

The Future of European Wealth Management: Imperatives for Success

Joint J.P. Morgan Asset Management / Oliver Wyman report
November 2014





TABLE OF CONTENTS

4	FOREWORD
5	EXECUTIVE SUMMARY
7	WEALTH MANAGEMENT MARKETS Sizeable and attractive opportunity Significant challenges Expected industry consolidation
10	FORCES OF CHANGE IN WEALTH MANAGEMENT The next generation of clients Disruptive technology and new business models A new regulatory focus Convergence of onshore and offshore models
14	IMPERATIVES FOR SUCCESS Convert digital into a competitive advantage Strengthen advisory capabilities Rethink the roles of wealth and asset managers Adjust the traditional engagement model Improve frontline productivity and operational efficiency
17	CONCLUSIONS
18	GLOSSARY OF TERMS
19	METHODOLOGY

FOREWORD

THE EUROPEAN WEALTH MANAGEMENT INDUSTRY is undergoing fundamental change at an unprecedented pace. Against this backdrop, J.P. Morgan Asset Management and Oliver Wyman are pleased to present this report on “The future of European wealth management: imperatives for success.”

We conducted 26 face-to-face interviews with CEOs and senior executives from 23 wealth managers across Europe, as well as an online survey of an additional 136 industry professionals. The purpose of this research was to garner a peer perspective on the attractiveness of the industry, the fundamental forces that are changing its shape, and the key factors wealth managers should focus on to be successful.

We hope that this report will provide you with insights into key industry developments and the strategic imperatives required to master the challenges ahead.



Claude Kurzo
J.P. Morgan Asset Management

Claude Kurzo is Head of Strategy & Business Development EMEA for J.P. Morgan Asset Management, based in London. He is responsible for driving the global and EMEA strategic priorities of the Investment Management and Wealth Management businesses of J.P. Morgan.

Prior to joining J.P. Morgan, Claude was with McKinsey & Co. in Zurich and Dubai, with a focus on investment management and private banking.

He holds an MBA from IESE Business School in Barcelona, Spain, and a master's degree in law from the University of St. Gallen, Switzerland.



Dr. Stefan Jaecklin, CFA
Oliver Wyman

Dr. Stefan Jaecklin is a partner at Oliver Wyman with a focus on asset/wealth managers, investment banks, as well as regional banks and exchanges. He was the founder of the global wealth and asset management practice at Oliver Wyman and joined in 1997.

Prior to joining Oliver Wyman, Stefan worked at Credit Suisse in private banking.

Stefan Jaecklin holds a doctorate in International Economics of the Institut Universitaire de Hautes Etudes Internationales (Université de Genève, Suisse), a M.Soc.Sci (Economics) of the National University of Singapore and is a Chartered Financial Analyst (CFA).

Executive Summary

Claude Kurzo, *J.P. Morgan Asset Management*

Stefan Jaecklin, *Oliver Wyman*

WEALTH MANAGEMENT IS AN ATTRACTIVE INDUSTRY EXPERIENCING STRONG GROWTH

With EUR 18 trillion of financial assets¹ held by individuals, Europe represents one of the largest wealth management opportunities in the world. Individual financial assets have been growing at 4.3% per annum since 2010—approximately one percentage point faster than European nominal GDP. Furthermore, with average returns on equity of 13-15%, wealth management is still favoured by capital markets over other financial services businesses. Wealth managers are currently valued at price-to-earnings multiples of 10-12x,² higher than their corporate and investment banking counterparts at 6-8x. Finally, wealth management remains attractive especially for established players, with personal relationships underpinning client retention and high fixed costs acting as barriers to entry.

WEALTH MANAGERS ARE FACING SIGNIFICANT CHALLENGES

However, the wealth management industry faces a number of significant challenges. Due to its attractiveness, competition between players is increasing, and industry profit levels continue to be approximately 20% below pre-crisis levels. Newly created wealth has also been limited, with new inflows accounting for 25% of the asset growth and the balance of 75% coming from market appreciation.

From the client perspective, the industry faces further challenges. Trust in wealth managers and financial markets has not been fully restored since the financial crisis, causing changes in client behaviour. For example, clients are increasingly making direct investments in real estate and private equity (not through wealth managers) and maintaining higher deposit levels. Despite these challenges, capital markets expect wealth manager executives to deliver significant earnings growth of approximately 6-7% per annum.³

THE INDUSTRY IS POISED TO CHANGE

Against this backdrop, the industry is poised to change significantly. Our executive interviews and research have helped us to identify four main forces behind this change:

- The next generation of clients is emerging as wealth is created in new industries and a peak transition of wealth to a younger generation occurs over the next 20-30 years.
- Digital innovation will provide opportunities to better engage and service clients, but will also enable innovative players to disrupt the market.
- A regulatory focus on client protection and stability of the financial system is creating numerous challenges for wealth managers, but is also opening up opportunities for differentiation.
- Demand for full tax transparency (in response to OECD rules and automatic data exchange, for example) is putting the traditional offshore model under pressure.

SUCCESS DEPENDS ON DELIVERING AGAINST FIVE STRATEGIC IMPERATIVES

In the face of these forces of change, wealth managers must redesign their business models to be successful in the future. Through our executive interviews and research, we have identified five strategic imperatives that can better prepare wealth managers to master the challenges ahead:

- Embrace and fully leverage digital capabilities to successfully compete in a changing competitive landscape.
- Develop and strengthen advice and outcome-oriented portfolio construction—the core of a wealth management proposition—for clients.

¹ Financial assets include currency and deposits, quoted shares, mutual fund shares, non-share securities and other accounts receivable (per OECD definition). Also included are offshore assets. Physical assets, non-quoted / other equity and insurance technical reserves are excluded. OECD; Oliver Wyman.

² J.P. Morgan Cazenove Europe Equity Research; Industry reports.

³ J.P. Morgan Cazenove Europe Equity Research; Industry reports.

- Nurture deeper and closer relationships between wealth managers and asset managers to deliver stronger investment propositions and solutions.
- Improve the transparency of client engagement models—discretionary, advisory and execution-only mandates—for clients, while making them more efficient and automated for wealth managers.
- Boost frontline productivity and operational efficiency to address industry-wide cost increases and declining revenue yields.

Wealth managers must be prepared for sweeping change in the European wealth management industry. A clear understanding of the industry forces at play, a focused strategy and efficient execution will be critical for success.

