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BLUEPAPER

Asset & Wealth Management

Longevity Unlocked: Retiring in the Age of Aging

Increasing life expectancy brings both opportunities and challenges for wealth, asset managers, and insurers. Seizing this opportunity through a "retirement ecosystem mindset" could unlock $400 billion in revenue by 2028. Separately, we revisit the industry's GenAI progress in the past year.

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Executive Summary

Commentary on securities throughout this report solely reflects the views of Morgan Stanley Research, not Oliver Wyman.

One of the defining positive trends in the last century has been the steady increase in life expectancy worldwide. But, for all the wonderful things this has given us, it has ushered in an "Age of Aging," which has created a massive financial challenge for many countries and individuals. Greater longevity has been compounded by falling birth rates across much of the developed world, straining public pension systems that were built for another era, and consequently, driving policy regimes that have shifted the retirement burden from the state or corporation onto the individual. As a result, a large portion of the world's citizens face a daunting challenge: how to ensure a desirable and dignified lifestyle post-retirement. For higher net worth individuals, this challenge is nuanced but still sizable: how to preserve lifestyle for a longer post-retirement and ensure a smooth wealth transfer.

This challenge didn't suddenly arise. The pressure has been building for decades. Nor have the key retirement industries — wealth, asset management, and insurance — sat idly by. They have developed innovative products and services that improve people's ability to tackle their savings, investing, and protection needs. But, as this report makes clear, individuals' needs are not being fully met, and the challenge is only growing more complex.

The proliferation of products and services contributes to this complexity as most people — including advisors, plan sponsors, and others in the ecosystem — suffer from the "paradox of choice." Behind this proliferation is a dynamic in which each industry has, by and large, designed these products and services in a siloed way. This has made it extremely challenging to piece together a comprehensive solution to individuals' multifaceted retirement needs and has resulted in poor, disjointed customer experiences — particularly for those without access to personalized guidance.

So, what can be done?

To address retirement needs, products are not enough. Individuals need an integrated, holistic suite of solutions, designed with specific outcomes and a seamless client experience in mind. While this may sound straightforward, wealth managers, asset managers, and insurers have not been able to deliver on this idea at scale.

With this challenge comes a tremendous opportunity, not just in terms of tapping into a huge and growing revenue pool — which we estimate by 2028 could represent a $400 billion incremental opportunity for wealth and asset managers — but in terms of fulfilling the core purpose of why these industries exist.

Addressing this challenge will require adopting a "retirement ecosystem mindset" as the greatest value unlock will be from those who can figure out how to deliver more integrated and holistic solutions across accumulation, decumulation, longevity protection, and wealth transfer needs. Each firm will need to recognize its unique starting point in order to identify opportunities to build these capabilities through closer partnerships, breaking down silos across business units, or creating entirely new business models and value propositions.

This will not be easy — many of the firms we have spoken and worked with recognize the opportunity but struggle with a combination of misaligned operating models, outdated technology, and organizational inertia that stand in the way of seizing it. However, for the firms that are able to get this right, the rewards are substantial.

Messages for the C-Suite

Our Blue Paper is informed by more than 20 meetings with senior executives of asset managers, wealth managers, and insurers with over $45 trillion of combined assets under management.

Longevity and the retirement opportunity

- An aging global population and continued shift of the retirement burden on the individual represents a significant opportunity for wealth and asset managers.
- Asset managers can generate value and better serve important client needs through products that combine accumulation with decumulation and/or protection features. Those with strong multi-asset solutions and private market capabilities stand to benefit from growing allocations in accumulation and from income demand in extended decumulation.
- Asset managers should be placing strategic bets in different markets to capitalize on regulatory changes (particularly in markets where there is already regulatory support for increasing DC and private pension contributions such as Japan) while being more proactive in engaging with regulators and other industry bodies to shape the future direction of retirement-related policies.
- For wealth managers, the opportunity is most prominent in the mass affluent segment as the retirement burden shifting to the individual drives greater need for advice and retirement solutions targeted for that segment. Expanding access of advice to this segment is critical, and the need for it is higher than ever, driven by longer life expectancies and uncertainty on how to plan for retirement.
- In addition, wealth managers should double down on expanding the product shelf to include private markets and insurance products and evolve the service delivery model to capitalize on the wealth transfer opportunity to women and younger generations.
- The largest (and most untapped) opportunity is one that cuts across asset management and wealth management (in addition to insurance, record-keeping/administration and other parts of the ecosystem) to address individuals' retirement needs holistically through integration across advice, risk sharing, and investment management.
- We see three possible models to deliver integrated retirement solutions: (1) building partnerships across the ecosystem; (2) better integrating across businesses silos; and (3) pursuing technology-led platform plays. There is no "right or wrong answer," and the path forward in a large part depends on a firm's starting point.
- The integrated model that combines multiple components of the solution under one roof is theoretically promising yet hard to realize. Firms struggle with competing organizational incentives, fragmented technology, and strategic inertia that prevent them from effectively working across silos to assemble and deliver integrated solutions and seamless experiences for their clients.

Gen AI

- Gen AI has moved from whiteboard to production as use cases proliferate across the value chain.
- Firms are seeing significant productivity enhancements and are exploiting the gains that come from the "lowered cost of cognition."
- Advancements in methodology and how the technology is deployed have reduced hallucinations and made the output more usable and reliable.
- While Gen AI has led to "Super Analysts," human oversight and ability to layer in predictive analytics remain critical.
- There is significant investment in bespoke development to create differentiated capabilities.
- The greatest value comes from driving user adoption, rather than having the most sophisticated model or technical capabilities.

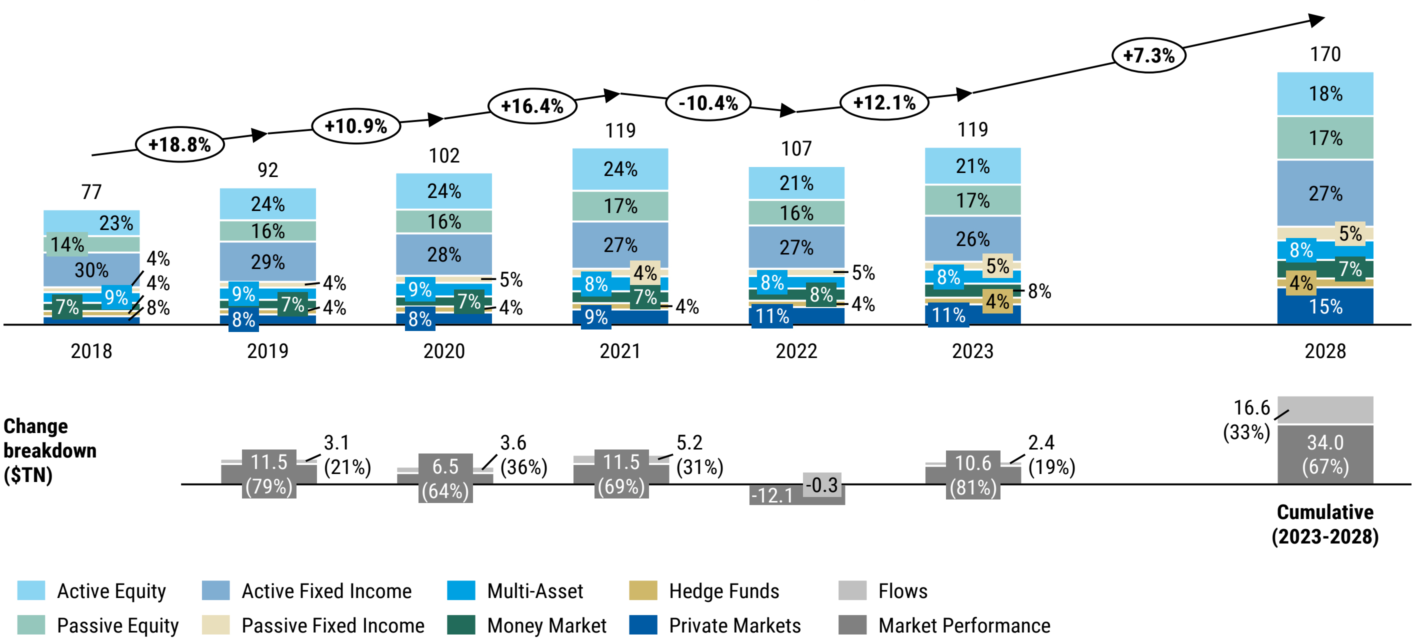
1. State of the Industry

1A: Global Asset Management Outlook — Back on Track, or So It Seems

In 2023, Global Asset Management AuM saw a rebound to slightly above its historical peak, making up for all of the $12 trillion drop in 2022 (see Exhibit 1). This surge was driven by strong market performance across asset classes, led by a global bull market in equities. The US — which makes up a significant proportion of global equity market capitalization (~44%)[1] — drove much of global gains (at ~24% annualized returns).[2]

Peering under the hood at net flows data shows a somewhat more fragile situation. In recent history, market performance has been a substantially more important driver of AuM growth as net flows remain comparatively small in overall magnitude. After a strong 2021, net flows slightly dipped into the red in 2022 as net new money remained on the sidelines through a bear market. Last year, 2023, saw an improvement, although net inflows have not yet rebounded to pre-covid levels.

Exhibit 1: Global Externally Managed AuM, Flows, and Market Performance ($TN), 2018-2028E



Source: Oliver Wyman Global Asset Management Model

Looking ahead, we forecast a 7.3% compound annual growth rate (CAGR) in AuM from 2023 to 2028, slower than historical rates. Bright spots for growth include private markets, where the boom in private credit continues apace, and fixed income, which is expected to benefit from structurally higher interest rates and continued investor demand for income-generating investments. Market performance is expected to continue outweighing net flows by a 2:1 ratio.

1. World Federation of Exchanges, as of 12/31/2023

2. However, this performance was hyper-concentrated in the so-called "Magnificent 7" which were responsible for more than 40% of US stock market gains on the year. Source: S&P Dow Jones Indices. "Magnificent 7" refers to Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia, and Tesla.

Flows for public markets and hedge funds reveal a mixed picture

Since 2022, clients have been able to earn a competitive return on cash (something they have not been able to do for well over 10 years), shifting the calculus of portfolio structuring and risk-taking, particularly for those prioritizing income generation. As a result, portfolios have incorporated sizable cash allocations: Net flows for money markets — when accounting for both retail and institutional channels — outpaced other asset classes (see Exhibit 2).

Active equities saw the largest outflows, reflecting the relentless shift in investor demand toward lower-fee passive products and a consequence of the industry's limited ability to deliver sustained outperformance compared to benchmarks. While cyclical headwinds should ease and substantial market share opportunities exist for those who can differentiate, we project a continuation of outflows and reductions in AuM share, regardless of market conditions.[3]

On the other hand, passive equities resumed their net new money haul in 2023, following short-term market performance–driven outflows in 2022, with retail flows rebounding, outweighing institutional outflows.

Outflows from equity in the institutional segment were driven by a shift toward fixed income, given the attractive opportunity to lock in higher yields, particularly for liability-driven investors. In particular, passive fixed income continues to be a bright spot with five-year consistent inflows — as well as active fixed income, which saw slight outflows flip to positive in 2023.

Within hedge funds, consistent, small outflows have continued in recent years. This is particularly true among smaller managers in long-short equity and macro categories, where lackluster returns have led to redemptions as assets concentrate in the largest firms.

3. Just 51% of active investors outperformed their average benchmarks during the 2020 coronavirus sell-off and only 24% eclipsed their benchmark in the 10 years prior. Source: Morningstar

Exhibit 2: Net Flows % in Global AuM by Product ($BN), 2019-2023

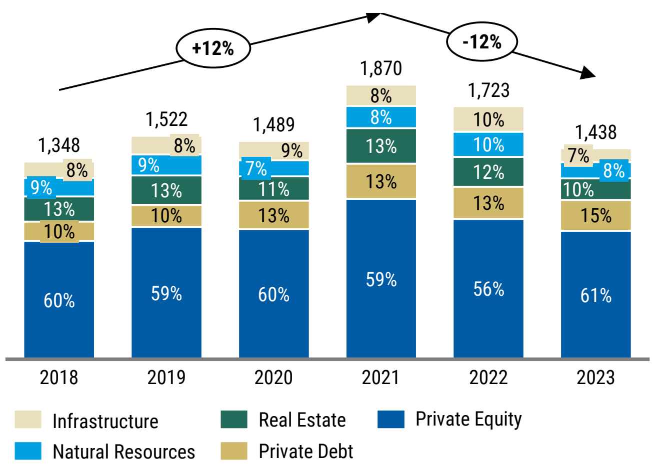
	2019	2020	2021	2022	2023
Active Equities	-3.4%	0.3%	-2.2%	-3.4%	-4.4%
Passive Equities	2.3%	-0.1%	4.0%	-0.1%	1.3%
Active Fixed Income	8.6%	2.4%	10.9%	-0.1%	1.1%
Passive Fixed Income	10.0%	13.3%	9.7%	6.4%	3.9%
Multi-Asset	1.2%	4.1%	-0.4%	-2.8%	5.0%
Money Market	10.5%	17.8%	7.4%	1.6%	17.0%
Hedge Funds	-2.8%	-1.2%	0.9%	-1.4%	-0.5%

Source: Oliver Wyman Global Asset Management Model, Broadridge, MercerInsight, Preqin

Private markets fundraising has fallen back from its peak

Within private markets, fundraising has slowed in recent years from a 2021 peak (see Exhibit 3). However, this is more due to mechanical limitations than to waning demand. Sharp declines in public markets in 2022 coupled with limited declines in private markets valuations caused a rise in private markets' portfolio share. This caused institutional investors to brush close to their allocation limits, constraining their ability to take on new assets. Although markets rebounded in 2023, subdued realization activity has meant liquidity challenges have persisted for institutional clients, further constraining fundraising.

