate hikes once the pandemic has faded.

Trading margins saw a noticeable uptick in Q1 on the back of significant market volatility which resulted in higher client activity and a surge in demand for structured products and hedging solutions. In particular, demand for instruments with downside protection drove significant growth in transaction revenues. As market volatility reduces, we expect trading margins to fall below pre-Covid-19 levels as competitive pressure from zero commissions accelerates and expands beyond North America.

Management teams must act now to position their business to shine after the storm

Wealth Managers have previously benefited from strong growth in HNW client wealth, which has offset declining margins and masked operating model inefficiencies. While we expect wealth growth to resume after this lost year, Covid-19 has led to significant AUM declines in the short-term and reinforced margin challenges in the long-term. With tailwinds from wealth growth gone for the immediate future, Wealth Managers need to act now to position their business for growth in the “new normal”.
Emerging from Covid-19, we see three primary dimensions for management teams to consider, with leaders able to successfully act across all three:

- Adapt to the new normal by rolling out new advice delivery models and accelerating digital use cases
- Defend business economics by finding operating leverage through improved approaches to cost
- Consolidate share and drive growth via differentiated product offerings and inorganic opportunities

Adapt to the new normal

Build the advice delivery model of the future today with RMs firmly at the center

Covid-19 highlighted the constraints of the existing advice delivery model

The extraordinary levels of uncertainty and severe market turmoil prompted by Covid-19 have highlighted the importance and value of high-quality human advice. Clients have sought increasing levels of reassurance during this turbulent period, which has drawn on RMs’ capacity as financial experts and as trusted advisors. Even prior to Covid-19, more than 85 percent of HNW investors polled in a proprietary Oliver Wyman survey said they valued the ability to talk with an advisor. By contrast, less than a third of these respondents valued advice delivered via robo-advisors. The surge in complexity, diversity and urgency of client requests has only underscored the value of having access to human advisors, given the challenges of servicing bespoke requests without human support.

Covid-19 has also represented a forced transition to remote ways of working and required advice and information to be delivered through multiple channels. Video conferences have replaced face-to-face meetings for client discussions and financial planning. Clients have also increasingly engaged through digital ‘self-serve’ channels such as apps, websites and live chat to access information.

Exhibit 18 shows measures of different types of digital engagement during the crisis, far in excess of what they were prior to the pandemic.

Exhibit 18:

Digital engagement for select leading Wealth Managers (Q1 2020)

Source: Oliver Wyman analysis

The existing advice delivery model has proved somewhat resilient. In particular large bank-owned Wealth Managers have found greater success leveraging advice delivery channel upgrades made over recent years.

Yet the Covid-19 crisis has also exposed the model’s limitations. The rise in client engagement during the turmoil has stressed the capacity of RMs specifically in smaller independent Wealth Managers that have had more difficulty serving clients due to a lack of remote working protocols and digital client engagement infrastructure, causing RMs to operate at their capacity limits. Self-serve channels like self-directed trading and portfolio monitoring have helped to pick up the slack but have often lacked the appropriate functionality to be fully effective.

Wealth Managers need to design the advice delivery model of the future which will have to be omni-channel, marrying the expertise and emotional reassurance provided by an RM, with the efficiency, convenience and scalability of digital. It will need to be flexible according to client preferences and with seamless handoffs between channels.
The advice delivery model of the future will be RM-centered, but omni-channel

We strongly believe that the human RM will remain central to the client relationship and to delivering a strong Wealth Management experience. However, there will be a step change as clients emerge from the pandemic with their muscle memory for digital and remote interactions intact, with many recognizing and preferring the convenience of remote channels for routine business.

Face-to-face interactions will remain crucial for building deep, trusted relationships, but their usage frequency will decrease as we expect video conferencing to be a growing medium for more frequent check-ins with RMs. We also expect the usage of phone calls and emails to decrease as live chat, website, and app services grow in sophistication and functionality, and clients increasingly use these self-serve channels to monitor portfolios and valuations, conduct simple transactions, or receive technical support.

CIO organizations within Wealth Managers will also leverage webinars and presentations, either for cohorts of like-minded clients, or open to all, to present investment ideas. This will increase client engagement and enable them to more efficiently use portfolio managers’ time.

Our anticipated use of channels by clients in 2024 and their potential role is highlighted in Exhibit 19.

Exhibit 19: Anticipated use of Wealth Managers’ advice delivery channels (2024)

<table>
<thead>
<tr>
<th>Channel</th>
<th>Role</th>
</tr>
</thead>
<tbody>
<tr>
<td>Face to face</td>
<td>Presenting investment trends, marketing to potential clients</td>
</tr>
<tr>
<td>Webinars</td>
<td>Real-time portfolio monitoring, conducting transactions</td>
</tr>
<tr>
<td>Email</td>
<td>Supporting and conducting transactions, answering all-her questions</td>
</tr>
<tr>
<td>Website</td>
<td>Providing detailed advice, explaining all-her questions</td>
</tr>
<tr>
<td>Live chat</td>
<td>Video conferencing, deepening personal relationships, defining objectives</td>
</tr>
<tr>
<td>Phone</td>
<td>Answering all-her questions</td>
</tr>
<tr>
<td>Application</td>
<td>Building personal relationships, modifying financial objectives</td>
</tr>
<tr>
<td><strong>25%</strong></td>
<td><strong>20%</strong></td>
</tr>
<tr>
<td><strong>15%</strong></td>
<td><strong>10%</strong></td>
</tr>
<tr>
<td><strong>10%</strong></td>
<td><strong>10%</strong></td>
</tr>
<tr>
<td><strong>10%</strong></td>
<td><strong>5%</strong></td>
</tr>
</tbody>
</table>

Source: Oliver Wyman analysis

We acknowledge that clients will vary significantly in their channel preferences, which will be related to client age, geography, sophistication, attitude and investment complexity. Certain client segments will be hesitant or disinclined to transition to a new means of communication, whereas others will demand it. Yet the direction of travel is clear.

Wealth Managers need to build the advice delivery model of the future today

Wealth Managers need to take a number of actions with regard to advice delivery:

1. Develop a channel strategy – Wealth Managers should begin by identifying the key client personas they serve today and the ones they intend to serve in the future, for example millennial tech-wealth or older generations preparing for wealth transfer. Wealth Managers must evaluate the needs of each persona and the role of each channel in fulfilling these needs in the target-state, then determine how each channel can be developed or improved to do this. This is not just about digital channels and could include, for example, guidance on when RMs should speak directly to their clients, and when clients should be referred to client support professionals.

2. Further accelerate digital use cases – given its importance, this topic is discussed later in this report. The channel strategy will emphasize the need to build or improve existing digital channels.

3. Enact change in RM behaviors – successful strategies will segment clients according to their channel preferences and will encourage RMs to adapt their behaviors accordingly. This will require rigorous client segmentation and training and may involve the migration towards persona-specific advisor and client service teams.

4. Offer differentiated propositions and pricing – Wealth Managers should consider developing differentiated pricing based on channel preferences and use, and consider developing separate, graduated digital-led propositions for lower value clients that cannot be profitably served by the existing model.

Overall, to win in the future state, Wealth Managers must invest in digital advice delivery channels and redesign the client experience to enable a multi-channel approach with seamless handoffs between channels.
Accelerate digital implementation efforts to improve effectiveness in the new operating environment

**Wealth Managers have had varying levels of success in their digitization efforts, but lag behind retail banks**

Wealth Managers have pursued a broad array of digital use cases over the recent years, but investments have been made on a somewhat opportunistic basis, without a clear view of their expected impact or a framework for measuring success, and with limited ability to articulate an overall digital strategy. Some success has been achieved on the back of their digital efforts in recent years. For example, significant progress has been made in digitizing the advice value chain, improving the experience for both RMs and end clients. Despite these successes, Wealth Managers have showcased little consistency in digital use case prioritization and implementation to date. The industry’s technological capabilities remain immature relative to other financial services industries, especially in comparison to retail banks. Improvement in retail banks’ client-facing digital capabilities has been driven by evolving client expectations and a strong need to reduce cost-to-serve to protect profitability. Wealth Managers have not yet experienced similar levels of urgency. As a result, their digital offerings are less well-developed.