Wealth management markets

SIZEABLE AND ATTRACTIVE OPPORTUNITY

The wealth management market is attractive in terms of size, growth, and capital markets attributes (return on equity, price-to-earnings multiples, forecast revenue growth, etc.). Financial assets of individuals in Europe reached a total of EUR 18 trillion in 2013, with assets of high net worth individuals (HNWIs) and ultra high net worth individuals (UHNWIs) accounting for around EUR 7 trillion or 39% of the total.⁴ HNWI⁵ controlled around EUR 4 trillion of assets, while UHNWIs⁵ accounted for the remaining EUR 3 trillion. Since 2010, growth in financial assets of individuals has outpaced nominal GDP growth by nearly 130 basis points per annum (4.3% vs. 3% compound annual growth rate).

Looking ahead to 2018, we forecast that the financial assets of individuals in Europe will reach EUR 23 trillion, with HNWIs and UHNWIs accounting for EUR 9 trillion. With UHNW and HNW assets growing at nearly 6% per annum, we expect the wealth management industry to continue to outpace growth in the region's nominal GDP (around 4% per annum)⁶ and the assets held by affluent/retail clients (around 4% per annum).

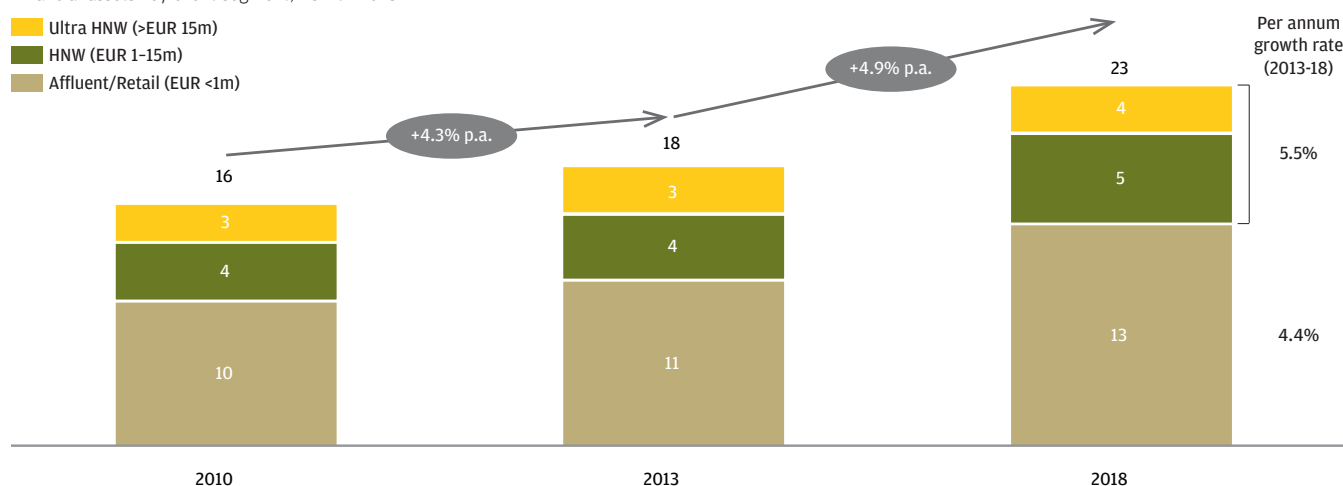
Across Europe, wealth management markets are forecast to grow at rates of 4-8% per annum. The largest markets by assets (Germany, the UK, Russia and France) will continue to account for over 50% of the region's HNW and UHNW financial wealth.

For shareholders, wealth management offers relatively higher levels of return and more growth opportunities than other banking sectors (e.g. return on equity, price-to-earnings multiples). This is because it employs lower credit risk with attractive fee levels, leading to low risk-weighted balance sheets and higher returns on equity, enabling more attractive dividend returns.

Industry incumbents remain well-positioned because they have long-standing, personal relationships with clients which can be hard for new entrants to bypass. Additionally, growing regulatory and operational costs create high barriers to entry, making it difficult for new or smaller players to compete against established firms. This positive outlook on the wealth management industry is reflected in our survey, with 82% of wealth managers expecting the market to be attractive or very attractive over the next five years.

EXHIBIT 1: GROWTH IN TOTAL FINANCIAL ASSETS

Financial assets* by client segment, EUR trillions



Source: Oliver Wyman Wealth Market model. *Onshore and offshore assets including deposits, funds, shares (publicly traded) and pensions, excludes physical assets, non-quoted shares, other equity and insurance technical reserves; OECD; Oliver Wyman analysis. Note: Numbers may not tie due to rounding.

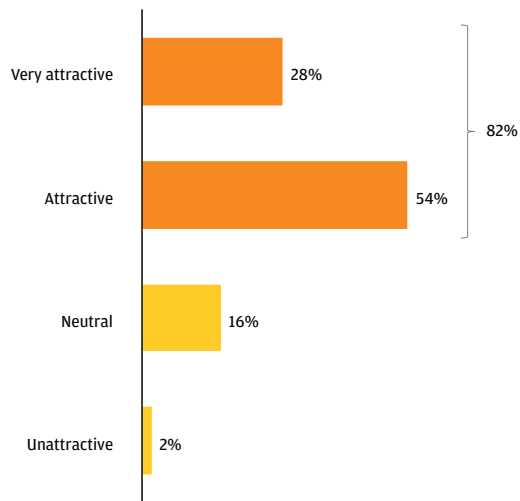
⁴ See glossary for the list of countries included in Europe.

⁵ HNWIs are defined as people with EUR 1-15 million in assets. UHNWIs are defined as people with EUR 15 million or more in financial assets.

⁶ International Monetary Fund.

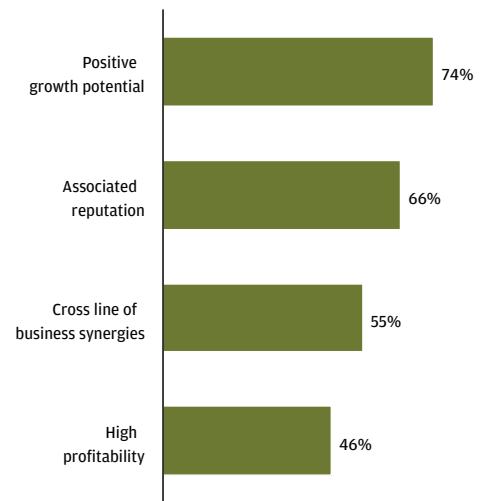
EXHIBIT 2: OPINION OF THE WEALTH MANAGEMENT INDUSTRY

How would you rate the wealth management industry?