Exhibit 3: Global Fundraising for Private Markets ($BN), 2018-2023



Source: Preqin

While private market AuM growth is expected to slow in the future compared to recent history (11.4% projected CAGR from 2023 to 2028 vs. ~18.5% CAGR from 2018 to 2023), growth drivers remain fairly robust. In this case, demand from retail investors is expected to be a major driver of future growth. As a result, improved access through product innovation, improved technology, and distribution will remain essential for capturing flows. Institutional demand is also expected to grow, albeit with less overall room to grow compared to retail.

Digging deeper, underlying dynamics differ based on the asset class in question:

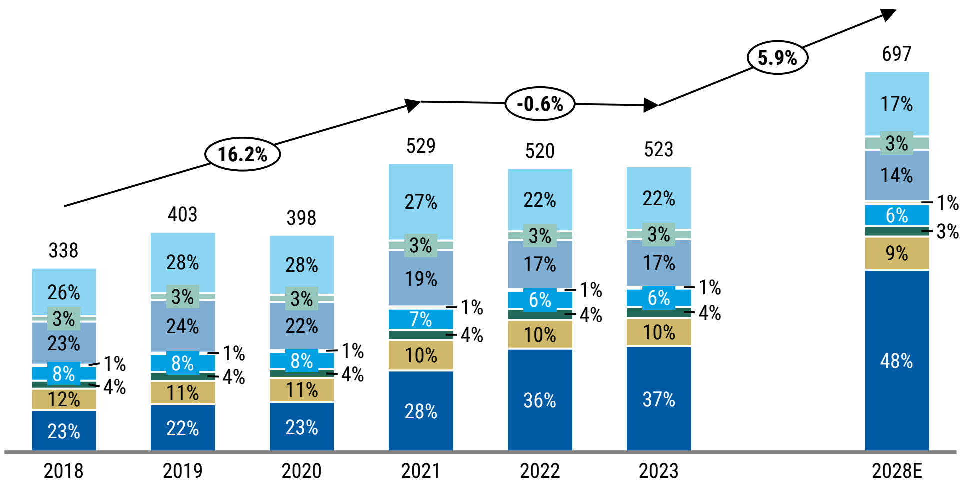
- **Private Equity:** Following a boom in the last decade, private equity investors face some headwinds, lowering the projected AuM CAGR through 2028 to 12.7% from historical rates near 20%. The primary headwinds are the elevated cost of capital, increased conservatism among lenders, and reduced attractiveness of public market exits. We'd expect the onset of the easing cycle to drive some cyclical improvement due to financing availability and improved terms, and we are already seeing evidence of this as deal activity picks up. That said, operational value creation has become increasingly important to drive returns and will continue to contribute to high dispersion in management performance (which remains higher than other public and private asset classes). We project private equity to continue to dominate private markets, making up over 70% of private market revenues in 2028.
- **Private Credit:** We project strong continued AuM growth within private credit (16% CAGR through 2028). As another wave of disintermediation passes and banks pull out of riskier segments, private credit managers are poised to benefit. For example, as the leveraged lending marketplace crowds, firms have expanded into asset-based lending. We estimate this is a $5.5 trillion asset opportunity in the US alone, where private credit today has less than a 5% share. We would note that these growth estimates are sensitive to any near-term softening in the credit markets as well as how hard banks are willing compete, which could shave a few points off the forecast and bring it down to a (still healthy) 11-13%.
- **Infrastructure and Natural Resources:** We expect infrastructure and natural resources to grow robustly, with CAGRs through 2028 of 15.0% and 7.0%, benefitting from public and private sector focus on related investment themes (e.g., government spending programs for energy transition infrastructure, increased interest in land-based climate solutions, and demand for battery storage).
- **Real Estate:** Investors remain relatively skittish given recent struggles within commercial real estate, in particular offices, contributing to lowered valuations. However, fundamentals are improving, and segments of real estate are expected to benefit from some of these macro trends (e.g., data center demand and shortage of residential housing in the US). As a result, we project that while growth will be slower than historical rates (CAGR of 8.5% to 2028), there is upside potential.

Revenue and profitability: We project anemic public markets revenue growth in the next 5 years as alternatives continue to surge

For public markets players, revenues and profitability have stagnated. As a result, from 2018 to 2023 alternatives increased overall revenue share from ~34% to ~47%, while active strategies saw their share drop from ~50% to ~38%. Within passive strategies, despite continued net inflows, revenues remain an order of magnitude smaller than active strategies and a fraction of global totals (~4% of industry).

Looking ahead, we foresee a bounce back in overall industry revenues, albeit at a slower overall pace compared to past trends (5.9% CAGR from 2023 to 2028, compared to 9.1% CAGR from 2018 to 2023). However, almost the entirety of this revenue growth will be driven by alternatives, which are expected to grow at a 10% CAGR and eclipse 57% of total revenues by 2028. Public markets revenues, on the other hand, are expected to grow at an annualized rate of only 1.8%.

Exhibit 4: Global Asset Management Revenues ($BN), 2018-2028E



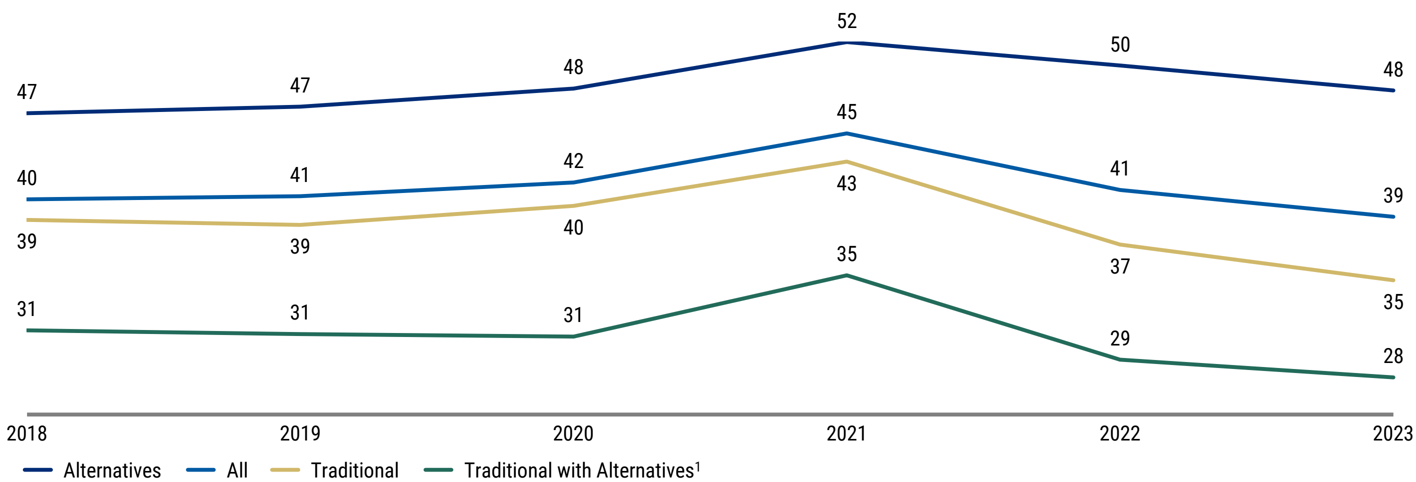
	CAGR 2023-2028
Active Equity	+0.7%
Passive Equity	+7.0%
Active Fixed Income	+1.7%
Passive Fixed Income	+8.2%
Multi-Asset	+3.5%
Money Market	-1.1%
Hedge Funds	+3.4%
Private Markets	+11.5%

Source: Oliver Wyman Global Asset Management Model, Morningstar, Mercer, Company Reporting

Despite strong equity market performance over the timeframe, aggregate operating margins across asset managers are at a six-year low, down 1% from 2018. This underscores the extremely high reliance the industry has on market performance; a sustained bear market would highlight the underlying fragility of operating models, particularly for traditional managers. Indeed, the strong and stable margins of alternatives-focused firms obscure this more troubled picture for traditional managers, where operating margins are down 4% from 2018 and down 8% from a peak in 2021.

Interestingly, margins remain the lowest among traditional asset managers who have built meaningful alternatives businesses, which are also at a six-year low. The persistently low operating margins for these players highlights the challenges in successfully integrating private markets businesses with their legacy businesses — namely lack of cultural cohesion, disjointed go-to-market approach, increased operational complexity, and increased technology/systems costs.

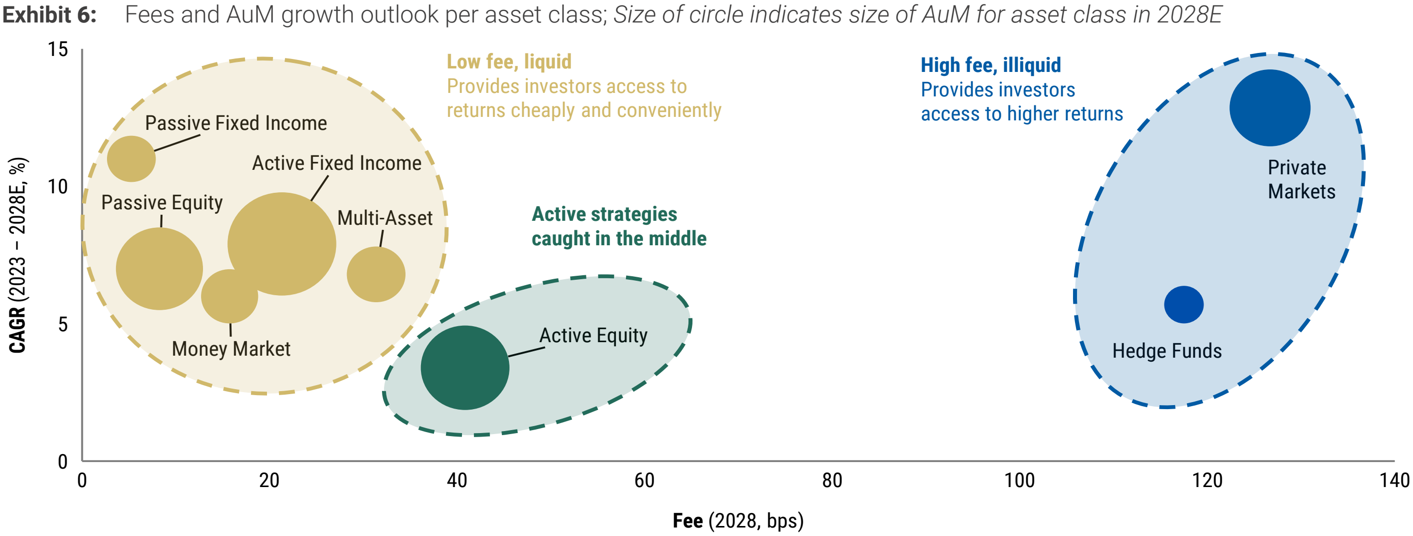
Exhibit 5: Global Asset Management Operating Margins by Investment Strategy (%), 2018-2023



1. Where an Asset Manager has minimum >10% of total AuM in Alternative assets; Source: Oliver Wyman Global Asset Management Model, Public Company Reporting

As a result of the trends highlighted above, we are seeing an acceleration of the global barbell shift between asset classes (see Exhibit 6). Specifically, active equity managers are caught in the middle between low profit margin, liquid strategies (fixed income, money markets, passive equity, multi-asset solutions) and high profit margin, illiquid alternative strategies.