We can demonstrate this by looking at the number of updates institutions make to their mobile applications, which represents a reasonable proxy for the level of effort and focus devoted to digital across providers. The contrast, showcased by Exhibit 20, between retail banks and Wealth Managers, is stark – with retail banks updating their applications almost twice as frequently as pure-play Wealth Managers in 2019. For universal banks with both a retail bank and Wealth Management division, on average, retail applications are updated almost 50 percent more frequently than the Wealth Management applications. As retail banks continue to pour effort into their digital offerings to improve the end-client experience, clients will naturally expect a similar level of experience from their Wealth Managers. However, both groups lag significantly behind online-only banks and pure-play digital challengers, who have robust development pipelines to fix bugs and introduce new functionality on up to a weekly basis.

Though Wealth Management and retail banking clients have distinct use cases, Wealth Managers that are a part of universal banking groups can significantly benefit from their retail divisions’ digital advancements. They can leverage the retail division’s core use cases, customize where appropriate, and reduce future costs by co-building common use cases, thereby freeing up investment budget to develop those use cases that are truly Wealth Management specific.

**Wealth Managers need to develop a framework to effectively prioritize their digital investments**

Covid-19 has significantly increased client digital engagement along the value chain and provided Wealth Managers with rich data to understand which use cases clients truly value.

Therefore, Wealth Managers need to take a step back to assess their as-is and future state digital portfolio. Achieving best-in-class digital experiences at each step of the value chain remains unfeasible for any Wealth Manager given capital and resource constraints. Hence, Wealth Managers need to prioritize the use cases that are most valued and impactful for their end clients or RMs, so they can deliver the biggest bang for the buck.

We have developed a proprietary prioritization framework, Exhibit 21, to support this evaluation. We consider client usage frequency and impact on customer experience as the two primary dimensions. The use cases that can deliver transformational impact are those that significantly improve the client experience and with which they interact frequently.
Defend business economics

Deliver positive operating leverage through improved approaches to cost

With ongoing cost journeys struggling to produce positive operating leverage, we see potential for leaders to reduce CIR by 12 percentage points

With Covid-19 dampening the outlook for AUM and revenue growth, Wealth Managers faced with challenged profitability will need to address their cost bases in order to protect economics. This will dictate an immediate focus on residual short-term tactical cost cuts. Beyond this, players should focus on unlocking additional value by streamlining delivery of group services and enacting transformative changes to their operating models and IT infrastructure.

Most players across the industry have been focused on cost for some time, and many Wealth Managers are already on multi-year cost journeys. While the levers available to reduce costs are well known, success in actioning these levers has been mixed, with many players encountering implementation challenges. A representative sample from Oliver Wyman’s proprietary database demonstrates the difficulty Wealth Managers have had in generating positive operating leverage. Between 2015 and 2019, most players saw costs and revenues grow broadly in line, despite a significant number undertaking publicly announced major cost-cutting programs during the same time period. That this occurred in a period in which the industry enjoyed structural tailwinds in terms of strong NNM and asset growth further emphasizes the difficulty of successfully becoming leaner.
Looking ahead, Wealth Managers will need to exercise a disciplined approach to cost in order to effectively and consistently generate positive operating leverage and improve cost income ratios. We see three key focus areas across the short and medium term for achieving this outcome:

1. Tactical cost cuts (short term)
2. Streamlined group service delivery (short to medium term)
3. Transforming the operating model (medium term)

We estimate that the industry can reduce average cost income ratios by up to 12 percentage points, through a combination of targeted efficiency plays and directly related revenue uplift opportunities. Opportunity size will vary based on a variety of factors including operational complexity and the degree of completion on current cost journeys. For example, for players in the United States, this will generally mean greater opportunity given the higher starting point of cost income ratios which remain well above the 78 percent global average for some players.

Tactical cost cuts

Despite recent efforts to address the additional complexity created following the global financial crisis, there remains ample room for Wealth Managers to pursue further tactical cost cutting initiatives. While tactical cost cutting efforts during the past decade have achieved some success, reducing the total opportunity size moving forward, we estimate that further tactical cost initiatives could lower cost income ratios by 4 percentage points. In particular, for players that have not yet aggressively pursued cost cutting programs, there is still significant value to be realized.

Most initiatives will likely focus on the usual levers which include:

- Removal of excessive management layers – today’s best-in-class global leaders operate with only three to four levels of management
- Optimization of RM headcount – through right-sizing of geographic footprint and selective managing out of underperformers
- Reduction in front office support headcount – through greater sharing of sales support and automation of manual functions, such as fielding client requests
- Procurement review of third-party spend – focusing on high-value contracts managed directly by the business such as market data

These measures often face challenges along multiple fronts, including cultural resistance, which is why they have not yet been fully exhausted by the industry. Covid-19 has also introduced opportunities to take tactical cost cutting further in some areas. For example, while T&E expenses will be undoubtedly lower in 2020 due to lockdowns, Wealth Managers can reduce longer-term T&E costs by leveraging remote advice delivery channels, as described later in this report.

Streamlined group service delivery

We estimate 3 percentage points in cost income ratio improvement can be unlocked through streamlined group service delivery from second line functions, like Finance, HR, Legal and Operations. This is an under-explored area for most Wealth Managers, which have tradi-
tionally been focused on revenue growth and direct cost, rather than seeking to optimize service delivery and indirect cost.

Several dynamics make indirect costs difficult to address. Wealth Managers that are part of a group, often struggle to receive a clear rationale for cost allocations and understand the levers for reducing underlying drivers of cost. Additionally, most centralized services have been developed as a result of historical business needs, so reducing indirect costs must also include a thorough review of business requirements and comes at the expense of reduced service delivery.

Despite these hurdles, Wealth Managers can meaningfully reduce their short-term to medium-term cost base by engaging their group service delivery providers in understanding how strategic decisions contribute to cost. Successful engagement will involve constructive discussions on where services should be performed, such as within the Wealth Management unit or within functional groups, in order to maximize efficiency. Similarly, conversations should focus on which services provided are critical vs. ‘nice-to-have’, and where there are product or service complexities which do not stand-up against rigorous cost-benefit analysis.

For example, bespoke client and RM reporting requests have led to a proliferation of customized reporting, placing a high burden on operations teams. While some customization may be value additive, especially for high-value and mostly UHNW clients, not all would clear the cost-benefit hurdle when analyzed closely. Similarly, Wealth Managers’ willingness to serve the needs of a minority of clients through complex products often drives an increased operational burden on the risk function that outweighs top line benefit.

Covid-19 has also brought real estate of Wealth Managers in the spotlight as an additional lever. The current crisis could prompt some Wealth Managers to reduce physical office presence, depending on the ability of the business to work remotely. Savings on real estate costs could be applied to fund part of the digital agenda, specifically investments that expand or enhance the advice delivery model.

These are just a few examples, and in our experience, there are many more, as outlined in Exhibit 24. Wealth Managers who engage with functional groups to understand the drivers of allocated costs and align on a course of action to minimize these costs will unlock the full savings potential. Success demands new ways of working including co-design across stakeholder groups and agile project management so as to reduce burden on internal functions.