Why?

PERCENTAGE OF RESPONDENTS RATING BELOW FACTORS AS HAVING HIGH OR VERY HIGH SIGNIFICANCE



Source: J.P. Morgan–Oliver Wyman Future of European Wealth Management Survey.

Note: Respondents allowed to select multiple options to explain why they found the wealth management industry attractive/unattractive.

SIGNIFICANT CHALLENGES

While the wealth management market is attractive, it also faces significant challenges: competitive intensity is increasing, fees are being compressed, costs (especially compliance costs) are rising, client trust has been dented and investors have high growth expectations. These challenges require wealth managers to fundamentally redesign their value proposition.

The wealth management market is competitive and continues to attract new entrants. Currently, approximately 80% of investment products in Continental Europe are distributed through banks, but this could be poised to change. Clients are becoming more familiar with non-bank providers such as financial advisers, multi-family offices (which now have over 10% share of private banking assets under management (AUM) in Germany), online wealth managers and non-financial players.

Industry profit levels are still approximately 20% lower than pre-crisis levels. The decline in profitability is due to lower revenue yields and increased costs, e.g. cost of implementing regulatory change. Revenue yields are being compressed, by factors like RDR (Retail Distribution Review), MiFID II (Markets in Financial Instruments Directive), changes in asset mix and increased allocations to passive investments.

Furthermore, trust in wealth managers and capital markets has yet to be restored following the financial crisis. This has caused clients to take wealth out of the hands of wealth managers. A recurring theme expressed during our executive interviews was that clients are increasing their direct investments (for example, in real estate and private equity), thereby bypassing wealth managers altogether. Similarly, deposit levels are currently at 35% of total financial assets, still five percentage points higher than pre-crisis levels, indicating that wealth managers are struggling to make the case for their investment products.

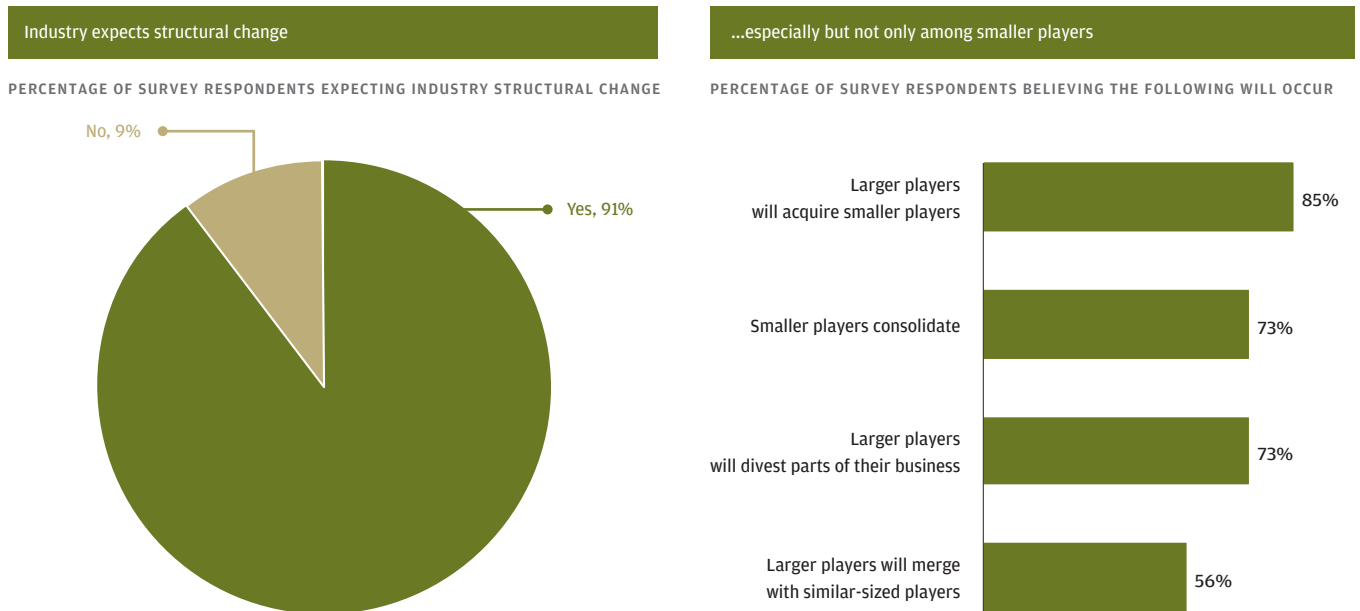
Finally, shareholders expect senior executives of wealth managers to deliver significant earnings growth, approximately 6-7%, which will be a challenge to achieve in the current environment. Over the last few years, approximately 75% of asset growth was driven by returns on existing assets, with only 25% of growth from net new inflows; such reliance on the markets for growth presents a real risk.

EXPECTED INDUSTRY CONSOLIDATION

An overwhelming majority (91%) of our survey respondents expect the European wealth management industry to undergo structural change. Senior executives surveyed believe that consolidation will occur throughout the industry, and will be especially prevalent among smaller players.

Higher fixed costs and declining revenue yields have increased the minimum scale required to achieve profitability. This may lead to smaller players merging or being acquired (73% expect smaller players to merge with each other and 85% of survey respondents expect large and medium-sized players to acquire smaller players). In light of increasing regulation, wealth managers are also simplifying their business models, focusing their operations on core regions and client segments. As a result, large and medium-sized players will likely divest sub-scale businesses (73% of survey respondents expect this to be the case), freeing up management and sales to focus on the regions and segments where they are best positioned.

EXHIBIT 3: THE INDUSTRY EXPECTS CONSOLIDATION OVER THE NEXT FIVE YEARS



Source: J.P. Morgan–Oliver Wyman Future of European Wealth Management Survey.