Exhibit 6: Fees and AuM growth outlook per asset class; *Size of circle indicates size of AuM for asset class in 2028E*



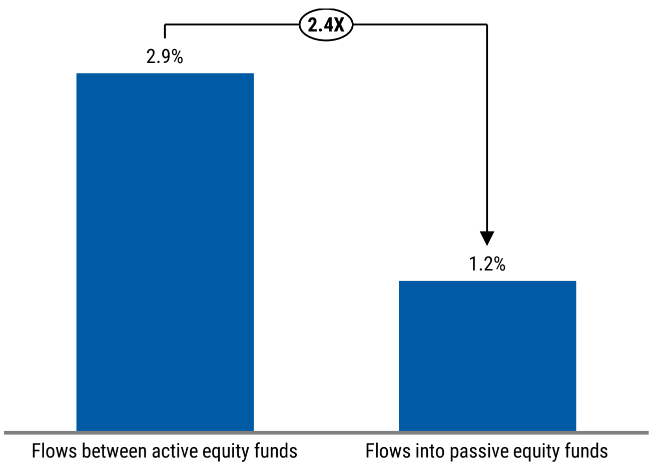
Source: Oliver Wyman Global Asset Management Model, Morningstar, Mercer, Company Reporting

Asset managers, especially those focused on the most secularly challenged areas, have four key actions to drive profitable growth and operational resiliency

Focus Area #1: Capture share from flows among active funds

Despite the secular challenges that managers face, particularly those focused on traditional active equities, there is still a significant amount of "money in motion" driven by manager turnover. In our report last year, we estimated that the flows between active equity funds is ~2.4x that from active to passive funds (see Exhibit 7), which translates into a large revenue opportunity for those that can gain share. While delivering investment outperformance (i.e., performance alpha) will remain a critical driver, it is not the only one. Managers can win share by delivering additional sources of "alpha" via product innovation (getting in-demand products to market more quickly than peers); distribution and service (becoming an indispensable partner to intermediaries and allocators); and fee structures (strategically utilizing pricing to capitalize on investors' favoring the certainty of lower fees vs. the uncertainty of higher net alpha).

Exhibit 7: Flows between core active equity funds vs. inflows into passive, % of 2022 industry AuM



Source: Broadridge, Oliver Wyman analysis

Focus Area #2: Optimize pricing to capture more of the economics in the institutional segment

Fee pressure, most notably on traditional strategies, has been relentless as institutional investors continue to switch core exposures to passive while consolidating the number of managers they utilize, giving them additional leverage to negotiate larger, volume-based fee discounts. Many managers have large pricing dispersions across their managed accounts, leading to substantial profitability skews. We see significant revenue uplift, on the order of $50 million for a typical $500 billion institutional manager, for those that adopt a more disciplined and robust pricing framework.

Focus Area #3: Reset the operating model to reduce costs and build profit resiliency

We see four primary sets of "levers" that asset managers can pull to improve operating profit margins and free up resources to invest in growth: de-scoping, organizational effectiveness and simplification, workforce management, and third-party cost management. Many asset managers have announced cost saving targets of 5-15%. Indeed, we contend that asset managers adopting more aggressive strategies can achieve cost savings of 20-40% by making difficult choices to trim their structural cost base.

Focus Area #4: Enhance portfolio construction to consider both systematic and fundamental strategies

Asset managers increasingly seek ways to effectively combine systematic (i.e., selecting securities through rules, often quantitatively composed) and fundamental (i.e. using a portfolio manager's judgment to pick stocks and bonds) strategies. Two reasons drive this trend. Such strategies tend to have lower portfolio implementation costs, which help attract fee-sensitive clients. Additionally, firms can customize such strategies more quickly, often by changing rules. To successfully offer these new strategies, asset managers need thoughtful CIOs who can explore multiple methods of portfolio construction. Having modular production models for investing also helps. Such approaches combine building blocks of low-tracking-error core components with highly active portfolios designed to add alpha.

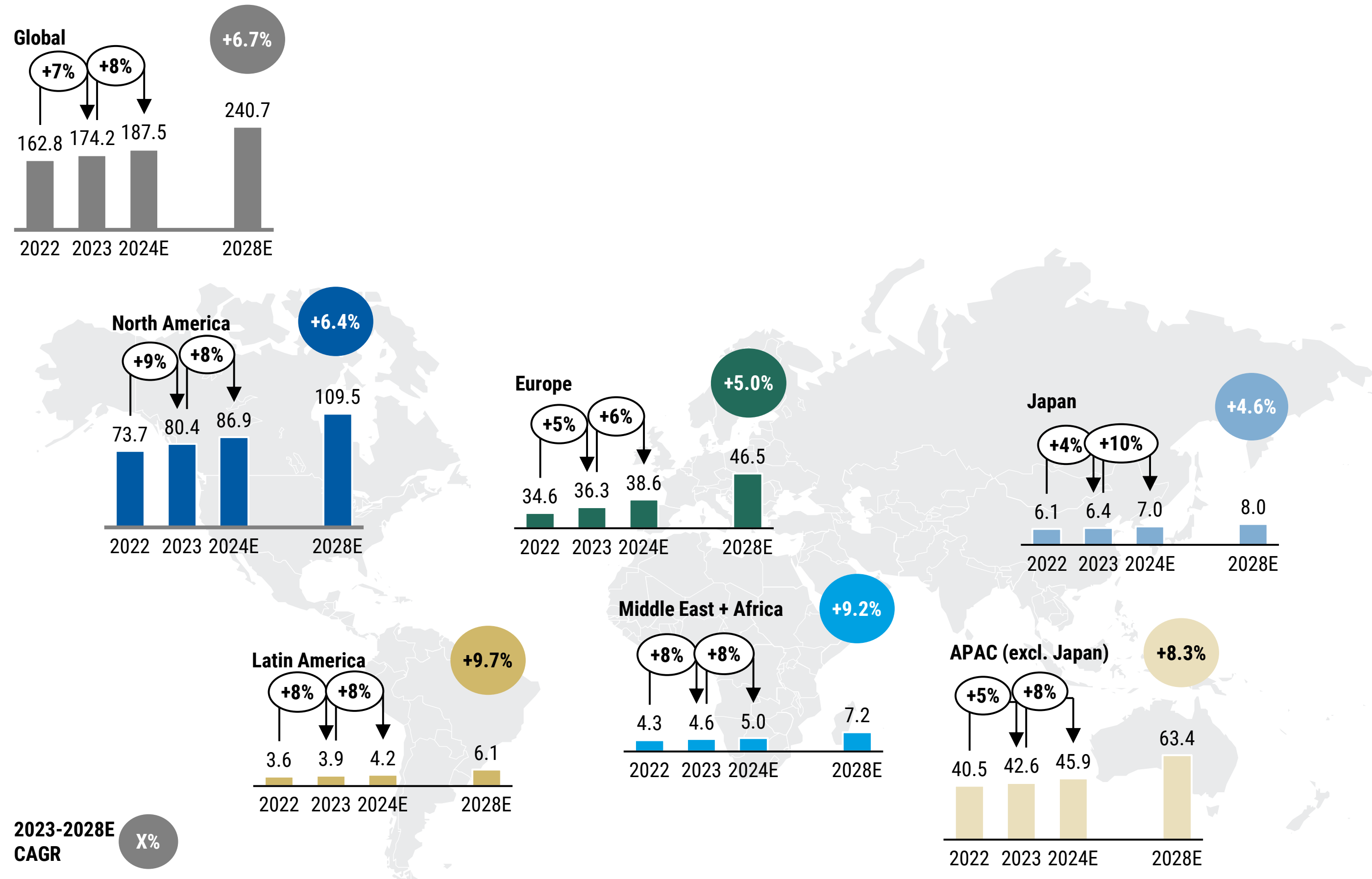
1B: Global Wealth Management Outlook: Cyclical Headwinds, Secular Crosswinds

A rapid and broad-based recovery for global wealth

After 2022 saw the first wealth decline in over a decade, global wealth had a strong rebound year, growing 7.0% in 2023 with continued strong growth of 7.7% expected through 2024 (see Exhibit 8). Growth was largely driven by strong market performance across asset classes and geographies. Year-over-year growth was particularly strong in North America, the Middle East, Latin America, and Eastern Europe. Growth was somewhat lower, but still strong, in APAC, Western Europe, and Japan.

Looking forward to 2028, we project global wealth to grow at an annual pace of 6.7% with dispersion across regions. We expect the Middle East, Africa, and Latin America to continue experiencing the fastest growth. In Japan, following more than a decade of sluggish wealth growth, we expect a rosier near-term outlook, driven by supportive government policy and households funneling a greater share of savings into investments. In absolute terms, however, North America and APAC are expected to continue driving ~75% of worldwide new wealth creation through 2028.

Exhibit 8: Global Household Financial Wealth[1] by Region of Households >$0.3MM in Total Investible Wealth, $TN, 2022-2028E



1. Wealth is defined as investable personal financial assets including investable assets (deposits, equities, bonds, mutual funds and alternatives), excluding assets held in insurance policies, pensions and direct real estate or any other real assets. Numbers for all years were converted to $ at the year-end 2023 exchange rates to exclude the effect of currency fluctuations. Excludes low mass affluent segment (<$300 K). Source: Oliver Wyman Wealth Pools Model

Wealth creation continues to be led by ultra-high net worth (UHNW) households with more than $50 million in assets. We expect UHNW to be the fastest-growing segment from 2023 to 2028 at 8.0% CAGR. This translates into a ~$26 trillion increase in wealth, with UHNW approaching affluent/low-high net worth (low-HNW) as the largest client segment by total wealth. Given significant revenue margin differentials, affluent and low-HNWI investors continue to represent the largest revenue pool in global wealth management, with significant focus by wealth managers around the world.

Exhibit 9: Global Household Financial Wealth [1] and Revenues by Client Segment, $TN (2023-2028E)

	Affluent/Low-HNW USD 0.3–5 MM	**HNW** 5–50 MM	**UHNW** >50 MM
Total wealth 23-28E, $TN	73 / 95	46 / 63	56 / 82
CAGR (23–28E)	5.5%	6.8%	8.0%
2023 share of total	42%	26%	32%
2028 share of total	40%	26%	34%
Total revenue 23-28E, $BN	291 / 372	141 / 189	71 / 99
CAGR (23–28E)	5.0%	6.1%	6.8%
2023 share of total	58%	28%	14%
2028 share of total	56%	29%	15%

2023–28 / 2023

1. Wealth is defined as investable personal financial assets including investable assets (deposits, equities, bonds, mutual funds and alternatives), excluding assets held in insurance policies, pensions and direct real estate or any other real assets. Numbers for all years were converted to $ at the year-end 2023 exchange rates to exclude the effect of currency fluctuations. Excludes low mass affluent segment (<$300k; 2. Includes revenues for (standard) wealth management products for all clients, including complex clients. Source: Oliver Wyman Wealth Management Model

In 2024, we expect $15.9 trillion of household financial assets to be booked offshore. While Switzerland remains the largest booking center and other traditional European booking centers (e.g. the UK, Luxembourg, the Channel Islands) remain prominent, we project that the UAE, Singapore, and Hong Kong will experience more substantial future growth. These centers are better positioned to take advantage of faster growing wealth sources in the Middle East and Asia (especially in fast growing areas such as India). The US is also expected to retain strong growth moving forward.

Exhibit 10: Offshore Wealth by Booking Center, $TN (2023-2028)

	Switzerland	Hong Kong	Singapore	United States	United Kingdom	Caribbean	U.A.E	Channel Islands and Isle of Man	Luxembourg	Others
Cross-border booking center (2023 wealth, $TN)	2.7	2.3	1.7	1.5	1.0	0.9	0.8	0.7	0.5	1.3
Growth 2022-2023 (%)	4%	4%	7%	6%	4%	5%	10%	3%	4%	5%
CAGR 2023-2028 (%)	3%	7%	8%	7%	3%	4%	9%	2%	2%	5%
Top source region of cross-border wealth	Western Europe	APAC incl. Japan	APAC incl. Japan	Latin America	Western Europe	North America	Middle East & Africa	Western Europe	Western Europe	Middle East & Africa

Source: Oliver Wyman Wealth Pools Model

Despite the rebound in global wealth, the wealth management industry is at a crossroads, facing a challenging market environment

In recent years, total revenues have been propped up by NII revenues, which have captured an increasing share (peaking at 26 bps in 2023, see Exhibit 11). However, higher revenue margin NII revenues are not here to stay, as evidenced by the drop back to ~22 bps in 1H24. In the near term, we expect NII revenues to continue to decrease. This has already begun to play out in 2Q24. This decrease is expected due to the continued impacts of cash sorting, competitive pressure to increase cash sweep rates closer to rates from money market funds (especially in the US), and an inability to fully replace deposit NII with lending NII in the very short term. However, as the rate cutting cycle gets well under way, we expect NII to trough by the end of 2024 and start growing again later in 2025, as leverage comes back and deposit mix shifts starts to revert.