### Exhibit 24:
Typical underlying cost drivers to be discussed by internal function

<table>
<thead>
<tr>
<th>Internal function</th>
<th>% total cost base</th>
<th>Typical underlying drivers of cost to be discussed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marketing</td>
<td>1-5%</td>
<td>- Level of direct marketing support and advertising</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Number of marketing events</td>
</tr>
<tr>
<td>Risk &amp; Compliance</td>
<td>3-5%</td>
<td>- Complexity and breadth of product suite</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Number of countries with active operations</td>
</tr>
<tr>
<td>Operations &amp; IT</td>
<td>10-25%</td>
<td>- Complexity and breadth of product suite</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Diversity of application base</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Location of cyber security and tech services teams</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Number of countries with active operations</td>
</tr>
<tr>
<td>Property, Facilities, &amp; Other</td>
<td>5-15%</td>
<td>- Office footprint</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Travel spend, catering, and hospitality</td>
</tr>
<tr>
<td>Finance</td>
<td>1-5%</td>
<td>- Customization in financial reporting</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Systems maturity and sophistication</td>
</tr>
<tr>
<td>HR</td>
<td>1-5%</td>
<td>- Number of countries with active operations</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- “Self-serve” ability of individual business units</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- RM recruitment needs</td>
</tr>
<tr>
<td>Legal</td>
<td>1-3%</td>
<td>- Complexity and breadth of product suite</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Use of external counsel</td>
</tr>
</tbody>
</table>

Source: Oliver Wyman analysis

### Transforming the operating model

Transformations to operating models and associated IT infrastructure can drive the most meaningful improvements to Wealth Managers’ bottom lines, with the potential to decrease cost income ratios by 5 percentage points over a multi-year horizon. Although these initiatives represent the most significant lever available for Wealth Managers to drive profitability, they also present the most significant challenges to effective execution.

Historically, increasing business scope for Wealth Managers has translated into greater operational demands and oftentimes tangled IT infrastructure. The ratio of RMs to support staff headcount can serve as a litmus test for operational inefficiency. While industry leaders currently maintain a one to three staffing ratio between RMs and front-office support staff, other Wealth Managers operate with a ratio of one to six or more. Though this benchmark can vary based on scale and complexity, most Wealth Managers rely on costly and time-consuming manual interventions to fill gaps where systems and processes are failing.

Operating models and IT infrastructure have evolved over time to become inextricably linked. Networks of processes and underlying technology have grown in complexity, which has ultimately become unwieldy and difficult to unravel. In turn, this operational complexity has introduced significant pain points for RMs and clients, decreasing RM effectiveness and increasing turnover, with a direct impact on Wealth Managers’ bottom lines.
Although transformations to operating models and IT infrastructure have the potential to deliver significant improvement for both revenues and costs, these programs are a complex undertaking for any player. Large-scale technology programs also face a great deal of skepticism both internally and externally. As outlined in Exhibit 25, a proprietary Oliver Wyman survey found that 37 percent of investors across banks felt that agendas for these transformations lacked both clarity and credibility. Similarly, only 25 percent of investors expressed confidence that these technology transformations would effectively drive value. Some of this reputation is deserved based on track records for large programs, like re-platforming core banking systems, which tend to be overwhelming and unable to meet stakeholder expectations. They also introduce significant risk to the business in terms of profitability and corporate reputation. However, there are alternatives to re-platforming that allow Wealth Managers to significantly improve front-end capabilities while also reducing CIR and minimizing risk.

Exhibit 25:
Investor survey on technology transformations

Do you feel that most banks have articulated a clear and credible agenda when it comes to costs, benefits, and timelines for technology transformations?

- 63% Somewhat - clear but lacks credibility
- 37% No - not clear and not credible
- 38% Skeptical
- 25% Confident
- 0% Yes - clear and credible
- 37% Too soon to tell

How confident are you that banks’ technology transformation strategies will be effective?

Source: Oliver Wyman and Procensus investor survey, November 2019

API-led transformations offer the best route to quickly upgrade technology capabilities. In the example in Exhibit 26, an analysis of business value by Oliver Wyman’s specialist technology partner DMW determines where delivery teams use APIs to open up monolithic, legacy systems. The end state provides an API-enabled architecture to generate new capabilities, delivers an improved experience to clients and introduces the ability to leverage third parties to innovate, such as performing enhanced data analysis or utilizing standard services at a reduced cost.

Exhibit 26:
API-led transformation approach

Identifying the highest-value areas for development is a critical step in this process. The crux for Wealth Managers is in identifying the investments that will drive RM effectiveness and increase both RM and end client satisfaction, which is not easily done with current management information.

While many Wealth Managers currently have a reporting process to surface individual KPIs related to operational efficiency, few have unified these metrics to provide a holistic view of their technology and operational landscape. For example, while RM exit interviews can be an important source of information for RM pain-points, these are rarely combined with other data like failure rates and platform utilization metrics to build a front-to-back picture of problem areas. Wealth Managers will need to aggregate these key metrics across operations, IT, and the front-office as part of an ongoing, systematic process for senior leadership to review performance and invest in the right operating model improvements.

Managed effectively, operating model transformations can drive top line growth through increased wallet share, a biproduct of both heightened RM productivity and improved effectiveness in targeting services to individual clients. Additional revenue uplift can be expected from lower RM turnover as a result of increased job satisfaction. We expect meaningful cost savings to also accompany these transformations as Wealth Managers rationalize their vendor base and reduce charges related to operational inefficiencies, like lowering headcount, increasing productivity and minimizing fines.
Consolidate share and drive growth

Develop differentiated propositions to protect and grow revenues

As a reaction to the challenged industry growth outlook, Wealth Managers must develop differentiated propositions to protect and increase their revenue base.

We see four ways in which management teams can do this.

Strengthen sustainable investing offerings to grow wallet with a highly attractive and often younger client segment

We expect HNW sustainable investments to grow by 18 percent annually to a total of $9 trillion by 2024, primarily due to growing interest from the next generation of clients. The Covid-19 pandemic may well accelerate this growth as existing clients further engage with the broader societal impact of their investments. This increased interest has not gone unnoticed by Wealth Managers, however, most of their sustainable investing offerings are to-date relatively simplistic. Wealth Managers need to develop a more sophisticated proposition to differentiate themselves and to capture a larger wallet share of attractive and often younger client segment.

HNW client interest in sustainable investments has grown steadily, a trend we see accelerating in the coming years

The term “sustainable investing” encompasses a number of different types of investment strategies. In this report we include strategies from across the spectrum, from negative-screening to the integration of environmental, social and governance (ESG) factors, through to impact investing.

We estimate that HNW clients had ~$4 trillion invested in sustainable investments at the end of 2019. This growth has been due to a number of factors, including an increasing awareness and concern for global sustainability challenges, in particular climate change and a changing investor landscape with a new, younger generation of clients. Perhaps most importantly, there is a growing body of evidence that clients can build portfolios with positive ESG attributes without compromising investment returns. One such example is a recent Morningstar report that analyzed returns from stocks over a 10-year period and concluded that clients can build global ESG-aligned portfolios without sacrificing risk or returns.

This growth has not been uniform across regions however, and in particular we see that European HNW clients have the highest allocations to sustainable investments at 11-15 percent of their portfolios, with North America and APAC allocations lower at 6-10 percent and 1-5 percent respectively.

Exhibit 28: HNW sustainable investments as a proportion of total assets by region (2019)

Source: GSIA, Oliver Wyman Wealth Management Model

The structural drivers supporting growth will persist. The next generation of clients, who are on average more interested in sustainable investing than previous generations, will become an increasingly...
important demographic for Wealth Managers. The active discussion around companies’ contributions to wider society and in particular climate change will only continue, and we expect existing clients to show greater consideration for how their investments impact and contribute to society, in addition to generating a financial return.