Forces of change in wealth management

THE NEXT GENERATION OF CLIENTS

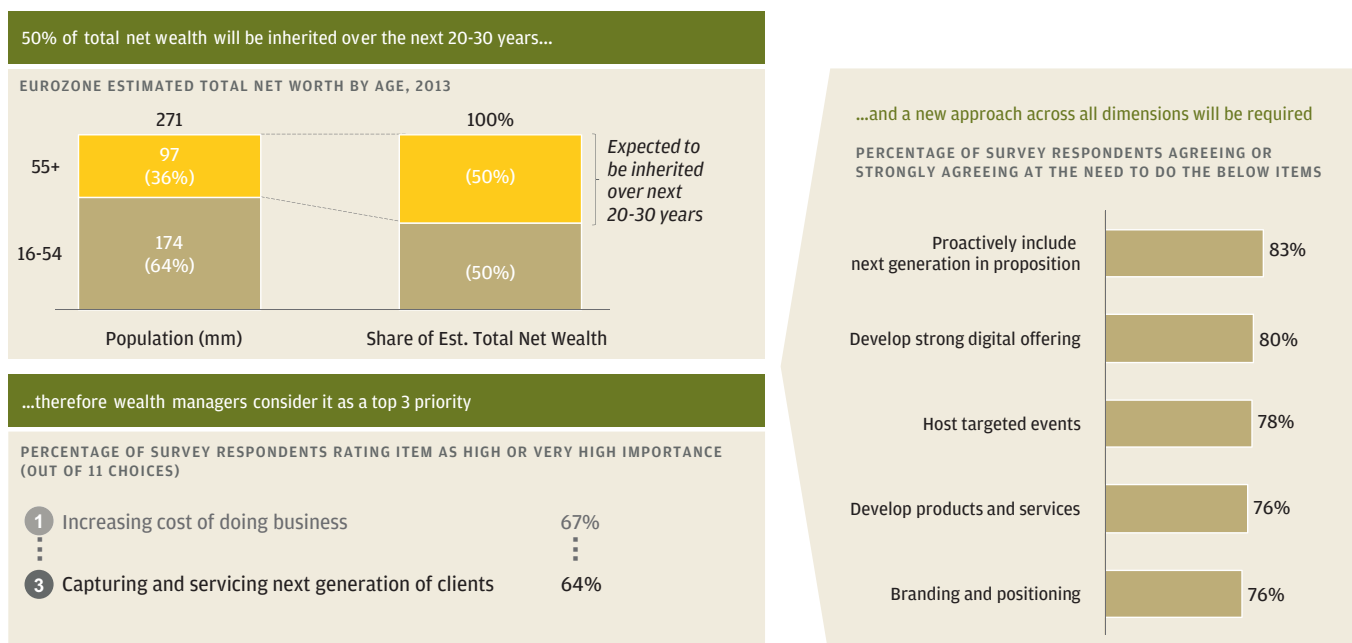
We expect a significant change in the European wealth management client base in the coming years. Firstly, there will be a peak in intergenerational wealth transfer to a younger generation. Secondly, new wealth is being created by entrepreneurs, who are often involved in innovative industries with significantly different cultures than prior industries.

Survey respondents agree that tailoring the wealth management offering to the next generation of clients is important, with 66% ranking it as a top priority. According to the European Central Bank approximately half of all wealth in Europe is currently controlled by people over the age of 55 and will be transferred to their next generation over the next 20-30 years. This next generation of clients however is also likely to be over the age of 55 when they inherit this wealth. In addition to this wealth transfer, managers should also closely follow the creation of wealth in new industries, such as technology, which are emerging as the

fastest generators of wealth. From 2011-2014, billionaires' wealth in such new industries grew by 29%, in comparison to 21% in traditional manufacturing and engineering industries.⁷

As with any next generation of clients, they will be characterised by distinct behaviours and expectations. Whether they have grown up with technology or adopted it later in life, the next generation of clients has a strong preference for digital tools. Research suggests that 67% of millionaires below the age of 40 accessed their portfolios remotely in 2013.⁸ Increased access to information generally prompts greater self-determination, and we expect that these clients will be more involved in investment decisions. They will also likely demand an increasingly broad array of services, ranging from online access to capital markets research to portfolio optimisation and scenario-testing tools.

EXHIBIT 4: SUCCESS WILL DEPEND ON THE ABILITY TO REACH THE NEXT GENERATION OF CLIENTS



Source: European Central Bank; J.P. Morgan–Oliver Wyman Future of European Wealth Management Survey.

⁷ Forbes magazine 2014

⁸ Financial Times

Amongst the newly wealthy, there is also an increasing inclination to seek professional advice, with the wealthiest establishing family offices and those from lower wealth tiers turning to independent financial advisors. As of 2012, globally, an estimated EUR 1.8 trillion in financial assets was managed by roughly 5,000 family offices, with at least 50% of single family offices established in the past 15 years.⁹ Research by the Corporate Executive Board suggests the proportion of millionaires seeking financial planning advice increased from 29% in 2012 to 34% in 2013, with this trend expected to continue in the short term.

As this next generation of clients takes centre stage, wealth managers that can customise both their service model and the way they interact with these clients are far more likely to succeed.

DISRUPTIVE TECHNOLOGY AND NEW BUSINESS MODELS

Digital technology has disrupted a wide range of industries over the last decade, leading to new business models and the ousting of incumbents. For example, online messaging services like Skype and WhatsApp have cost traditional telecommunication providers such as Vodafone and O2 EUR 24 billion in global text messaging revenues in 2013.¹⁰ Additionally, traditional hotel companies such as Hilton Hotels and Starwood are competing against online lodging providers like Airbnb, which found accommodation for seven million guests in private homes.

Technology-driven business models are attracting new clients and assets in wealth management:

- Automated discretionary mandate providers: Offering fully automated portfolio construction and rebalancing based on client preferences and risk profiles, e.g. Nutmeg, which provides portfolio management services to 35,000 users.¹¹
- Thematic or social trading platforms: Offering trading ideas based on crowd-sourced investment themes or social trading where clients can automatically copy the trades of others (often professionals), e.g. Motif Investing.
- Comprehensive wealth management: Providing full suite of wealth management services online including, investment management, financial planning, trading, and banking, e.g. Personal Capital has 500,000 users and EUR 363 million in client assets.¹²

- Non-financial services companies: For example, online marketplaces that offer yield earning money market accounts to shoppers and suppliers, e.g. Alibaba Group launched a money market fund targeted at the domestic Chinese market that, at the time of writing, is the fourth-largest money market fund in the world with EUR 67 billion AUM.