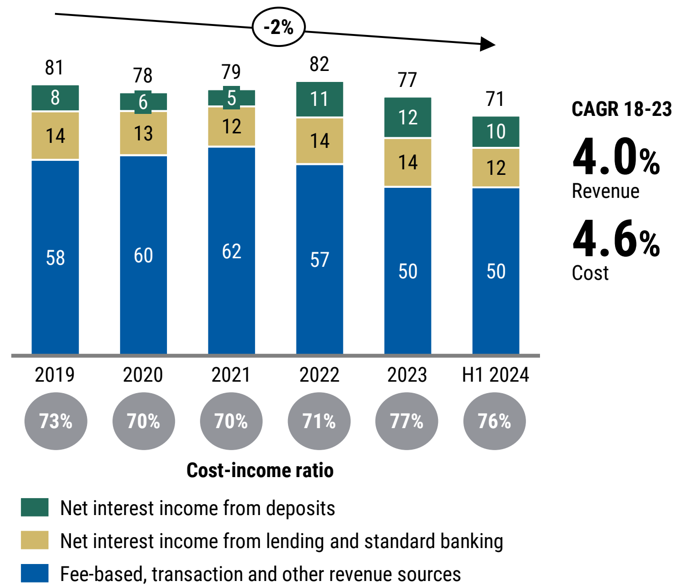
As a result, average revenue margins have fallen from 81 to 71 bps from 2019 to 2024. In a reversal of recent trends, wealth managers also saw the cost-to-income ratio spike to 77% in 2023 and remain at an elevated rate of 76% in 1H24. This was driven by elevated cost pressures across front office, technology, and operations with wage inflation continuing, coupled with a strong decrease in fee-based revenue margin.

Looking forward, with rates expected to fall, some of the decline in revenue margins may be offset by shifting allocations toward higher margin assets such as equities. However, we expect net headwinds on both revenue margins and costs to continue due to downward pressure on fees and increased costs from investing in non-deposit based NII revenues. The industry-level secular shift in client segment mix to lower revenue margin UHNW assets will also continue to have a dampening effect on revenue margins (albeit profit before tax will likely grow overall).

As a result, wealth managers need to take dedicated actions to maintain profitability levels, with cost pressures forcing greater pricing discipline in order to improve price realization from back books.

Exhibit 11: Revenue Margin Decomposition and Cost-Income Ratios (2019-2024)

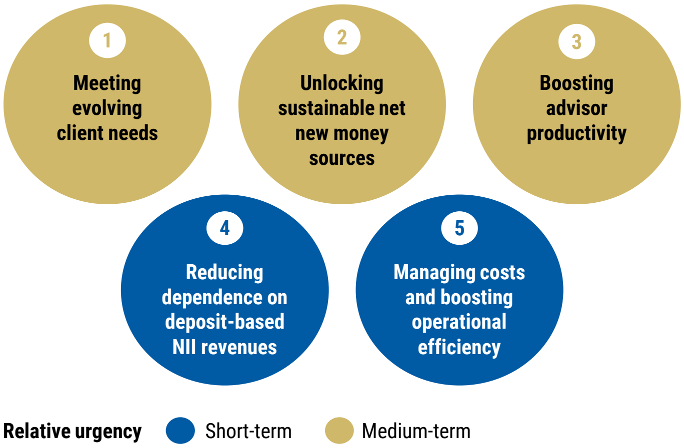
Sample of large global wealth managers (>$200 billion AUM) across Europe, North America, and APAC (simple average, bps for revenue margin)



Source: Oliver Wyman Wealth Management Benchmarking Model

Wealth managers must act now to reverse flagging profit margins

Exhibit 12: Five key focus areas for wealth managers



Source: Oliver Wyman, Morgan Stanley Research

Focus Area 1: Meeting evolving client needs

To capitalize on changing client needs and broadened client scope, wealth managers need to introduce full omnichannel capabilities, complementing human-led approaches with distinct hybrid and digital-led interaction models. This can be turbocharged through leveraging the power of Gen AI especially to better deliver customized advice at scale. Wealth managers also need to broaden their product universe to meet increased demand for alternatives, private markets, sustainable investments, and digital asset investments.

Focus Area 2: Unlocking sustainable net new money sources

Success for wealth managers will hinge on their ability to capture sustainable net new money (NNM) sources and reduce dependence on market volatility. We see retirement and workplace wealth as potentially imporant sources of NNM given the opportunities to build early and trusted wealth management relationships to capitalize when individuals roll out of employer retirement plans. In particular, key channels include financial advice on defined contribution (DC) plans and stock-based compensation recordkeeping (see last year's report for further details). These channels are likely to be an attractive funnel of sticky assets looking out over the next 10 years. In addition, establishing and powering up collaboration between wealth management and corporate, investment, and retail bank divisions within universal banks remains a largely untapped opportunity at most firms.

Focus Area 3: Boosting advisor productivity

A focused strategy for uplifts to advisor productivity will be key for winning wealth managers. As we highlighted in last year's report and in Section 4 of this year's report, embedding Gen AI capabilities into day-to-day advisor activities has the potential to be a transformative unlock. Reductions in time spent on routine or administrative tasks means advisors can focus their attention on client servicing and profitable prospecting. In conjunction with AI, centralized effectiveness initiatives can also unlock productivity, as service teams become more standardized and efficient.

Focus Area 4: Reducing dependence on deposit-based NII revenues

While expectations of lower interest rates may reduce pressures on cash flows, increased regulatory scrutiny around cash sweep programs is expected to lead to lower spreads at some firms, driving down deposit-based NII revenues. It will be challenging to offset these revenues in the short term given the lower spreads on fee-based revenues and the higher capital, liquidity, and operational costs associated with lending-based NII. However, despite these challenges, expanding into higher-quality revenue sources (e.g., from greater mandate or alternatives penetration) remains essential for wealth managers aiming to capitalize on the higher associated valuation multiples.

Focus Area 5: Managing costs and boosting operational efficiency

Wealth managers will need to consider their operating models carefully and assess their cost drivers judiciously. From a strategic standpoint, in order to lower and differentiate costs to serve, wealth managers need to continue investing in more efficient technology and operating models, streamlining, and automating key client journeys, processes, and value chain steps front-to-back. They need to move from monolithic legacy core banking systems to more modular architectures. In the short term, the strategic measures need to continue to be complemented by rigorous performance management, de-layering and scrutiny of front- and non-front-office costs.

2. The 'Age of Aging'

As our outlook for the wealth and asset management industries makes clear, the path forward is fraught with a number of secular headwinds that will make achieving organic growth difficult for many. To combat these headwinds, the strategic prescriptions we have offered here and in previous reports are just as relevant today as they were previously. Those firms that can better execute on those imperatives stand to gain share and, most important, deliver improved outcomes for clients.

However, there is another significant opportunity emerging.

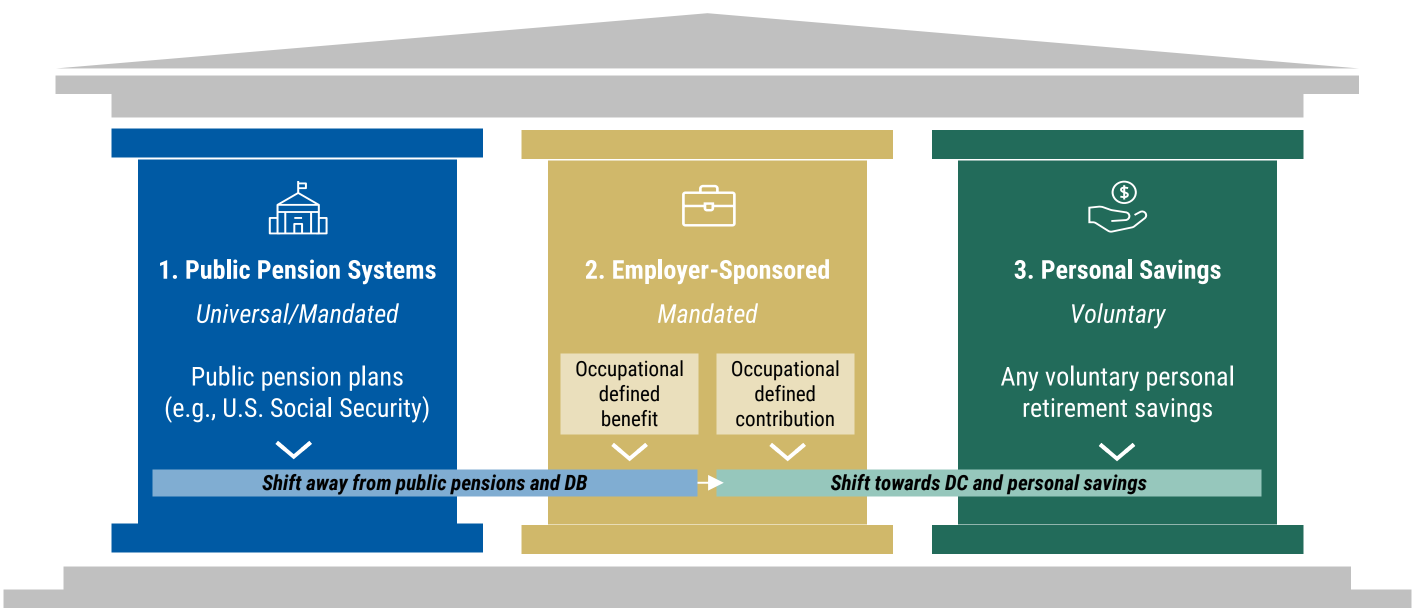
Long-in-the-making demographic shifts and lifespan increases have reached a critical point — in the US, for example, a historic surge in retirement is projected in the next five years as over 30 million "Peak Boomers" reach retirement age.[5] Many countries are now at a demographic tipping point, shifting into a period we refer to as the "Age of Aging." These aging populations are now pondering their futures in the context of slimmed-down and overburdened retirement. In recent years, these trends have only accelerated in light of inflationary pressures and impending regulatory changes. Cumulatively, this has created a fundamental challenge for people — and societies — trying to figure out how to save and spend in a significantly extended accumulation and retirement periods.

5. Retirement Income Institute, 2024.

2A: Aging and Longer-Lived Populations Face New Retirement Challenges

In many developed countries, individuals within the traditional lifecycle model of retirement faced a relatively simple picture. They would work until their retirement age (often with the same employer), accumulating assets for retirement through DB plans without needing to manage their own investments. Post-retirement, they shifted seamlessly into decumulation, relying on stable pension payments from public pensions and from their DB plans, which had accumulated in a reliably high-interest rate environment. Meanwhile, personal retirement savings, while serving as a helpful additional income source, were not critically essential. Now, in an increasing number of developed countries, many critical aspects of this picture have changed.