Further, the Covid-19 pandemic may well accelerate interest in the objectives and impact of investments beyond pure portfolio return. We therefore project sustainable investments to grow by 18 percent each year to a total of $9 trillion by 2024.

Exhibit 29:
Projected HNW sustainable investments growth (2019-2024, USD trillion)

<table>
<thead>
<tr>
<th>Year</th>
<th>HNW Sustainable Investments</th>
<th>Percent of Total HNW Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>~4 TN</td>
<td>~5%</td>
</tr>
<tr>
<td>2024E</td>
<td>~9 TN</td>
<td>~10%</td>
</tr>
</tbody>
</table>

Source: Oliver Wyman Wealth Management model

Many Wealth Managers have responded to this increased investor interest by developing sustainable investing propositions. Most progress has been made in developing sustainable-badged investment portfolios, which typically use a combination of screening approaches and ESG-labelled funds. Yet these approaches are often relatively simplistic, and do not seek to embed investor’s sustainability goals in either the planning or reporting phases of the investment process. In our view, no Wealth Manager has yet developed a truly market leading end-to-end sustainable investment proposition.

**Wealth Managers can play four main roles to help clients invest sustainably**

We see the potential for clear leaders to emerge if they develop differentiated offerings that can recognize client needs and assist clients throughout their sustainable investment journey, from initial advisory to the investment process to tracking and reporting of impact. Particularly, we see four broad roles that Wealth Managers can play.

**Exhibit 30:**
Role of Wealth Managers in sustainable investing

1. Educate clients by upskilling advisors to discuss sustainable investing strategies and options
2. Assist clients by incorporating sustainable investing into goal-setting and scenario-planning processes
3. Invest client assets in sustainable products that are manufactured internally or sourced through trusted partners
4. Measure investment impact through development of reports using third-party or proprietary impact metrics

Source: Oliver Wyman analysis

To start, Wealth Managers can help clients define their sustainable investing goals and objectives. Are they looking for strategies that screen out poorly performing companies, or consider ESG factors as part of broader investment criteria? Does the whole portfolio need to be sustainable, or just part of it? Is the investor interested in "impact" investing? In this part of the process Wealth Managers should communicate to clients the data they use and how it is factored into decision-making.

Wealth Managers can then help clients implement these goals and objectives in their portfolio. As previously mentioned, this is where progress has already been made, but Wealth Managers can go further in providing a product offering that covers the breadth of asset classes and sustainable investing approaches clients wish to use.

In particular, we expect some Wealth Managers to offer specific investment opportunities to clients who are looking to make a tangible impact beyond financial return. This is often referred to as “impact investing”. Wealth Managers looking to lead in this area should leverage their institutional relationships to source proprietary investment opportunities from which clients can choose, based on the themes with most relevance to them. Finally, Wealth Managers can report on key metrics, including their own proprietary metrics that they have developed, to demonstrate the impact alongside the financial performance of clients’ investments. For example, Wealth Managers can allow clients to set goals and receive specific reports on impact investments, like the number of micro-loans extended, while also reporting on other sustainability metrics on a portfolio level, like carbon-offset achieved.

Beyond developing investment capabilities, it is also crucial for Wealth Managers to effectively brand their offerings to establish ownership of the space. This may lead to a positive impact on flows
as clients consolidate wallet with perceived champions in the space. There is no one-size-fits all answer about how Wealth Managers should think about participating in the sustainable investing space. Wealth Managers must consider their target clients, current capabilities, and ability to invest. Nevertheless, delivering a sophisticated sustainable investment proposition is crucial to enable them to capture the growing share of client wallet that is moving towards sustainable investing, and a key way in which they will be able to differentiate themselves.

Expand private markets offerings to recapture lost UHNW wallet

We project UHNW allocations to illiquids/alternatives will grow to $24 trillion by 2024

UHNW investor interest in private market investments has grown substantially in recent years, a trend we expect to continue despite near-term headwinds from Covid-19. Over the next 5 years, we see illiquid/alternative investments growing by 8 percent annually to $24 trillion by 2024.

Direct investments in illiquid/alternative asset classes are primarily an opportunity relevant for UHNWs, given suitability challenges for HNWs due to significant minimum capital commitments, long lock-up periods, and regulations like AIFMD in Europe. Since 2012, UHNW clients have increased their allocation towards illiquid/alternative assets, which now represent 40 percent of their total investable assets, or $16 trillion. Within this, direct real estate and direct private markets investments represent the most significant sub-asset classes.

Wealth Managers should develop more sophisticated and scalable private markets offerings that, where possible, draw upon group capabilities

Most Wealth Managers recognize strong demand for illiquid/alternative asset classes but have only partial offerings in place. These typically extend only to facilitating access to third-party alternatives asset managers or offering selective direct investment opportunities to their highest value clients, but on an opportunistic basis. This is not enough for more sophisticated clients, who are choosing to source investments directly.

In the short-term, we expect investment allocations to private markets to remain stable, or even fall. The current market volatility on the back of Covid-19 may limit clients’ appetite for investments that are by-definition illiquid, difficult to mark-to-market/compute NAVs, and with multi-year lock-up periods. However, we expect this to be a temporary phenomenon, and in the medium-long term we expect UHNW investors to drive a significant rebound in demand.

Our long-term outlook builds on our research that finds that UHNW clients remain structurally under-invested in illiquid/alternative assets relative to their target allocations. Principally, this has been due to difficulties of accessing high-quality investment opportunities. Additionally, a recent survey by Preqin indicated that 92 percent of investors plan to maintain or increase their alternatives exposure in the long term. As such, on a five-year horizon we anticipate robust growth across regions in total alternative assets held by UHNW investors, with global allocations increasing to 43-45 percent of total assets by 2024.

Exhibit 32: UHNW Private Markets allocations (2019-2024, USD Trillion)

Exhibit 31: UHNW asset allocations (2012-2019, USD Trillion)
able to demand and will allow them to recapture the lost revenues due to clients going direct.

To achieve this, Wealth Managers need to deliver ongoing access to high quality direct investment opportunities as part of their standard UHNW propositions. Wealth Managers that are part of universal banking groups, with in-house investment banking and asset management arms, are potentially bestplaced to deliver a compelling end-to-end private markets proposition, as these institutions have capabilities along the entire private markets investor journey.

For these Wealth Managers, capturing the opportunity will be a cross-divisional play requiring strong collaboration across business units. A gold-standard offering would see Wealth Managers leveraging the deal origination and structuring capabilities from the investment bank, their own advisory and wealth structuring expertise, as well as financing where required, and the ability of the asset management division to package a solution where required and to provide ongoing servicing and reporting.

Below we show a case study on how these capabilities are leveraged by a boutique European Private Bank for real estate investments. In addition to coordinating the other group business units, the Private Bank orchestrates the various external parties in the transactions. This provides an additional means to form partnerships with commercial intermediaries and agencies that can provide a pipeline of potential deals in the future, ultimately allowing the Private Bank to create an ecosystem around the opportunity space.

Case study: Private Banking real estate play

A European boutique private bank has combined cross-divisional capabilities in order to provide clients with an end-to-end private markets real estate proposition. While financial advice and the end-to-end coordination of the transaction are handled by the private bank, sourcing of real estate investment opportunities, manager selection, investment structuring, and divestments are supported by the investment bank. Similarly, the asset management division assumes responsibility for coordinating partner services such as property management and administration. As a result, the bank has seen strong inflows into the proposition over the last 3 years.