Our survey substantiates that competition is changing. Although today's large players are expected to maintain their dominance, their market share will be slightly reduced in the future. Today, 64% of respondents consider large wealth managers to be their primary competitors, but in five years only 48% expect this to be the case. Non-financial players and online wealth managers are expected to gain ground over the next five years, with non-financial players increasing to 20% and online wealth managers increasing to 30%.

EXHIBIT 5: COMPETITION FROM NON-TRADITIONAL PLAYERS IS EXPECTED TO INCREASE

CHANGE IN PERCENTAGE OF SURVEY RESPONDENTS INDICATING THE BELOW AS COMPETITORS TODAY VS. IN THE NEAR FUTURE



Source: J.P. Morgan–Oliver Wyman Future of European Wealth Management Survey. Note: Numbers may not tie due to rounding.

⁹ Capgemini: The Global State of the Family Office.

¹⁰ Ovum research, reported in Bloomberg.

¹¹ Citywire reports.

¹² Finovate.com

A NEW REGULATORY FOCUS

Following the financial crisis, regulators have introduced stringent measures to further protect investors and to better manage systemic risk. Wealth managers that fail to comply with regulation risk punitive financial penalties, as well as irreversible reputational harm, loss of client trust and, in extreme cases, closure of their business. 65% of survey respondents believe that suitability, conduct risk and cross-border issues are some of the main challenges facing the wealth management industry. While regulation can be viewed as an additional, costly challenge to overcome, it also presents opportunities (such as new passporting rules and harmonisation). In addition, complying with Know Your Customer and Suitability requirements not only avoids costly fines, but also presents an opportunity for wealth managers to better understand client needs. Therefore regulation is of higher strategic value to senior managers. Regulatory focus areas include:

- **CLIENT PROTECTION AND CONDUCT RULES:** MiFID II and PRIIPs (Packaged Retail Investment Product) regulation require wealth managers to prove that advice provided and products sold are suited to an individual client's risk profile and investment objectives. Wealth managers must significantly improve client profiling, record and document all interactions and recommend products suited to clients' financial literacy and risk profiles. In addition, relationship managers must have a thorough understanding of their products.
- **BANNING OR LIMITING OF RETROCESSIONS:** The UK's RDR has banned retrocessions in order to eliminate the potential for bias in investment selection. MiFID II will introduce bans on retrocessions where advice is deemed to be "independent" and some regulators are considering further bans or restrictions. This will have a significant impact on wealth manager pricing models and profitability, given retrocessions have historically been a sizeable source of income.
- **LIQUIDITY AND CAPITAL REQUIREMENTS:** Basel III requirements for holding high-quality liquid assets locally and capital adequacy requirements for banking subsidiaries have caused wealth managers to reassess their legal structures and their desire to maintain cross-continental footprints.

To meet regulatory requirements, wealth managers have made substantial investments. Our analysis shows UK wealth managers found that 70% of management time is devoted to regulatory and compliance responsibilities. Given the pressures on management and frontline employees' time, it will be increasingly difficult to sustain current client loads, resulting in a rising cost to serve. Furthermore, in the absence of retrocessions, wealth managers will be under more pressure to justify their value to clients.

CONVERGENCE OF ONSHORE AND OFFSHORE MODELS

In response to lower tax revenues and higher deficits, governments are working together to enact legislation aimed at combating tax evasion and money laundering. As of 2013, OECD governments had signed 2,350 agreements on tax assistance (up from 1,089 as of 2010), and now require the automatic exchange of tax information about their citizens (with 40 countries committing to implement this by 2017).¹³ This increased tax transparency has dealt a severe blow to client secrecy, one of the pillars of the traditional offshore proposition.

Now that secrecy is no longer a reason to select an offshore bank, offshore banks have to compete with onshore competitors by offering a jurisdiction with greater security or by strengthening their advisory and product propositions. In Western Europe, where political stability is generally assumed, this refocus on advice and product (along with harmonisation of financial services regulations across the European Union) is driving a convergence of onshore and offshore models.

¹³ OECD.

Imperatives for success

CONVERT DIGITAL INTO A COMPETITIVE ADVANTAGE

It is critical for wealth managers to deploy digital technology. Doing so can be critical to protect against disruption and it can also create a sustainable advantage. Respondents ranked developing strong digital capabilities as the third most important priority. Easy to use and high functionality platforms can help increase customer loyalty and drive trading activity. Technology can also harmonise the end-to-end user experience, ensuring that clients always have consistent access to the services and information they want across all channels. Technology also has a large role to play in increasing front-line productivity.

We expect the adoption of digital technology will:

BE A DIFFERENTIATING FACTOR: Providing digital tools enhances the client experience and client loyalty, by improving information and product accessibility, lowering response times and minimising errors. To differentiate themselves, wealth managers can offer clients tools such as live online communication with advisors, live video chat, enhanced reporting for managed solutions, online tutorials and seminars, trade execution capabilities and simulation tools (e.g. to better understand risk). Some wealth managers are even considering how to create online social networks, such as communities of business owners. Historically, wealth managers have created these networks through in-person events, but technology can extend these relationships more widely.

INCREASE SALES FORCE EFFECTIVENESS: Digital tools also support sales force productivity by making information on products, clients and markets available at any time. Relationship managers can benefit from capabilities such as automatic market monitoring to trigger alerts when individual client positions are impacted. Additionally, mobile advisor tools allow relationship managers to access client portfolios and serve clients outside of the office. Another opportunity is to utilise big data to increase sales through more targeted segmentation and proposition design. Digital can also help provide a single, integrated account view for advisors and clients, enabling both parties to always have access to the same information.

IMPROVE DECISION-MAKING AND REDUCE COSTS: To fully capture the benefits of digital, wealth managers should deliver on opportunities to increase efficiency, automate processes, ensure data consistency and provide more accurate and timely management information. Furthermore, the increased adoption of technology is enabling some clients to become self-directed for certain types of transactions, reducing cost to serve.

There are many challenges to embracing new technology, such as the significant investment required to deliver a seamless client experience. Additionally, the fast pace of change raises concerns that specific investments could be out of date by the time they are implemented. Despite these challenges, to remain competitive wealth managers must adopt a long-term strategic view and fully embrace digital.

STRENGTHEN ADVISORY CAPABILITIES

A recent Datamonitor study found that 60% of clients cite poor quality of advice as a primary reason for leaving their wealth manager. Our survey corroborates this finding from the wealth manager perspective: 79% of respondents indicated that enhancing their advisory capabilities is a high priority.