Exhibit 13: The Three-Pillar Conceptual Framework for Retirement Savings

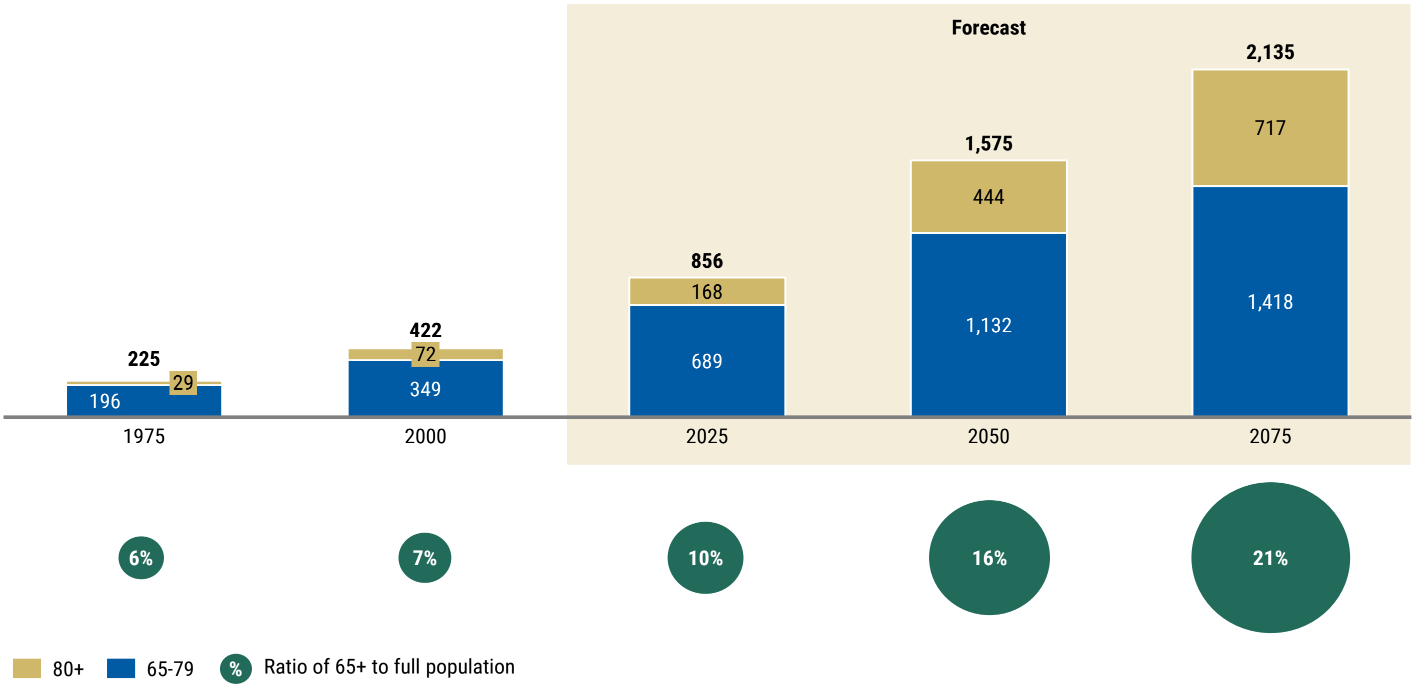


Source: Oliver Wyman, Morgan Stanley Research

Key Change 1: Global aging has further exacerbated pension system strains

The world population is rapidly shifting, with more than double the number of people aged 65 or older in 2025 compared to 2000. By 2050, 1 in 6 adults, or ~1.6 billion people, will be elderly. Nearly 450 million will be above the age of 80, a ~15x increase compared to 1975. At no point in human history has society had to grapple with an aging of this scale across geographies.

Exhibit 14: Global population by age group (millions)



Source: 2024 United Nations Population Divisions (medium scenario projections)

The aging transformation has been driven by two independent trends:

1. **Falling birth rates:** On average, women today bear one fewer child than they did in 1990 — resulting in the birth rate plummeting globally from 3.3 to 2.3 live births, with more than half of all countries falling below the replacement level[6] of ~2.1 births per woman. Of countries below the replacement level, many have attempted a variety of creative measures to boost birth rates. [7] But, so far, no countries have successfully been able to increase and sustain birth rates above the replacement level.
2. **Increased longevity:** Fueled by advancements in healthcare and living standards, average life expectancy reached 83.0 years for G-7 countries in 2024, an increase of 5.4 years compared to 1995. Projections suggest that life expectancy will continue to rise to 86.4 years by 2050. This could be further accelerated by new discoveries in medicine (e.g., GLP-1s).[8] ,[9]

The implications of this aging on a societal level are stark: Many working age populations (i.e., the share of people in a population between the ages of 15 and 64 who are considered capable and likely to work) have either peaked or are on the verge of peaking.[10]

This has grave consequences for pension systems, specifically a precipitous decline in the number of individuals available to contribute toward and sustain retirement funds for aging populations.[11] Financial strains for public and private pension systems have been compounded by chronic underfunding, unrealistic assumptions around the actuarial rate of return, and persistently low returns on fixed income investments (historically a significant allocation for most pensions), driven by low interest rates over the past decade relative to longer-term levels.

6. The replacement level is the average number of children born per woman at which a population exactly replaces itself from one generation to the next, without migration.
7. Scaling up the Impact of Obesity Drugs, Morgan Stanley, 2024.
8. United Nations 2024 Population Projections.
9. Scaling up the Impact of Obesity Drugs, Morgan Stanley, 2024.
10. United Nations 2024 Population Projections.
11. Japan Offers Lessons in Longevity, Morgan Stanley, 2024.

Key Change 2: Public Sector Attempts to Address Retirement Issues Have Been Insufficient

The accelerating combination of aging populations, expanding government debt levels, and mismanaged pension resources means that governments have found it increasingly difficult to address retirement issues — particularly public pension shortfalls — without resorting to more drastic measures.

In many cases, governments have already changed longstanding post-retirement schemes (or may well have to do so in the near future), by either cutting payments or increasing retirement ages. For example, recent changes in countries such as the Netherlands and Denmark tie retirement ages to life expectancies.

Other governments may be unwilling to pass fundamental changes to the social contract of pensions. These countries will likely be required to increase taxes to keep pension systems afloat at their current benefit levels. In the process, this will reduce the income available for savings by younger generations, exacerbating their future retirement challenge.

In either case, individuals' ability to rely on public pensions will decrease as they increasingly rely on defined contribution (DC) and personal retirement plans for post-retirement income. History has already shown us examples of countries that have benefitted from incentivizing this shift toward personal savings: Australia introduced the Superannuation Guarantee in 1992, requiring employers to contribute into a retirement account a portion of income for every worker aged 18 to 70. Australia now has the 4th largest retirement system despite having only the 54th largest population.

In the future, as populations further age, we expect the need for such policy changes to grow.

Key Change 3: DB plans have declined in prominence worldwide

Tightly correlated with the increased inability of governments to address retirement issues in pillar one is the fall of DB plans worldwide in pillar two. Among the seven largest pension fund markets, DB has gone from 63% of global pension assets in 2003 to 42% in 2023, replaced by defined contribution (DC) plans.[12] Recent regulatory shifts are expected to accelerate this trend, as once staunchly DB-focused nations pass legislation to either partly (e.g., Germany) or fully (e.g., the Netherlands) transition DB assets to DC. The decline of DB has shifted the burden of managing retirement assets to individuals, who struggle to adequately plan for retirement.

Key Change 4: Inflation has added another wrench, as cost-of-living rises

The resurgence of inflation and rising interest rates have significantly diminished the real value of savings. The US Consumer Price index has increased by 17% since January 2021.[13] The picture is similar globally among most developed countries. This decline translates to a substantial reduction in annual income for retirees — in real terms, this represents a hypothetical 65-year-old's cash savings dropping from $2.50 million to $2.14 million, reducing their real annual income from $100,000 to $85,600.[14] To the extent the low inflation period between the financial crisis of 2008 and COVID-19 is considered a historical anomaly, this will add a layer of complexity to saving, investment, and decumulation decisions that individuals will increasingly have to navigate.

12. Global Pension Assets Study 2024, Thinking Ahead Institute.
13. Bureau of Labor Statistics (BLS).
14. Assumes a 4% return on principal.

2B: These Changes Are a Challenge for Individuals, Who Struggle to Manage Retirement and Show a Stark Lack of Confidence

Hundreds of millions of people around the world can no longer solely — or even partly — rely on government- or employer-provided pension systems to secure their retirement. The responsibility of managing retirement savings has increasingly shifted to individuals who use a combination of defined contribution plans, personal retirement plans (non-occupational tax-advantaged plans), and personal non-tax-advantaged accounts. This raises a myriad of questions when considering how to approach retirement (see Exhibit 15).

Exhibit 15: Key questions of different individual segments related to retirement and longevity (non-exhaustive)

Segment	Pre-retirement phase	Post-retirement phase
Mass Affluent to Low HNW ($<5MN)	• How much money do I need to save now to live comfortably after I retire and not run out of money? • What are the best investment options for maximizing my retirement savings? • How much should I invest in my personal vs. state- or company-backed retirement accounts? • How can I balance savings for retirement vs. still being able to live comfortably now? • Do I need insurance? • How can I access alternative investments?	• How much can I afford to withdraw and what is the best way to withdraw? • How can I ensure a legacy of financial security and prosperity for my family and loved ones? • How can I protect my assets and investments from potential risks and market volatility?
HNW and UHNW ($>5MN)	• How can I access specialized financial services and expertise tailored to my unique needs? • What are my options for philanthropic endeavors and legacy planning to make a lasting impact without affecting my retirement wealth? • What are the opportunities for alternative investments and private wealth management solutions to maximize my wealth? • What are the tax implications of different wealth management strategies in retirement?	• How can I preserve and grow my wealth during retirement? • How should I best navigate generational wealth transfer? • What are the estate planning considerations for managing and distributing my wealth? • What are the options for charitable giving and philanthropy to make a positive impact with my wealth? • What are the (inheritance) tax implications and strategies for minimizing tax liabilities?

Source: Oliver Wyman, Morgan Stanley Research

Answering these questions is made more difficult by a paradox of choice as individuals increasingly have access to an overwhelming array of financial products and investment options. This can make it incredibly difficult to understand how these various products fit together to form a cohesive retirement strategy. Furthermore, individuals often lack the knowledge to effectively manage their investment risks and spending patterns over the long term. Some individuals have access to advice. But for those that do not it can all become overwhelming, the consequence of which is often inaction.

The unfortunate result of this is that workers and retirees have experienced a notable decline in confidence. For example, in the US, less than half of working adults aged 50-75 believe they will be able to cover basic living expenses in retirement with guaranteed income sources. Additionally, inflation significantly impacts retirement confidence, with 29% of workers and 42% of retirees citing it as a major concern.[15]

15. 2023 Retirement Confidence Survey, Employee Benefit Research Institute.

When left to their own devices, a significant portion of retirees oversave and underspend due to lack of confidence

The life-cycle hypothesis suggests that individuals' spending and saving behaviors follow a predictable, smooth pattern: They borrow and spend more in youth, accumulate wealth in middle age, and decumulate savings in old age. However, recent evidence indicates that many retirees are not spending down their wealth as expected, challenging this model.

Baby boomers are the biggest culprits, particularly wealthy ones. For instance, Japanese retirees spend only 1-3% of their net worth annually, and 40% of retired elderly in Italy continue to accumulate wealth.[16] After nearly two decades of retirement, the average American retiree still had 80% of their pre-retirement money saved, with only 32% feeling comfortable about spending what they saved.[17]

The prospect of living to 100 and the financial uncertainty that such long time frames create, including dealing with the burden of long-term care and the desire to pass wealth to children and grandchildren (or even great grandchildren) generations, makes it clear why many retirees are hesitant to spend their savings.

16. Niimi, Yoko & Horioka, Charles. (2019) The Wealth Decumulation Behavior of the Retired Elderly in Japan. Journal of the Japanese and International Economies, vol. 51.

17. 2024 Blackrock Read on Retirement Survey.

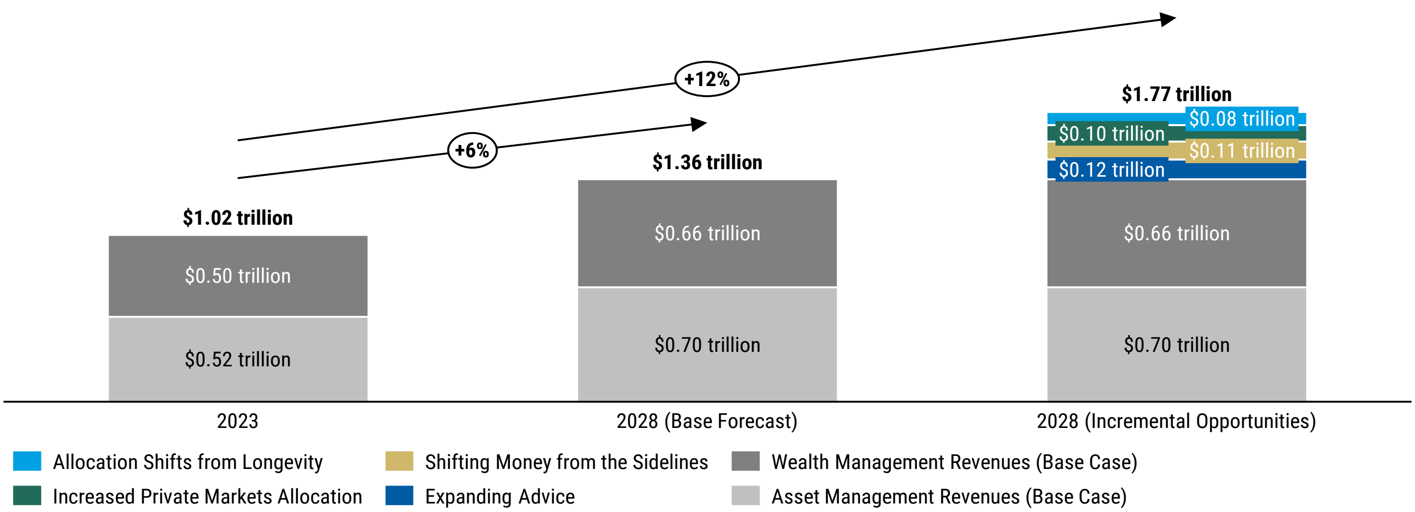
3. Longevity Opportunities for Asset and Wealth Managers: Moving from Silos to Ecosystems

Despite the changes in longevity, demography, financial market and retirement policy, individuals' needs for retirement have remained consistent: understandable, cost-effective products offering some form of income guarantees; thoughtful and personalized advice; and a seamless customer experience. Unfortunately, the current retirement ecosystem — and the asset and wealth managers who play within it — have been increasingly unable to meet those needs at scale. Solving for these needs in the "Age of Aging" will require taking a broader retirement ecosystem-level view.