Exhibit 33:
Overview of Real Estate Value Chain

Source: Oliver Wyman analysis
We see five archetypes for increased private markets participation, ranging from partnerships to integrated offerings

We see five operating model options for private market businesses under a Wealth Management umbrella, highlighted in Exhibit 34. These range from models that rely heavily on external partnerships to models that are fully integrated.

Exhibit 34:
Overview of Wealth Managers operating models for accessing Private Markets

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>• Clients of standalone Wealth Manager offered privileged access to investment products in the private markets space</td>
<td>• Clients of standalone Wealth Manager offered privileged access to investment bank deal flow</td>
<td>• Clients offered access to private markets space via collaboration between all divisions (PB, IB, and AM) within a universal banking group</td>
<td>• Clients of Wealth Manager within universal banking group offered access to full suite of bank’s opportunities across private markets</td>
<td>• Clients of Wealth Manager within universal banking group channeled to late stage financing and investment opportunities</td>
</tr>
<tr>
<td>• Product access provided via third party Asset Manager with relevant offerings</td>
<td>• Deal flow access provided via third party, boutique investment bank</td>
<td>• Teams engage on an as needed basis with collaboration initiated by any party</td>
<td>• Connection of clients with investment opportunities led by private markets team within the investment banking division</td>
<td>• Connection of clients with investment opportunities led by dedicated team within the Wealth Management division</td>
</tr>
</tbody>
</table>

Source: Oliver Wyman analysis

The relevant options vary for Wealth Managers according to whether they are part of universal banking groups. For Wealth Managers that are part of universal banking groups, we see three models for leveraging the internal capabilities of the bank. In the least integrated of these, the wealth, investment banking and asset management divisions would collaborate through assigned channels on an ad hoc basis. More formally, the private markets team in the investment bank could have a designated process for directing financing and investment opportunities to wealth clients. Finally, a dedicated team within the Wealth Management division could be created to provide access to private market opportunities across the universal banking group’s entire footprint. In all models facilitating effective collaboration across different units will be key.

Pure-play Wealth Managers can also offer stronger private markets offerings either through partnerships with external asset Managers, or privileged access to the deal flow of boutique investment bank partners. Effective implementation will require careful partner selection, well-designed agreements, and careful ongoing management of the relationship. Regardless of the specific operating model chosen, it is crucial for Wealth Managers to be able to scale their offering. Real estate, the example given earlier, may be the most logical asset class to start, as it is well-understood and forms ~40 percent total illiquid/alternatives assets held by UHNW clients.

In all cases, the role of the Wealth Manager is crucial in demonstrating value to the end-client. Wealth Managers need to show a truly holistic understanding of client needs and match this with the ability to find and thoroughly vet high quality investment opportunities. Wealth Managers can create additional value by creating a provider ecosystem across the value chain. Wealth Managers able to develop a compelling, scalable offering will capture greater share of wallet and develop stronger relationships with their clients.

Add protection offerings to defend Wealth Managers’ position at the center of client financial needs

Developing a protection offering can allow Wealth Managers to firmly cement their position at the center of client financial needs and to achieve a revenue uplift of ~4 percent. HNW clients currently source and navigate often complex protection offerings direct from insurers or insurance brokers. They have a need for a trusted adviser who aids in the identification of protection needs and selection of appropriate providers and products.

Covid-19 could cause many clients to re-evaluate their current protection levels and residual risk appetite. This may drive an increased demand for protection products if clients decide they are currently under-insured or, more likely, precipitate greater switching between providers as clients re-evaluate their existing positions. Wealth Managers seeking to position themselves as trusted advisors need to enhance their protection offerings. Wealth Managers have already begun advising their clients on protection topics, like healthcare costs in the US, and we expect this trend to continue in order to further solidify relationships. However, a larger opportunity for incremental revenue can be generated by offering insurance products, something few Wealth Managers have done effectively today.

According to an Oliver Wyman survey of APAC HNW individuals, 58 percent said that they did not recall their private banks offering personal-insurance products, and only 9 percent said they were fully sat-
HNW clients have specific insurance needs, shown in Exhibit 36. Wealth Managers could play a natural role in the protection space as the industry moves towards a more holistic advisory approach that helps clients address their comprehensive needs, of which protection is one of the key pillars. As such, protection products should be embedded into the financial planning process, with Wealth Managers offering scenario simulation tools for RMs to demonstrate the impact of incorporating protection into client financial plans. Wealth Managers do not need to self-manufacture the products and can consider a range of participation options.

Exhibit 36:
Core protection needs for HNW clients

<table>
<thead>
<tr>
<th>Life insurance</th>
<th>Health insurance</th>
<th>Property insurance</th>
<th>Casualty insurance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimize risks to one’s life, family, and estate</td>
<td>Minimize risks to one’s wellbeing</td>
<td>Minimize risks to one’s possessions</td>
<td>Minimize risks to one’s finances</td>
</tr>
<tr>
<td>• Protection related to estate and succession planning</td>
<td>• Highly personalized access to a premium global advisor network</td>
<td>• Multi-home, multi-jurisdiction home insurance</td>
<td>• Compensation and lawsuit protection</td>
</tr>
<tr>
<td>• Tax planning and structuring</td>
<td>• Access to comprehensive evaluations and exclusive treatment facilities</td>
<td>• Global fleet insurance, incl. exotic cars, yachts and planes</td>
<td>• Comprehensive and bespoke protection of their loved ones</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Oliver Wyman analysis

There is a strategic need to act quickly as Covid-19 has provided the industry with a window of opportunity to meet strong inbound client demand.

Protection participation options differ by geography, with EMEA offering the greatest opportunity for Wealth Managers

Developing protection offerings presents an opportunity for Wealth Managers to lift their revenues by ~4 percent globally, though the product capabilities required vary by geography.

In all geographies we see significant opportunity in Life insurance, given its importance for estate planning. Health insurance is a significant opportunity in APAC and in some parts of Europe, but the opportunity is limited in North America as it is typically provided through clients’ companies and UHNW individuals often self-insure. However, in the US, health savings accounts (HSA) can be a fast-growing opportunity for Wealth Managers. P&C may be an opportunity in North American and European markets as clients may benefit from convenience of sourcing from their Wealth Managers. We do not see significant opportunity for P&C in APAC, given low penetration of these products today. As a result, the total revenue uplift opportunity we see for Wealth Managers is highest in EMEA at ~6 percent, and lowest in the US at ~2 percent.

Wealth Managers need to decide how to participate in the value chain. We see three broad options for participation, laid out in Exhibit 37. Wealth Managers can refer clients to an in-house insurer, cultivate a small number of trusted partnerships, or broker access to the open market. Each option has a different revenue model and success factors. Not all are available for all geographies. For example, the brokerage model is not a relevant option for the US market, and some are faster to implement than others.

Exhibit 37:
Participation options for Wealth Managers to develop protection offerings

Parameters for Wealth Managers’ Protection Offering Strategy

- referrals to an in-house insurer
- cultivate trusted partnerships
- develop a brokerage model

Facilitating hand-offs to enable a strong client experience

Success factors

Ensuring relevant HNW-focused solutions and service are available
Selecting partners that provide consistent high levels of service

Perhaps most difficult to achieve, Wealth Managers will need to enact a mindset shift among RMs to prioritize protection as a core part of their client service offering. Wealth Managers can overcome
Digital assets are currently a niche asset class, representing a total market size of ~$194 billion as of April 2020 according to Bloomberg. The proportion of HNW and UHNW investors who hold such assets is currently low. Wealth Managers are in the early stages of participation, though several early adopters have emerged through either partnership with third parties or internally developed offerings.

We expect asset structures to continue to evolve and the market to mature, driving greater client demand and adoption. Consensus is starting to develop around specific functional applications for Wealth Managers, like automated securities servicing and near real-time settlement.