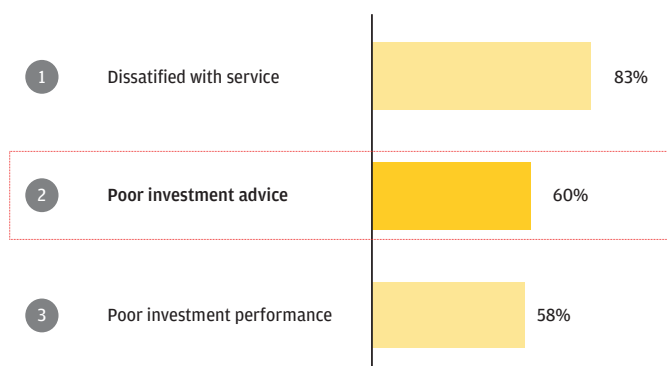
In order to address this dissatisfaction, wealth managers need to:

- **BETTER UNDERSTAND THE CLIENT PROFILE:** Fully understanding a client's needs and risk profile and tailoring an investment proposition that delivers the desired outcome has been quoted as a top priority by almost all interviewees. As wealth managers learn more about their clients, a tailored advisory approach can be used (such as goal- or liability-based advice) to help wealth managers build credibility.
- **IMPROVE THE INVESTMENT MANAGEMENT CONTENT AND EXPERTISE:** Wealth managers will need to convince clients of their investment expertise by translating broad goals or outcomes into easy-to-understand and executable portfolios. This requires strong macro and asset class expertise and analytical tools that can model risk, performance and sensitivities of a portfolio. Integrating stronger analytical tools with enhanced investments knowledge will help give clients confidence that they are receiving expert, thoughtful advice.

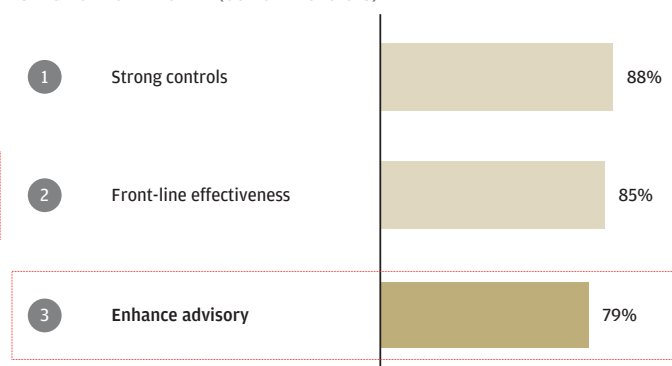
EXHIBIT 6: WEALTH MANAGERS ARE STRENGTHENING THE CORE OF THEIR VALUE PROPOSITION: WEALTH MANAGEMENT ADVICE

Both clients and wealth managers indicate that the advisory model needs to be strengthened

TOP REASONS CLIENTS LEAVE WEALTH MANAGERS (OUT OF 13 CHOICES)



PERCENTAGE OF SURVEY RESPONDENTS (WEALTH MANAGERS) LISTING BELOW ITEMS AS HIGH OR TOP PRIORITY (OUT OF 11 CHOICES)



Source: Datamonitor; J.P. Morgan–Oliver Wyman Future of European Wealth Management Survey.

- MAKE THE INVESTMENT PROCESS MORE TRANSPARENT:** Clients want to understand how investment decisions or recommendations are made. Therefore, wealth managers will need to provide clients with increased transparency into and detail on the investment decision-making process and underlying principles.
- PROVIDE STRONGER INVESTMENT SOLUTIONS:** Clients are moving towards goals-based investment solutions and wealth managers will need to adapt their investment approach from aiming to outperform a benchmark to meeting pre-determined milestones. Robust investment solutions that provide consistent performance and outcomes in line with agreed client expectations will be the ultimate indicator of a successful proposition.

RETHINK THE ROLES OF WEALTH AND ASSET MANAGERS

When we surveyed wealth managers about their target growth products, two out of the top three products cited were those provided by asset managers: mutual funds and alternatives. At the same time, wealth managers are by far the most important distribution channel for asset managers. As a result, a strong partnership is crucial for success for both parties.

Based on survey results, we expect wealth manager to pursue fewer, but more strategic relationships with third-party asset managers. Deepening these relationships will allow both parties to extract greater value. There are a number of ways in which asset managers can help investment managers upgrade their advisory and investment propositions, for example:

- Portfolio construction:** Wealth managers can work with asset managers to build portfolios that deliver specific outcomes, such as income for retirement.
- Capital markets expertise:** Asset managers can provide proprietary research and capital markets insights to help wealth managers enhance their advisory process, making it “content rich”.
- Evaluating the product palette:** Asset managers can help wealth managers understand where they are over/underweight in terms of product offering, based on their “house view” and what they see from other wealth managers.
- Customised product development:** For large opportunities, asset managers and wealth managers can jointly develop products, perhaps with an exclusive sales agreement for a pre-determined period.
- Innovative structures:** Asset managers can construct product structures for wealth managers that address or adapt to industry changes; for example, retrocession-free share classes and master-feeder capabilities.

6. Training and thought leadership: Asset managers can share expertise, for example, by helping to incorporate capital markets insights into relationship management, addressing regulatory requirements and supporting balance sheet management.

The success of these relationships depends on a regular and close exchange between wealth and asset managers.

ADJUST THE TRADITIONAL ENGAGEMENT MODEL

Survey respondents were asked which engagement models they currently use, and expect to use in five years. Discretionary and advisory expected to continue making up the majority of client engagement. However, survey respondents expect that the discretionary model will become relatively more important, evidenced by the increase in its average share of book from 31% to 37%. This is a result of the shift towards thematic and outcome-oriented solutions and the increased regulation and documentation associated with offering advisory services. Discretionary is preferred by clients who do not want to be actively involved with the constant portfolio monitoring and rebalancing that thematic and outcome-oriented solutions often require. Wealth managers prefer the discretionary model because it is less time-intensive and therefore more profitable.