We believe that the potential incremental revenues associated with the retirement opportunity driven by the factors underlying the "Age of Aging" could represent over $400 billion by 2028

Incremental revenues come from four sources: 1) increased private markets allocations, particularly for retail investors; 2) shifting personal financial assets "sitting on the sidelines" in deposits and cash into retirement-focused accounts; 3) expanding advice to a broader proportion of the population; 4) non-private markets allocation shifts due to greater longevity.

Exhibit 16: Potential Incremental Revenues from Retirement and Longevity, $TN (2023-2028)



Source: Oliver Wyman Wealth Model, Oliver Wyman Asset Management Model

Capitalizing on this opportunity necessitates a rethinking of the role each industry plays in individuals' broader retirement journeys. In Section 3A and 3B, we outline a number of strategies asset and wealth managers can pursue within their own industry footprint to capture portions of this opportunity. However, as we outline in Section 3C, working in industry siloes will only solve a piece of the problem; the largest opportunity lies in developing more integrated and holistic solutions that combine elements across the entire retirement ecosystem.

3A: Opportunities for Asset Managers

Successful asset managers will continue to be characterized by those that can deliver reasonably priced investment alpha, distribution and service alpha, and operational excellence — those fundamentals are never going to change. But in thinking about how managers can best position themselves to capitalize on the retirement opportunity specifically, we see two incremental actions that they can take.

Innovate the product shelf to meet emerging retirement needs

There is a wide range of products that help clients meet their accumulation needs. When expanding the perspective to consider products that help individuals meet not only their accumulation needs but also their protection and decumulation needs, the list is much smaller. It has, however, grown significantly over the last several years as more firms turn their product R&D attention toward this opportunity (see Exhibit 17). We expect a lot more innovation to come as the pressure intensifies to deliver better retirement solutions to a broader array of individuals across the world.

Exhibit 17: Asset management-oriented solutions (non-exhaustive)

Solution	Description	Considerations	Example products
Buffered ETFs	• ETFs designed to provide downside protection in exchange for capped upside returns	• Downside protection varies • Payouts are not guaranteed • Higher fees compared to plain vanilla ETFs	• Products vary by asset manager
Managed payout funds	• Diversified mutual funds that provide targeted payouts	• Payouts not guaranteed but usually rise with inflation • Funds can deplete principal or only pay gains • Daily access to principal, unlike annuities • High minimums may exclude lower mass market	• Products vary by asset manager
Structured products	• Pre-packaged investments combining traditional securities with derivatives	• Can be designed to protect principal • Offers ability to customize various assumptions into one instrument • No uniform pricing standards • Often oriented towards HNW/UHNW • Limited secondary market	• Guarantee notes • Rainbow notes (i.e., exposure to more than one underlying asset)
Income generating options / overlays	• Strategies that generate income by selling options on an owned security	• Tailored to meet specific income needs and risk tolerance • High degree of education required	• Covered calls • Put write
Retail private markets solutions	• (Semi)-illiquid private markets investments available to retail investors	• Increased longevity means a longer time horizon to take additional market/liquidity risk to power accumulation needed for longer decumulation • Growth of secondaries markets provides increased liquidity	• European Long Term Investment Funds (ELTIFs) • TDFs with private markets allocation • Interval funds
Mortality credit pool	• Fund structure that provides longevity protection through pooling survivorship credits	• Balances capital appreciation with longevity protection • Payouts increase over time as surviving members of the pool get more credits	• Tontines

Source: Oliver Wyman, Morgan Stanley Research

Uptake of these products varies by market. For example, structured products are popular in Europe, with a wide array of payout structures and strong preferences for equity-linked products, and in Asia, where rapid wealth growth and a higher risk appetite have fueled demand for these products.[18] On the other hand, buffered ETFs have gained significant traction in the US market since their introduction in 2018, attracting over $37 billion in assets[19] as investors seek ways to protect their portfolios while still garnering upside. Buffered ETFs, however, have struggled to gain a foothold in Europe (<$190 million in assets) due to a lack of familiarity among investors, stiff competition from established active funds, and preferences for pure-play asset exposures from institutional investors.

The mixed adoption across geographies for different types of solutions highlights the reality that there likely won't be a one-size-fits-all product solution to retirement. Instead, asset managers can take the initiative to reap significant benefits from shifts in investor demand if they can innovate and get credible products to market quickly. This is particularly true for retirement products, where market nuances (often driven by different tax advantages) and investor preferences can vary significantly. To capture the "product innovation alpha" in this market, managers should focus on building nimble retirement product R&D functions, which can bring together investments, distribution, legal, tax, and investment operations to rapidly conceive, design, seed, and launch products into the market.

As we will highlight in 3C, there is only so much that asset managers can do on their own in terms of product development. The increasing popularity of insurance-oriented solutions points to a need for asset managers to couple their product manufacturing expertise with insurers' balance sheets and unique product structures to address additional aspects of retiree needs.

18. LPA, "Comparing Structured Products in Europe and Asia."

19. "Buffer ETFs yet to Recreate US Success in Europe." ETF Stream, 14 May 2024.

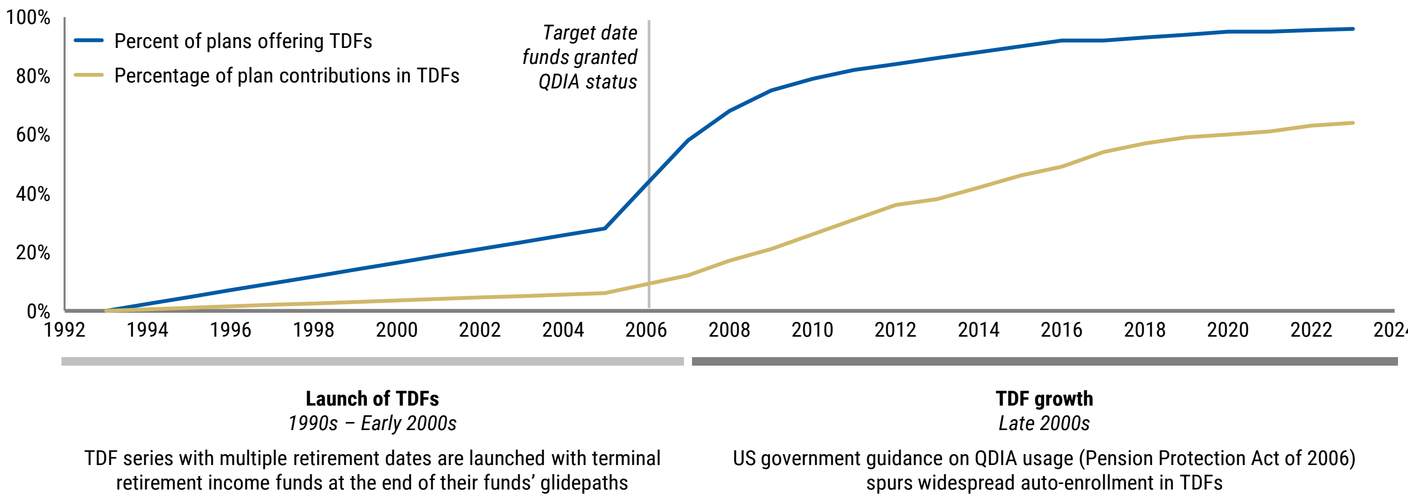
Be ready to pounce on regulatory and consumer shifts by "betting" on a handful of products best suited for key markets

In general, the asset management market is a global industry where products can be designed and distributed across different markets with minimal underlying changes to the strategy or product mechanics.

In contrast, the complexities and nuances of the retirement market across different countries necessitates a more country-specific approach for those managers looking to export their capabilities outside of their home markets. Even when serving domestic markets, the complex array (and shifting nature) of regulatory requirements and incentives, availability and sufficiency of public pension schemes, and the unique needs and preferences of different populations introduces product development complications.

Favorable government policies will play a crucial role in shaping future opportunities for asset managers as, in the past, they have served as catalytic events for retirement innovation and opportunities. For example, the Pension Protection Act of 2006 spurred the adoption of Target Date funds in the US by enabling automatic enrollment in retirement plans and providing a safe harbor for fiduciaries who select TDFs as default investment options.

Exhibit 18: Adoption and Contribution Rates of Target Date Funds in the US, 1993-2023

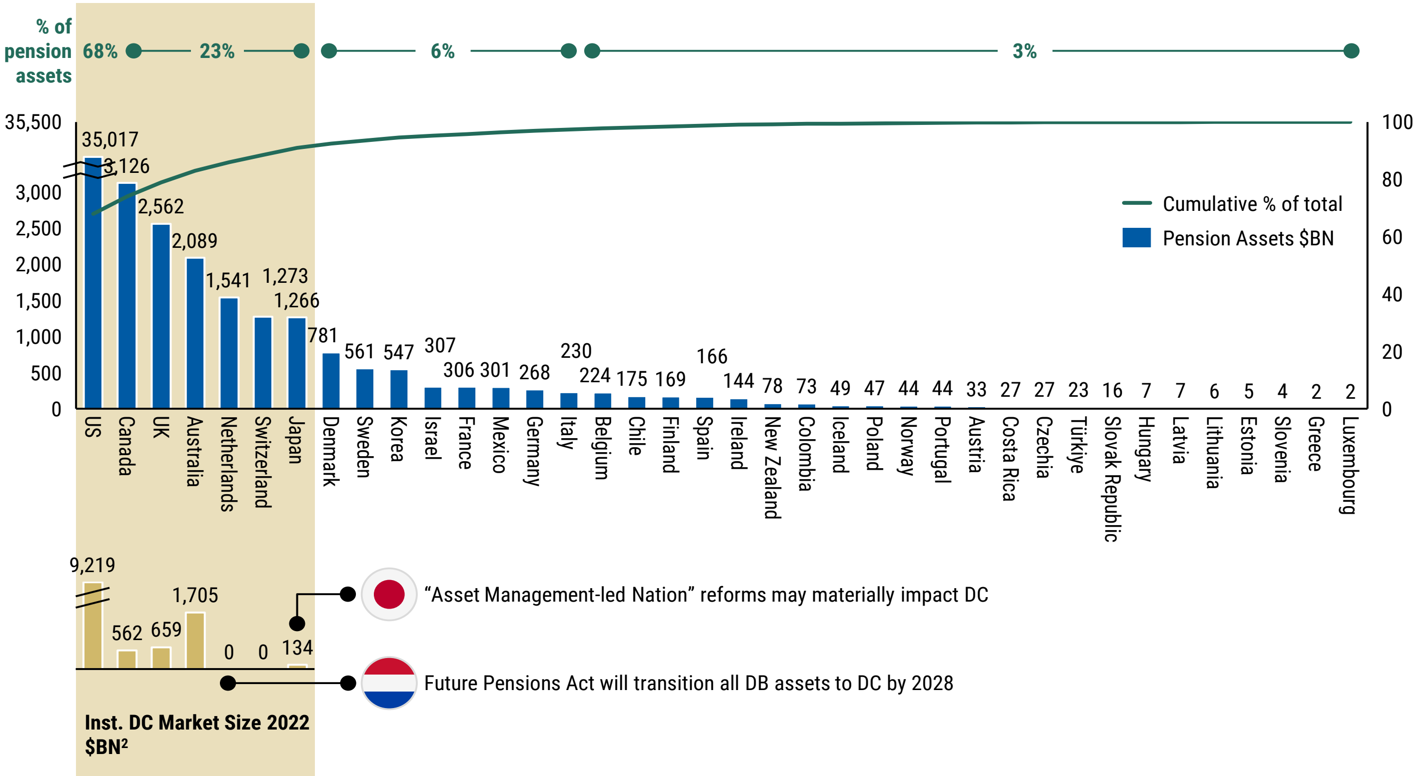


Sources: Vanguard, "How America Saves Report 2024", Oliver Wyman Analysis

Asset managers who can anticipate and, to some extent, help shape the policy landscape will be best positioned to develop purpose-built products and services that can capitalize on the opportunities these initiatives create. To that end, some leading firms have appointed retirement "tsars" who have government experience and expertise in retirement policy. They have been given specific mandates to monitor trends, engage with regulators, and think through the strategic repercussions of policy on product development.