We see three potential scenarios for the future of digital assets, highlighted in Exhibit 39. In the most pessimistic outlook, demand will fade due to implementation and regulatory challenges, with digital assets not exceeding 1 percent of client AUM. We see a more likely scenario being the continued steady adoption of digital assets, driven by niche client interest, eventually reaching 3 percent of total HNW AUM in the next 10 years.

Exhibit 39:
Sizing of future digital assets in different scenarios

<table>
<thead>
<tr>
<th>Description</th>
<th>Percent of global HNW AUM</th>
<th>Temporary Hype</th>
<th>Niche demand</th>
<th>Market disruption</th>
</tr>
</thead>
<tbody>
<tr>
<td>Demand fades due to implementation and regulatory challenges</td>
<td>~1%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Demand persists driven by retail &amp; hedge funds interest in payment tokens, ICOs, etc.</td>
<td>~3%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wide-spread demand of assets tokens enabled by alliance between WMs, regulators and 3rd parties</td>
<td>&gt;20%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Oliver Wyman analysis

Asset tokens could provide an opportunity that allows digital assets to cause a market disruption and grow AUM beyond the 3 percent projected above, although we find this unlikely today. For such a scenario to materialize, it would require a consortium of leading Wealth Managers to jointly develop the market given the high cost and long timelines for implementation and market adoption.
Wealth Managers need to decide on their approach to digital assets – for those that do participate, it can be a differentiating feature

Given the expected evolution of the space, Wealth Managers need to closely monitor how the market evolves and respond accordingly. We see three major participation options for Wealth Managers: observers, digital asset-enabled Wealth Managers, and leading full-service providers.

Exhibit 40:
Wealth Managers’ digital assets participation options

<table>
<thead>
<tr>
<th>Observers</th>
<th>Enablers</th>
<th>Full-service providers</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Closely monitor market evolution and client needs</td>
<td>• Add digital asset funds to product shelf</td>
<td>• Develop tokenization platform, integrate token as a new asset</td>
</tr>
<tr>
<td>• Experiment within targeted parts of value chain (e.g. custody)</td>
<td>• Consider adding discretionary mandates to existing offering</td>
<td>• Incorporate lending services and trading capabilities</td>
</tr>
<tr>
<td>• Consider partnerships to establish footprint</td>
<td>• Build internally or consider partnering with FinTechs</td>
<td>• Build/buy research capabilities</td>
</tr>
</tbody>
</table>

Source: Oliver Wyman analysis

Wealth Managers who believe that digital assets will become a major market should aim to become full-service providers, whereas others should consider lower effort participation choices.

In the short-term, Wealth Managers who want to participate should start with offerings in targeted parts of the value chain where the case for using digital assets is strongest, such as asset custody. The ability to participate lightly and on a trial basis makes the level of investment required relatively low and should adoption increase such capabilities may represent a differentiating feature for Wealth Managers that offer them.

Wealth Managers should also continue to closely monitor technology developments, track client demand, and consider increased investment if use-cases proliferate and adoption increases. Digital assets could become a unique selling point for a certain segment of clients, and there may be significant upside to early investments made in this space.

Evaluate inorganic opportunities to reset growth trajectory

Inorganic growth will rise to the top of management agendas

Inorganic growth is always on the radar of Wealth Managers’ leadership teams and 2019 saw the announcement of several transformational deals – particularly in the US. However, the Wealth Management industry remains far more fragmented than other financial services industries, as most wealth players have focused on organic growth.

Exhibit 41:
Market share of Top 10 global firms by key business line (2017-2019)

Source: Coalition proprietary analysis, Oliver Wyman analysis

Covid-19 presents a unique trigger point in which inorganic growth is likely to rise to the top of management agendas for those players that can act from a position of strength. As target assets have repriced, acquisitions may appear more compelling than during previous boom years, especially for targets in the product or technology space. M&A may also be the means to offset the lower organic revenue growth outlook the industry faces overall. Certain markets that remain heavily fragmented, like the US, the UK and Switzerland, are likely to see a continuation of activity in the coming years.
Case Study: US Consolidation

We expect the US market to continue to consolidate following the onset of Covid-19. The past 12 months saw the announcement of several high-profile deals for the industry, including Schwab’s $28 billion pending acquisition of TD Ameritrade. While these mega-deals drove significant increases in total deal volume, deals valued at less than $5 billion also increased more than 20 percent during 2019 before Covid-19 interrupted 2020 deal activity in early March.

Exhibit 42:

Source: Dealogic, Oliver Wyman analysis
1. Includes announced deals with publicly disclosed values above $50 million for US-domiciled targets across Wealth Management and Wealth Management tech. 2020 YTD as of June 1

Moving forward, we see several drivers of consolidation activity as market confidence is restored. Specifically, Wealth Managers will look towards consolidation plays in order to:

1. **Compensate for challenges to organic growth** by expanding client acquisition channels and accessing new segments. For example, Schwab’s $1.8 billion acquisition of USAA Investment Management makes it the exclusive provider of wealth management services for USAA members.

2. **Enable larger-scale investment in technology**, especially for smaller firms seeking scale and increased capital to deploy. For example, Advisor Group’s $565 million merger with Ladenburg Thalmann brings further scale to its network of independent wealth management firms.

3. **Battle ongoing margin pressures** by broadening product offerings and increasing pricing power. For example, Schwab’s $28 billion acquisition of TD Ameritrade increased the firm’s competitive advantages in the affluent segment owing to significant scale.

However, many of the well-known challenges associated with Wealth Management M&A, like RM overcompensation and attrition, will continue to exist, meaning management teams must focus their efforts on the most impactful opportunities for their businesses.
Partnerships may prove to be the new M&A

In contrast to previous periods of significant deal activity, partnerships may prove to be the new M&A this time around. Exhibit 43 outlines the four usual archetypes of inorganic growth plays.

Exhibit 43:
Examples of partnership opportunities across four inorganic growth plays

Local champions in high-growth emerging markets, often traditional retail and corporate banks, are the most natural partners for Wealth Managers in this construct, as their existing distribution footprint and large captive client base offers immediate opportunities to create value. In this type of partnership, global Wealth Managers generally contribute the investment proposition and the local partner retains the client relationship.

Beyond accessing new geographies, Wealth Managers have found success in partnering with firms to access new client segments, offer new products, or co-develop new technologies. While partnerships are proving attractive relative to M&A, they are not without their own challenges. To succeed, management teams on both sides must develop a detailed understanding of the partnership scope and role of each partner and design a revenue (and cost) sharing structure that is transparent and aligns incentives. With time, partnership agreements must evolve to ensure both parties remain incentivized to contribute to the partnership’s success.