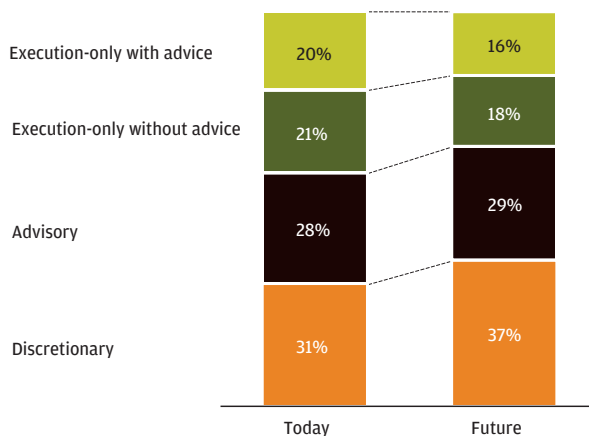
While advisory and discretionary models will remain in demand, wealth managers will still need to make adjustments. The discretionary model will need to become more transparent as investors are sharing their decision-making process and investment philosophies with clients. In addition, as the share of advisory is expected to remain relatively static, wealth managers will need to automate the advisory model to make it more efficient and economically viable, especially for lower wealth segments.

Asset managers can support wealth managers as these models evolve, by developing product structures that support both the advisory and discretionary models and are consistent with regulation, e.g. sub-advisory mandates.

EXHIBIT 7: CONTINUED CLIENT DEMAND FOR ALL ENGAGEMENT MODELS

Clients will continue to use a mix of advisory, discretionary, and execution - only engagement models

NORMALISED AVERAGE SHARE OF BOOK BY ENGAGEMENT MODEL BASED ON SURVEY RESULTS



Source: J.P. Morgan—Oliver Wyman Future of European Wealth Management Survey.

IMPROVE FRONTLINE PRODUCTIVITY AND OPERATIONAL EFFICIENCY

Survey respondents expect approximately 9% growth in AUM per annum over the next five years (significantly higher than our projections of nearly 5% p.a.), converting into 7% growth per annum in both revenue and profitability. In order to capture this growth, 49% of respondents are planning to hire frontline staff, and 32% are expecting to hire product staff. Wealth managers will need to ensure that these new hires are given the tools and training that will maximise their productivity.

This hiring comes at a time when 68% of respondents also said that they are concerned or very concerned about costs. Wealth managers will simultaneously need to deliver operational and cost efficiencies. Reflecting this, 34% of respondents expect to reduce middle-office headcount and 45% expect to reduce back-office headcount.

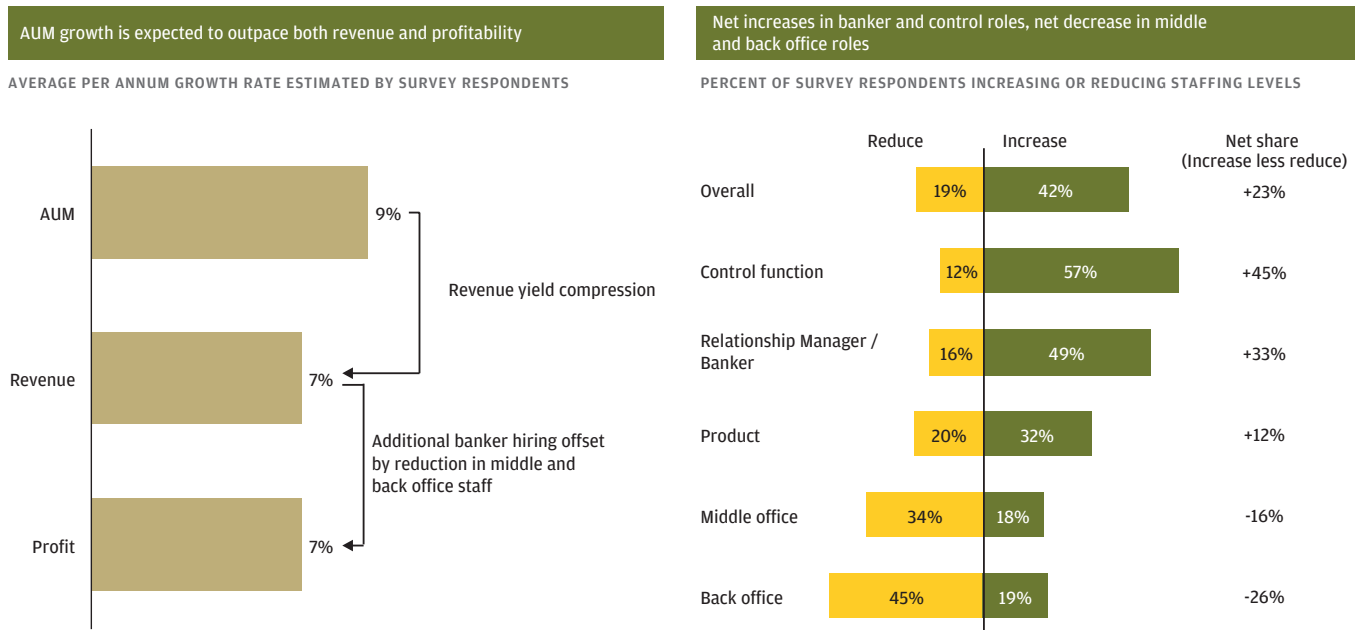
Based on our interviews, we have identified a number of ways that executives are planning to increase frontline productivity and operational effectiveness:

- Client-facing activities: Leverage external research and product experts (potentially, provided by asset managers), promote use of digital channels and shift “satellite” portfolios to advisory mandates.
- Research: Centralise the investment process, set up efficient, repeatable processes around the production “client-ready” investment packages and, again, leverage external research experts.

- Administration and compliance: Increase the amount time relationship managers spend with clients by automating and outsourcing non-essential tasks, setting up execution desks for trades and transactions and embedding compliance members in teams to run due-diligence processes.

Disciplined execution, close monitoring of frontline productivity and operational efficiency will continue to be a major focus of successful wealth managers.

EXHIBIT 8: INDUSTRY EXPECTS REVENUE YIELD COMPRESSION AND IS WORKING ON OFFSETTING INCREASED COSTS ACROSS MANY FUNCTIONS BY REDUCING MIDDLE- AND BACK-OFFICE STAFF



Source: J.P. Morgan–Oliver Wyman Future of European Wealth Management Survey.

Conclusions

Wealth managers are no different from any other service providers: they must continually adapt to evolutions in client preferences and they must also differentiate themselves from new market entrants. With the wealth management industry, like many other segments of the financial services industry facing considerable cross-pressures, there is a pressing need for firms to pursue new ways of doing business while preserving their core value proposition to clients.