For asset managers looking to make headway within global retirement markets, the United States continues to represent the largest opportunity by far. However, opportunities can be found in other major global markets given shifts within Pillar 2 from DB to DC and an increasing focus on Pillar 3 (see Exhibit 20).

Exhibit 19: Global pension market size (Pillar II) for OECD countries



1.Includes personal non-employer plans such as IRAs in the US; Total pension assets sourced from OECD;

2.Excludes personal non-employer plans such as IRAs in the US and SMSF in Australia; DC market sizes sourced from individual governmental sources;

Sources: OECD, ICI, IA, APRA, EuroStat, Japan Pension Fund Association, Thinking Ahead Institute

Exhibit 20: Key retirement trends and opportunities across select pension markets (non-exhaustive)

Market	Trends and Opportunities
United States	• >50% Americans projected to lack sufficient retirement funds • Pandemic and market volatility shifted preferences; 45% seek investments with downside protection and retirement income solutions – although they currently lack QDIA status • While guidance is still evolving and has been tempered, US Department of Labor (DOL) has opened up possibility for greater incorporation of private markets into DC plans
Australia	• Intense regulatory environment (e.g., performance tests for funds) with corresponding pressure on margins and decline of financial advisors by 43% from 2018 to 2023 • Potential to develop superannuation products that facilitate legacy planning, as >50% wish to leave >25% of super to children • Increasing push within supers to offer guaranteed income products, spurred by government pressures
United Kingdom	• Mandatory auto-enrollment in DC (2012) led to inflows surging over 27% annually; the market has now matured • Traditional guaranteed income products are less popular due to solvency requirements, but demand remains for hybrid solutions • DC plans relatively under-allocated to private markets; Mansion House Compact (pledge of largest DC providers to allocate 5% to unlisted equity by 2030) indicates greater interest • Increasing importance of personal retirement savings present D2C opportunities for simple, cost-effective products and advice
Japan	• Slow shift from DB to DC, expected to accelerate with "Asset Management-Led Nation" initiative which aims to: improve financial literacy, incentivize assets in deposits/savings to shift towards investment products, and improve DC governance to create opportunities for new entrants • Trust banks and insurers have expertise in domestic markets, but increasingly rely on 3rd party asset managers to manage overseas securities & alternative investments
Canada	• 53% of Canadians are unsure about their retirement needs and less than half have a financial plan in place • Growing population at or near retirement increases the need for effective, tax-efficient income conversion solutions and alternative cash flows (e.g., through reverse mortgages)
Netherlands	• Future Pensions Act will transition all DB assets (~€1.5 trillion) to DC by 2028; pension funds will offer two types of DC schemes: "solidarity contract" (fund decides investment mix) and "flexible contract" (members choose investment strategies) • Growing interest in personalized investment options as members gain more control and opportunity for educational and advisory services to help members navigate new investment choices
Italy, Germany, France, Spain	• Markets still characterized by a generous state pension system – makes up 70-80% of older population income vs ~40% that is seen in countries like the UK or US that have a more developed Pillar II and Pillar III pension system • Unsustainability of generous pension systems suggest potential for shift towards Pillar II (DC) and Pillar III, similar to other countries
China	• Foreign asset managers face challenges in establishing a presence due to strong competition from domestic banks with established networks and regulatory advantages • Strategic alliances or joint ventures with local institutions can help foreign asset managers leverage existing distribution networks, navigate regulatory hurdles, and foster trust with younger generations who are more skeptical of savings systems

Source: Center for Retirement Research at Boston College, "The National Retirement Risk Index: Version 2.0"; LIMRA, "Future Retirees Face a Different Reality and Increasingly Look to Annuities for Financial Security"; DOL Information Letter 06-03-2020, DOL Supplemental Statement 12-21-2021; Rainmaker Information, "Australia faces shortfall of Financial Advisers"; The Rethinking Retirement Report 2024; CPP Investments; OECD Income Distribution Database.

3B: Opportunities for Wealth Managers

The impact of longevity differs based on the client segment in question. For high and ultra-high net worth clients, longevity presents new opportunities and challenges to maintain lifestyle and navigate more complicated wealth transfer dynamics. For affluent clients, while these concerns also play a role, ensuring a smooth and stable transition to retirement is paramount.

Exhibit 21: Opportunities for wealth managers

Category	Opportunities
Personalize Advice	i. Deliver advice at scale, using technology to overcome cost inefficiencies and meet growing market demand for advice driven by longer life expectancies and retirement concerns
	ii. Invest in advisor educational and in educational tools for clients given the complexities associated with new products and increased importance of wealth planning in the "Age of Aging"
Innovate Product Offering	iii. Increase allocation in private markets to address need for higher returns and diversification as individuals' longevity increases
	iv. Create better access to products with downside protection, making them more consumable, and easily understood
	v. Improve Chief Investment Officer (CIO) and centralized investment management models to reflect higher return requirements to support longer lifespans, incorporate downside protection, and factor in individuals' health conditions
Evolve Service Delivery	vi. Evolve to meet needs of next generation decision-makers, including women and younger generations
	vii. Double down on ancillary services as they become less of a "nice-to-have" and more of an essential differentiator and valuable customer retention device

Source: Oliver Wyman, Morgan Stanley Research

Personalize Advice

Coverage models need to evolve to more effectively provide personalized advice to individuals as they move into retirement, deliver comprehensive planning by leveraging technology, and invest in advisor education and educational tools for clients.

i. Deliver advice at scale through technology

In the evolving landscape of wealth management, technology empowers advisors to deliver personalized advice at scale, particularly crucial as longer life expectancy and more complicated retirement journeys require more guidance. By integrating external data from diverse sources — such as DC and DB plans, bank accounts, brokerage accounts, and real assets (e.g., real estate) — advisors can gain a comprehensive view of each client's financial situation. Predictive analytics further enhance this capability, enabling advisors to assess clients' progress toward retirement goals under various market conditions and tailor services through behavioral segmentation. AI aids in clarifying product differences and recommending optimal portfolio strategies, while advanced visualization tools illustrate the potential impact of investment decisions, including the benefits of specific products like downside protection.

ii. Invest in advisor education and in educational tools for clients

In wealth management, education serves as a critical enabler for maximizing the impact of product offerings and enhancing service delivery. A key barrier to product adoption often lies in the lack of understanding among both advisors and clients. Especially with products like private markets or annuities, not all advisors are equipped with sufficient knowledge on where and how these can be incorporated in different strategies. Education becomes a critical enabler for advisors to recommend strategies that deliver the best outcome for the client rather than suboptimal ones that are more familiar to the advisor. Similarly, educating clients and helping them understand how specific products can help them meet their financial goals gives them confidence in the portfolio construction choices being made. This enhances client satisfaction and drives engagement, leading to better outcomes and increased loyalty.

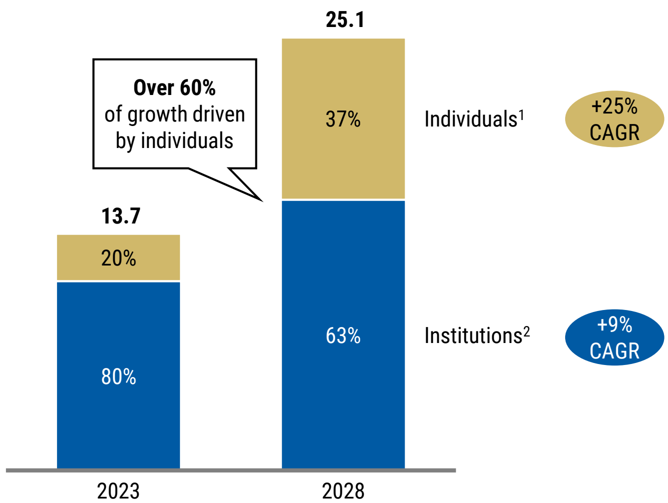
Innovate Product Offering

iii. Increase allocation in private markets

To deal with longer life expectancy and achieve higher returns during the accumulation period, private markets offer unique diversification opportunities beyond traditional asset classes. This diversification helps mitigate risk and reduce overall portfolio volatility, particularly in highly correlated investment environments. Private market investments also tend to yield higher returns, making them attractive to investors seeking enhanced income potential and protection against inflation.

By navigating the complexities of private markets, affluent and high-net-worth investors can develop balanced and resilient investment strategies that align with long-term financial goals. As a result, we see individuals driving much of the growth in private markets moving forward (see Exhibit 22).

Exhibit 22: Private Markets AUM by Client Segment ($TN)



1. Includes Households with >$0.3MM in Total Investible Wealth 2. Includes Insurers, DB, DC, Sovereign Wealth Funds and Endowments | Source: Preqin, Oliver Wyman analysis

It is important not to paint all wealth clients with a broad private markets brush; the specific needs of individuals vary based on the client segment in question, as highlighted in Exhibit 23 .

Exhibit 23: However, specific needs for individuals vary based on the client segment in question

Segment	Needs
UHNW	• Flow of high-quality secondary and co-investment opportunities • Access to top-tier, knowledgeable managers • Bespoke asset allocation and portfolio construction • Greater liquidity e.g., via secondary trading optionality
HNW and Affluent	• Nascent demand for co-investment opportunities at upper end of HNW • Best-in-class advice on portfolio construction and asset allocation • Greater liquidity, e.g., via shorter minimum lock-up periods • Lower minimum investment thresholds in affluent client segment

Source: Oliver Wyman, Morgan Stanley Research

While barriers to expanding retail, affluent, and HNW investors' access remain, emerging solutions present an opportunity to differentiate

The most prominent barriers to individuals' access remain high minimum investments, lack of transparency, liquidity concerns, and regulatory restrictions. To address these challenges, emerging solutions include:

- Fractional ownership and fund structures that pool capital from multiple investors to significantly lower minimum investment thresholds
- Secondary trading platforms and fund structures that allow for shorter lock-up periods, providing individual investors with greater flexibility and liquidity
- Education for both advisors and consumers on the benefits and risks associated with private investments to build trust and understanding

Finally, regulatory changes may further democratize access (e.g., potential changes to the accredited investor definition by the SEC, harmonization of regulation across European markets, and safe harbor by the US DOL that could open access in retirement and DC channels).

iv. Create better access to products with downside protection

As life expectancy rises, individuals face increased financial risks related to healthcare costs and retirement planning. Innovative insurance-linked products can offer tax-deferred growth mechanisms to manage longevity risk and facilitate wealth accumulation through structured savings and investment options. These products also provide lifelong protection through life insurance, income protection, minimum payment guarantees, and other methods. They can also help with estate taxes and expenses, ensuring a smoother wealth transfer. Additionally, long-term care insurance solutions can ease the burden on families by providing necessary care without depleting savings. By aligning with longevity trends, insurance-linked products empower consumers to secure their financial futures and enhance their quality of life in later years.

However, these products are often underutilized due to the complex sales process, a wide product range, and lack of education. Technological integrations can simplify the sales process for wealth managers, making it easier to present and manage these products effectively. Partnerships between wealth managers and insurers can also simplify offerings, providing tailored solutions for clients. Finally, educating wealth managers on the benefits and mechanics of insurance-linked products will enable them to confidently incorporate these tools into client strategies, leading to better outcomes for both clients and advisors.

v. Improve CIO and centralized investment management models

To optimize risk-return in context of longer lifespans, CIO models can be enhanced to incorporate downside protection, consider individuals' health conditions, and diversify portfolios. This strategic shift ensures investors are shielded from market volatility while pursuing growth assets, such as private markets. Integrating health conditions into investment strategies allows for a personalized approach that aligns financial goals with potential healthcare needs, like dementia or diabetes.

Exhibit 24 Factors considered in model portfolio construction

Financial Goals and Expenses	Market Conditions	Simple Set of Assets	Health Screening	Downside Protection	Broader Range of Assets
Age of investor and target retirement date	Interest rates	Public equity mutual funds and ETFs	Family history for severe illness	Annuities including different guarantee riders	Private Equity
Current expenses	Macroeconomic outlook	Public fixed income mutual funds and ETFs	Current health tests	Long-term care	Private Credit
Planned future expenses	Inflation	Multi-asset class	Preferences towards end-of-life care	Life insurance	Infrastructure
Focus on growth vs. capital preservation				Option contracts	Private Real Estate
Commonly Used			**Less Commonly Used**		

Source: Oliver Wyman, Morgan Stanley Research

Evolve Service Delivery

vi. Evolve to meet the needs of the next generation of decision-makers

In the US, ~$70 trillion in wealth is expected to be transferred by 2042. Wealth managers face the risk of losing clients during this transfer, as younger generations and women have distinct preferences: for instance, 70% of heirs in the US tend to change financial advisors after inheriting their parents' wealth.[20] Therefore, advisors must adapt to the preferences of younger generations and women more than ever before.