In particular, when considering how to best access new geographies, large scale strategic partnerships are emerging as an attractive alternative to M&A. Historically, building presence in local onshore markets via acquisitions has proven challenging for many Wealth Managers, given differences ranging from operations to culture. Rather than fueling growth, many acquisitions-- in particular, in emerging markets – have introduced significant integration challenges and have ultimately failed to deliver value.
Disclosure Section

The information and opinions in Morgan Stanley Research were prepared or are disseminated by Morgan Stanley & Co. LLC and/or Morgan Stanley CTVM, S.A. and/or Morgan Stanley MÉXICO, Casa de Bolsa, S.A. de C.V. and/or Morgan Stanley Canada Limited and/or Morgan Stanley & Co. International plc and/or Morgan Stanley Europe S.E. and/or RMB Morgan Stanley Proprietary Limited and/or Morgan Stanley MUFG Securities Co., Ltd. and/or Morgan Stanley Capital Group Japan Co., Ltd. and/or Morgan Stanley Asia Limited and/or Morgan Stanley Asia (Singapore) Pte. (Registration number 1992062982Z) and/or Morgan Stanley Asia (Singapore) Securities Pte Ltd (Registration number 200008434H), regulated by the Monetary Authority of Singapore (which accepts legal responsibility for its content and should be contacted with respect to any matters arising from, or in connection with, Morgan Stanley Research) and/or Morgan Stanley Taiwan Limited and/or Morgan Stanley & Co International plc, Seoul Branch, and/or Morgan Stanley Australia Limited (A.B.N. 67 003 734 576, holder of Australian financial services license No. 233742), which accepts responsibility for its content and should be contacted with respect to any matters arising from, or in connection with, Morgan Stanley Research, and Morgan Stanley Wealth Management Australia Pty Ltd (A.B.N. 19 009 145 555, holder of Australian financial services license No. 240813), which accepts responsibility for its content, and/or Morgan Stanley Wealth Management Australia Pty Ltd, regulated by the Securities and Exchange Board of India (“SEBI”) and holder of a Research Analyst (SEBI Registration No. INH000001105), Stock Broker (BSE Registration No. INB011054237 and NSE Registration No. INB/NF231054230), Merchant Banker (SEBI Registration No. INM000011203), and depository participant with National Securities Depository Limited (SEBI Registration No. IN-DP-NSDL-372-2014) which accepts the responsibility for its content and should be contacted with respect to any matters arising from, or in connection with, Morgan Stanley Research, and/or PT. Morgan Stanley Sekuritas Indonesia and their affiliates (collectively, "Morgan Stanley").

For important disclosures, stock price charts and equity rating histories regarding companies that are the subject of this report, please see the Morgan Stanley Research Disclosure Website at www.morganstanley.com/researchdisclosures, or contact your investment representative or Morgan Stanley Research at 1585 Broadway, (Attention: Research Management), New York, NY, 10036 USA.

For valuation methodology and risks associated with any recommendation, rating or price target referenced in this research report, please contact the Client Support Team as follows: US/Canada +1 800 303-2495; Hong Kong +852 2848-5999; Latin America +1 718 754-5444 (U.S.); London +44 (0)20-7425-8169; Singapore +65 6834-6860; Sydney +61 (0)2-9770-1505; Tokyo +81 (0)3-6836-9000. Alternatively you may contact your investment representative or Morgan Stanley Research at 1585 Broadway, (Attention: Research Management), New York, NY, 10036 USA.

Analyst Certification

The following analysts hereby certify that their views about the companies and their securities discussed in this report are accurately expressed and that they have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report: Michael J. Cyprys, CFA, CPA; Izabel Dobreva; Manan Gosalia; Betsy L. Graseck, CFA; Selvie Jusman, CFA; Nick Lord; Magdalena L Stoklosa, CFA; Ken A Zerbe, CFA; Irene Zhou, CFA.

Unless otherwise stated, the individuals listed on the cover page of this report are research analysts.

Global Research Conflict Management Policy

Morgan Stanley Research has been published in accordance with our conflict management policy, which is available at www.morganstanley.com/institutional/research/conflictpolicies. A Portuguese version of the policy can be found at www.morganstanley.com.br

Important Regulatory Disclosures on Subject Companies

The equity research analysts or strategists principally responsible for the preparation of Morgan Stanley Research have received compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors, firm revenues and overall investment banking revenues. Equity Research analysts’ or strategists’ compensation is not linked to investment banking or capital markets transactions performed by Morgan Stanley or the profitability or revenues of particular trading desks.

Morgan Stanley and its affiliates do business that relates to companies/instruments covered in Morgan Stanley Research, including market making, providing liquidity, fund management, commercial banking, extension of credit, investment services and investment banking. Morgan Stanley sells to and buys from customers the securities/instruments of companies covered in Morgan Stanley Research on a principal basis. Morgan Stanley may have a position in the debt of the Company or instruments discussed in this report. Morgan Stanley trades or may trade as principal in the debt securities (or in related derivatives) that are the subject of the debt research report.

Certain disclosures listed above are also for compliance with applicable regulations in non-US jurisdictions.

STOCK RATINGS

Morgan Stanley uses a relative rating system using terms such as Overweight, Equal-weight, Not-Rated or Underweight (see definitions below). Morgan Stanley does not assign ratings of Buy, Hold or Sell to the stocks we cover. Overweight, Equal-weight, Not-Rated and Underweight are not the equivalent of buy, hold and sell. Investors should carefully read the definitions of all ratings used in Morgan Stanley Research. In addition, since Morgan Stanley Research contains more complete information concerning the analyst’s views, investors should carefully read Morgan Stanley Research, in its entirety, and not infer the contents from the rating alone. In any case, ratings (or research) should not be used or relied upon as investment advice. An investor’s decision to buy or sell a stock should depend on individual circumstances (such as the investor’s existing holdings) and other considerations.
Global Stock Ratings Distribution

(as of May 31, 2020)

The Stock Ratings described below apply to Morgan Stanley’s Fundamental Equity Research and do not apply to Debt Research produced by the Firm.

For disclosure purposes only (in accordance with FINRA requirements), we include the category headings of Buy, Hold, and Sell alongside our ratings of Overweight, Equal-weight, Not-Rated and Underweight. Morgan Stanley does not assign ratings of Buy, Hold or Sell to the stocks we cover. Overweight, Equal-weight, Not-Rated and Underweight are not the equivalent of buy, hold, and sell but represent recommended relative weightings (see definitions below). To satisfy regulatory requirements, we correspond Overweight, our most positive stock rating, with a buy recommendation; we correspond Equal-weight and Not-Rated to hold and Underweight to sell recommendations, respectively.

<table>
<thead>
<tr>
<th>Stock Rating Category</th>
<th>Coverage Universe Count</th>
<th>% of Total</th>
<th>Investment Banking Clients (IBC) Count</th>
<th>% of Total IBC</th>
<th>% of Rating Category</th>
<th>Other Material Investment Services Clients (MISC) Count</th>
<th>% of Total Other MISC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overweight/Buy</td>
<td>1220</td>
<td>38%</td>
<td>317</td>
<td>43%</td>
<td>26%</td>
<td>550</td>
<td>37%</td>
</tr>
<tr>
<td>Equal-weight/Hold</td>
<td>1433</td>
<td>45%</td>
<td>336</td>
<td>46%</td>
<td>23%</td>
<td>687</td>
<td>47%</td>
</tr>
<tr>
<td>Not-Rated/Hold</td>
<td>5</td>
<td>0%</td>
<td>1</td>
<td>0%</td>
<td>20%</td>
<td>4</td>
<td>0%</td>
</tr>
<tr>
<td>Underweight/Sell</td>
<td>554</td>
<td>17%</td>
<td>79</td>
<td>11%</td>
<td>14%</td>
<td>227</td>
<td>15%</td>
</tr>
<tr>
<td>Total</td>
<td>3,212</td>
<td></td>
<td>733</td>
<td></td>
<td></td>
<td>1468</td>
<td></td>
</tr>
</tbody>
</table>

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.

**Analyst Stock Ratings**

Overweight (O or Over) - The stock’s total return is expected to exceed the total return of the relevant country MSCI Index or the average total return of the analyst’s industry (or industry team’s) coverage universe, on a risk-adjusted basis over the next 12-18 months.

Equal-weight (E or Equal) - The stock’s total return is expected to be in line with the total return of the relevant country MSCI Index or the average total return of the analyst’s industry (or industry team’s) coverage universe, on a risk-adjusted basis over the next 12-18 months.