As this report shows, digital is a threat to established participants in wealth management. Younger, technologically-savvy clients have a greater comfort level with self-directed investing than the older generation of today. These clients have also grown up in a world where young companies routinely disrupt older companies—and often create entirely new industries. As a result, the next generation of clients is likely to have a greater openness to directing their savings to entities that rely on new models and different technologies—all at lower cost—than established wealth managers.

But there are also digitally-oriented opportunities for established wealth managers to deepen their connection with clients through the use of enhanced communications platforms, while also improving the overall client experience. Significantly, technology can also be harnessed to reduce operating costs—savings that can be passed along as lower fees to clients.

There is also a valuable opportunity in strengthening the advisory proposition and deepening the relationship between wealth managers and asset managers. Their shared expertise can be utilised to present customers with more customised products and insights that younger firms may find difficult to replicate.

Wealth managers have earned their valued place in the financial services industry by delivering trusted solutions to a select group of clients. As the industry changes, firms that can continue to deliver trusted solutions—in ways that reflect evolving clients preferences and changing technology—will be positioned to achieve long-term success.

Glossary of terms

AFFLUENT/RETAIL: Individuals with under EUR 1 million in financial assets.

ALTERNATIVE STRATEGIES: Hedge funds, private equity, and real asset investments.

EUROPEAN MARKET (COUNTRIES INCLUDED): Albania, Austria, Belarus, Belgium, Bosnia & Herzegovina, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Gibraltar, Greece, Guernsey, Hungary, Iceland, Ireland, Isle of Man, Italy, Jersey, Latvia, Lithuania, Luxembourg, Macedonia, Malta, Moldova, Monaco, Netherlands, Norway, Poland, Portugal, Romania, Russia, San Marino, Serbia, Slovakia, Slovenia, Spain, Sweden, Switzerland, Ukraine, United Kingdom.

FAMILY OFFICES: Wealth management firms that solely focus on managing the needs of UHNW families ranging from investment management, financial planning, insurance, charitable giving, and tax services.

FINANCIAL ADVISERS: People who provide financial and/or investment advice or guidance for a fee; some operate as fully independent from any large financial institution, though others may be affiliated.

FINANCIAL ASSETS: Includes currency and deposits, quoted shares, mutual fund shares, non-share securities and other accounts receivable (as per the OECD definitions). Excludes physical assets, non-quoted/other equity and insurance technical reserves. Includes offshore assets.

HIGH NET WORTH INDIVIDUALS (HNWIs): Individuals with EUR 1-15 million in financial assets.

LARGE WEALTH MANAGERS: Global wealth management firms that are often part of a universal bank.

MASTER FEEDER STRUCTURES: Investment vehicle structure where investors can invest in separate “feeder funds” which then invest their assets into a single “master fund”; often used to allow investors requiring a locally domiciled vehicle structure to access investments outside of home jurisdiction.

PREMIER DIVISIONS: Part of retail banking focused on providing financial and banking services to mass affluent consumers.

SPECIALISED WEALTH MANAGERS: Firms with an exclusive focus on wealth management, typically for HNWIs or UHNWIs.

SUB-ADVISORY: Model where the fund manager hires an external investment manager to manage some, or all, of a fund's assets.

ULTRA HIGH NET WORTH INDIVIDUALS (UHNWIs): Individuals with EUR 15 million+ in financial assets.

Methodology

The J.P. Morgan—Oliver Wyman Future of European Wealth Management Survey aims to provide a peer perspective on the wealth management industry in Europe. The survey covered 13 countries in Europe. The total number of individual participants was 162, of which 26 executives were interviewed in person. Participants belonged to major wealth managers in the region and represented a range of levels and functions within their organisations.

FOR INSTITUTIONAL/WHOLESALE/PROFESSIONAL CLIENTS AND QUALIFIED INVESTORS ONLY - NOT FOR RETAIL USE OR DISTRIBUTION

This document has been produced for information purposes only and as such the views contained herein are not to be taken as an advice or recommendation to buy or sell any investment or interest thereto. Reliance upon information in this material is at the sole discretion of the reader. Any research in this document has been obtained and may have been acted upon by J.P. Morgan Asset Management for its own purpose. The results of such research are being made available as additional information and do not necessarily reflect the views of J.P. Morgan Asset Management. Any forecasts, figures, opinions, statements of financial market trends or investment techniques and strategies expressed are unless otherwise stated, J.P. Morgan Asset Management's own at the date of this document. They are considered to be reliable at the time of writing, may not necessarily be all-inclusive and are not guaranteed as to accuracy. They may be subject to change without reference or notification to you. Both past performance and yield may not be a reliable guide to future performance and you should be aware that the value of securities and any income arising from them may fluctuate in accordance with market conditions. There is no guarantee that any forecast made will come to pass.

J.P. Morgan Asset Management is the brand name for the asset management business of JPMorgan Chase & Co and its affiliates worldwide. You should note that if you contact J.P. Morgan Asset Management by telephone those lines may be recorded and monitored for legal, security and training purposes. You should also take note that information and data from communications with you will be collected, stored and processed by J.P. Morgan Asset Management in accordance with the EMEA Privacy Policy which can be accessed through the following website <http://www.jpmorgan.com/pages/privacy>.

Issued in Continental Europe by JPMorgan Asset Management (Europe) Société à responsabilité limitée, European Bank & Business Centre, 6 route de Trèves, L-2633 Senningerberg, Grand Duchy of Luxembourg, R.C.S. Luxembourg B27900, corporate capital EUR 10.000.000.

Issued in the UK by JPMorgan Asset Management (UK) Limited which is authorized and regulated by the Financial Conduct Authority. Registered in England No. 01161446. Registered address: 25 Bank St, Canary Wharf, London E14 5JP, United Kingdom.

Copyright © 2014 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. No responsibility is taken for changes in market conditions or laws or regulations and no obligation is assumed to revise this report to reflect changes, events or conditions, which occur subsequent to the date hereof. 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.

LV-JPM20667 | 11/14

Printed on Magno Satin which contains virgin wood fibre and is produced at a mill that holds the ISO14001 certificate for environmental management.
The pulp is bleached using a combination of Elemental Chlorine Free (ECF) and Totally Chlorine Free (TCF) methods.