Not-Rated (NR) - Currently the analyst does not have adequate conviction about the stock’s total return relative to the relevant country MSCI Index or the average total return of the analyst’s industry (or industry team’s) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Underweight (U or Under) - The stock’s total return is expected to be below the total return of the relevant country MSCI Index or the average total return of the analyst’s industry (or industry team’s) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Unless otherwise specified, the time frame for price targets included in Morgan Stanley Research is 12 to 18 months.

**Analyst Industry Views**

Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.

In-Line (I): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.

Cautious (C): The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.

**Important Disclosures for Morgan Stanley Smith Barney LLC Customers**

Important disclosures regarding the relationship between the companies that are the subject of Morgan Stanley Research and Morgan Stanley Smith Barney LLC or Morgan Stanley or any of their affiliates, are available on the Morgan Stanley Wealth Management disclosure website at www.morganstanley.com/online/researchdisclosures. For Morgan Stanley specific disclosures, you may refer to www.morganstanley.com/researchdisclosures.

Each Morgan Stanley Equity Research report is reviewed and approved on behalf of Morgan Stanley Smith Barney LLC. This review and approval is conducted by the same person who reviews the Equity Research report on behalf of Morgan Stanley. This could create a conflict of interest.

**Other Important Disclosures**

Morgan Stanley Research policy is to update research reports as and when the Research Analyst and Research Management deem appropriate, based on developments with the issuer, the sector, or the market that may have a material impact on the research views or opinions stated therein. In addition, certain Research publications are intended to be updated on a regular periodic basis (weekly/monthly/quarterly/annual) and will ordinarily be updated with that frequency, unless the Research Analyst and Research Management determine that a different publication schedule is appropriate based on current conditions.
Morgan Stanley Research does not provide individually tailored investment advice. Morgan Stanley Research has been prepared without regard to the circumstances and objectives of those who receive it. Morgan Stanley recommends that investors independently evaluate particular investments and strategies, and encourages investors to seek the advice of a financial adviser. The appropriateness of an investment or strategy will depend on an investor's circumstances and objectives. The securities, instruments, or strategies discussed in Morgan Stanley Research may not be suitable for all investors, and certain investors may not be eligible to purchase or participate in some or all of them. Morgan Stanley Research is not an offer to buy or sell or the solicitation of an offer to buy or sell any security/instrument or to participate in any particular trading strategy. The value of and income from your investments may vary because of changes in interest rates, foreign exchange rates, default rates, prepayment rates, securities/instruments prices, market indexes, operational or financial conditions of companies or other factors. There may be time limitations on the exercise of options or other rights in securities/instruments transactions. Past performance is not necessarily a guide to future performance. Estimates of future performance are based on assumptions that may not be realized. If provided, and unless otherwise stated, the closing price on the cover page is that of the primary exchange for the subject company's securities/instruments.

The fixed income research analysts, strategists or economists principally responsible for the preparation of Morgan Stanley Research have received compensation based upon various factors, including quality, accuracy and value of research, firm profitability or revenues (which include fixed income trading and capital markets profitability or revenues), client feedback and competitive factors. Fixed Income Research analysts', strategists' or economists' compensation is not linked to investment banking or capital markets transactions performed by Morgan Stanley or the profitability or revenues of particular trading desks.

The ‘Important Regulatory Disclosures on Subject Companies’ section in Morgan Stanley Research lists all companies mentioned where Morgan Stanley owns 1% or more of a class of common equity securities of the companies. For all other companies mentioned in Morgan Stanley Research, Morgan Stanley may have an investment of less than 1% in securities/instruments or derivatives of securities/instruments of companies and may trade them in ways different from those discussed in Morgan Stanley Research. Employees of Morgan Stanley not involved in the preparation of Morgan Stanley Research may have investments in securities/instruments or derivatives of securities/instruments of companies mentioned and may trade in ways different from those discussed in Morgan Stanley Research. Derivatives may be issued by Morgan Stanley or associated persons.

With the exception of information regarding Morgan Stanley, Morgan Stanley Research is based on public information. Morgan Stanley makes every effort to use reliable, comprehensive information, but we make no representation that it is accurate or complete. We have no obligation to tell you when opinions or information in Morgan Stanley Research change apart from when we intend to discontinue equity research coverage of a subject company. Facts and views presented in Morgan Stanley Research have not been reviewed by, and may not reflect information known to, professionals in other Morgan Stanley business areas, including investment banking personnel.

Morgan Stanley Research personnel may participate in company events such as site visits and are generally prohibited from accepting payment by the company of associated expenses unless pre-approved by authorized members of Research management.

Morgan Stanley may make investment decisions that are inconsistent with the recommendations or views in this report.

To our readers based in Taiwan or trading in Taiwan securities/instruments: Information on securities/instruments that trade in Taiwan is distributed by Morgan Stanley Taiwan Limited (‘MSTL’). The securities, instruments or strategies discussed in Morgan Stanley Research may not be distributed to the public media or quoted or used by the public media without the express written consent of Morgan Stanley. Any non-customer reader within the scope of Article 7-1 of the Taiwan Stock Exchange Recommendation Regulations accessing and/or receiving Morgan Stanley Research is not permitted to provide Morgan Stanley Research to any third party (including but not limited to related parties, affiliated companies and any other third parties) or engage in any activities regarding Morgan Stanley Research which may create or give the appearance of creating a conflict of interest. Information on securities/instruments that do not trade in Taiwan is for informational purposes only and is not to be construed as a recommendation or a solicitation to trade in such securities/instruments. MSTL may not execute transactions for clients in these securities/instruments.

Certain information in Morgan Stanley Research was sourced by employees of the Shanghai Representative Office of Morgan Stanley Asia Limited for the use of Morgan Stanley Asia Limited. Morgan Stanley is not incorporated under PRC law and the research in relation to this report is conducted outside the PRC. Morgan Stanley Research does not constitute an offer to sell or the solicitation of an offer to buy any securities in the PRC. PRC investors shall have the relevant qualifications to invest in such securities and shall be responsible for obtaining all relevant approvals, licenses, verifications and/or registrations from the relevant governmental authorities themselves. Neither this report nor any part of it is intended as, or shall constitute, provision of any consultancy or advisory service of securities investment as defined under PRC law. Such information is provided for your reference only.

Morgan Stanley Research is disseminated in Brazil by Morgan Stanley C.T.V.M. S.A. located at Av. Brigadeiro Faria Lima, 3600, 6th floor, São Paulo - SP, Brazil, and is regulated by the Comissão...
Other Important Disclosures from Oliver Wyman

Copyright © 2020 Oliver Wyman. All rights reserved. This report may not be reproduced or redistributed, in whole or in part, without the written permission of Oliver Wyman and Oliver Wyman accepts no liability whatsoever for the actions of third parties in this respect.

This report is not a substitute for tailored professional advice on how a specific financial institution should execute its strategy. This report is not investment advice and should not be relied on for such advice or as a substitute for consultation with professional accountants, tax, legal or financial advisers. Oliver Wyman has made every effort to use reliable, up-to-date and comprehensive information and analysis, but all information is provided without warranty of any kind, express or implied. Oliver Wyman disclaims any responsibility to update the information or conclusions in this report.

Oliver Wyman accepts no liability for any loss arising from any action taken or refrained from as a result of information contained in this report or any reports or sources of information referred to herein, or for any consequential, special or similar damages even if advised of the possibility of such damages.

This report may not be sold without the written consent of Oliver Wyman.

The Oliver Wyman employees that contributed to this report are neither FCA nor FINRA registered. Oliver Wyman is not authorised or regulated by the Financial Conduct Authority or the Prudential Regulatory Authority. As a consultancy firm it may have business relationships with companies mentioned in this report and as such may receive fees for executing this business.

Please refer to www.oliverwyman.com for further details.