Younger generations, such as Millennials and Gen Z, value digital tools, transparency, and personalized financial guidance. They seek collaborative relationships with advisors and prioritize long-term financial stability. They diversify their portfolios with real estate and retirement funds while relying on digital platforms for research and advice. Gen Z places an even greater emphasis on digital connectivity and personalized experiences, expecting seamless integration of physical and digital services. They also show openness to digital currencies and asset tokenization, according to research conducted by the Oliver Wyman Forum.

On the other hand, female investors prefer lower-risk investments and value personal connections with their advisors. They prioritize financial security and are more likely to invest in socially impactful companies. They seek expert advice and trust-based relationships, and are often willing to pay more for personalized, in-person services. However, many women feel misunderstood by their wealth managers, leading to high turnover rates, especially after significant life events like the loss of a spouse.

vii. Double down on ancillary services

Ancillary services — as detailed in Exhibit 23 — are becoming significant differentiators for wealth managers looking to enhance their value proposition, particularly in the context of an aging population. Health and security services are becoming increasingly critical for individuals entering the retirement phase. At the same time, firms can improve generational retention with the next set of decision-makers by also offering comprehensive services targeted at their needs (e.g., lifestyle and events, financial education).

In this vein, independent broker-dealers and non-bank financial advisor firms are strategically acquiring firms that provide adjacent services, such as tax practices, insurance brokerages, and trust administration, to better serve clients and gain privileged access to new prospects. Wealth managers will also need to increasingly look for external partnership opportunities outside their firms in order to provide many of the more specialized services (e.g. private health clinics, cybersecurity firms, etc.).

20. The Cerulli Edge — U.S. Advisor Edition, 3Q 2021 Issue.

Exhibit 25: Ancillary services for differentiation (non-exhaustive)

Health and security	Family services	Financial Education	Lifestyle and events	Other educational
24/7 medical concierge access Exclusive access to health advisory and private specialized clinics globally Senior living and exclusive access to long-term care solutions Customized security and cybersecurity advisory	Family governance advisory Family office setup, review and governance Family governance, (e.g., constitution, mediation) Trustee fiduciary services and agent for trustee compliance Private foundation management and philanthropy advisory	Access to learning modules (asset management, investing, entrepreneurship, tax etc.) Learning products for children (budgeting, first job, etc.)	Exclusive events and roundtables with peers in private communities Exclusive right to book VIP seats for events Access to exclusive sport facilities globally Strategic philanthropy Art and collecting Concierge service for bookings Advisory on cultural/passion investments	Exclusive access to private boarding schools / kindergartens Leadership training, career planning, coaching and mentoring (e.g., provided by partner business schools) Educational advice for children (e.g., university choice)

Source: Oliver Wyman, Morgan Stanley Research

3C: The Big Opportunity to Deliver Holistic Solutions

Critical customer needs are not being met at scale

Sections 3A and 3B highlight strategies that asset and wealth managers can pursue individually to capitalize on the evolving opportunities in the retirement space. However, addressing individuals' retirement needs requires more holistic thinking and integration across advice, risk sharing, and investment management.

While nuances exist across countries, wealth bands, and ages, a siloed, disconnected approach largely fails to meet individuals' full retirement needs because:

- Fragmented offerings mean that too many customers have to navigate the tricky calculus of balancing growth, protection, and advice alone.
- Solutions — even when designed to be holistic — are insufficiently personalized.
- Firms' product offerings don't reflect that individuals are outcome-oriented (current focus is instead on maximizing portfolio growth for a fee, spread, and/or commission).

We see several categories of needs which are under-addressed, as we highlight in Exhibit 26 .

Exhibit 26: Individuals' retirement needs

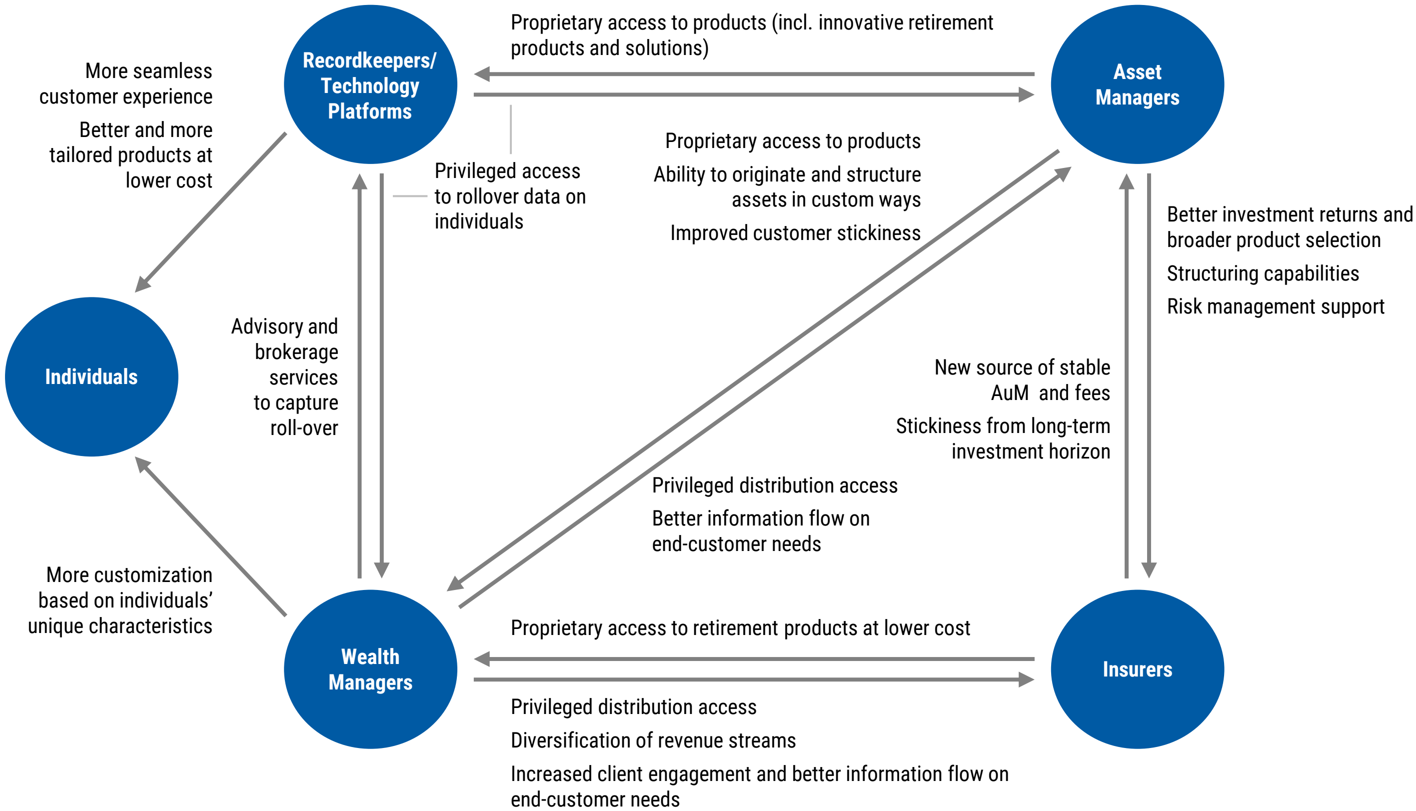
Needs	Description	How well needs are currently addressed	Current Limitations
Accumulation	Access to a full range of public and private market products to design an optimal portfolio		While allocations have increased and innovative vehicles have emerged, retail continues to be under-allocated to private markets due to high investment limits, liquidity concerns, lack of education
Decumulation	Products that support drawing down on accumulated savings in a cost-effective and predictable way		Limited number of well-established products (albeit many are starting to emerge)
Longevity Protection	Guaranteed or quasi-guaranteed income sources to protect against risk of living longer than expected		Many different annuities in market but generally are complex, have high fees and are not well integrated in the financial planning ecosystem
Accessible and personalized advice	Holistic, cost-effective retirement planning which is personalized to an individual's unique circumstances		For many, the cost of personalized advice remains too high to deliver at scale, leading to generalized solutions which do not always fit individual needs
Seamless customer experience	Frictionless technology which provides a unified view of all retirement-related assets and future financial trajectories and plans		Assets are strewn across a variety of disjointed platforms, requiring effort from the individual to track their full retirement picture

Source: Oliver Wyman, Morgan Stanley Research

Taking a retirement ecosystem view means recognizing how combining different components can create economic synergies and enhance client offerings

Each of the main players in the retirement ecosystem provide a valuable service to the end client and, in many cases, to each other (see Exhibit 27). The challenge is how to combine the services of asset managers, wealth managers, insurers, and record keepers/technology platforms to go beyond what any one provider can do to enhance the end-client experience and garner a larger (and more resilient) share of the economics across the value chain.

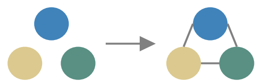
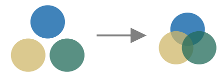
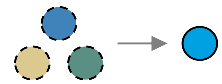
Exhibit 27: Potential advantages accrued within collaborative retirement ecosystem models



Source: Oliver Wyman, Morgan Stanley Research

We see three potential approaches various players in the ecosystem can adopt to capitalize on the value of building closer connections.

Exhibit 28: Models for delivering holistic retirement solutions

Model	1. Partnership	2. Integration	3. Platform
Current State	• Many bilateral partnerships exist (e.g., insurers and private credit managers, insurers creating custom products to be distributed through specific wealth management partners) • However, utilizing partnerships as a mechanism to create and deliver retirement income solutions (outside of some exceptions) is not common	• Many firms with separate asset, wealth management, insurance, and/or servicing/administrative divisions which are relatively siloed and that do not operate in an integrated fashion (e.g., economics and strategy optimized for each division rather than for the whole) • Some cross-ecosystem mergers and acquisitions have been seen recently, with more likely to come (e.g., in Europe where changes to Danish Compromise make acquisitions of insurers, wealth, and asset managers particularly appealing for banks)	• While some have platform propositions (e.g., firms with leading direct-to-consumer wealth management platforms), no one has yet brought together an end-to-end, seamless platform and offering that encompasses all financial needs of a customer, to and through retirement
Target State	• Partnership structures aligned across various levels, such as strategy, incentives, and operations, to provide seamless products and services to end consumers	• Breaking down divisional silos so that strategy development, product development, and incentives reflect the same goals so that the full firm can be mobilized to support clients on their end-to-end retirement journey	• Aspirational, hyper-personalized platform to provide a dynamic, individualized retirement solution (incl. asset management and insurance products) combined with advice
Strengths	• Flexibility to engage in and experiment with different partnership structures • More cost-effective (especially if not already an integrated player) • Easier to concentrate on one's core competencies	• Greater control over customer experience and brand management • Higher potential to retain greater share of economics and simultaneously deliver lower-cost products for the end-consumer • Higher potential to create unique value propositions that would be difficult for partnerships to replicate	• Simplicity and transparency of a single platform that brings together products/services from a variety of providers • Ability for the platform provider to own the customer relationship
Limitations/ challenges	• Difficulties in structuring agreements, ascribing value to each partner's contribution, and determining how to share economics • Reliance on 3rd parties can dilute brand given less control over end-client relationship	• High operational complexity (e.g., limited data sharing, misaligned incentives, siloed governance structures) – this has caused many challenges to-date • Most integrated players have not seen corresponding valuation advantages compared to standalone wealth and asset managers	• Potential hurdles from different regulatory environments • Requires significant technological investments • May not be suitable for HNW/UHNW individuals that already have access to personalized advice

Source: Oliver Wyman, Morgan Stanley Research

Emerging solutions are starting to reflect ecosystem thinking

We are already seeing examples of firms taking more of an ecosystem view approach, stitching together multiple offerings to better address client needs and monetize the opportunity.

Exhibit 29 Emerging ecosystem solutions

Capabilities involved	Emerging solutions
Asset management, Insurance, Recordkeeping/technology	• Asset managers working with insurers and recordkeepers to offer annuities wrapped inside of TDFs for use in US DC plans • Individuals benefit from having a customer-friendly way of accessing a guaranteed income stream inside of their existing employer-based DC plan without needing to independently search for an insurance solution
Asset management, Wealth management, Insurance, Banking	• Bancassurance firms utilizing their customer relationships and information to proactively provide guidance on asset management and insurance solutions ahead of the customer receiving a lump sum pension payout • For many customers, payouts are multiple times greater than any previous income streams, heightening the need for advice on managing payouts effectively
Wealth management, Insurance	• Insurers working with wealth managers to co-create custom-branded protection and accumulation products that are simpler and more customer-friendly • This makes it easier for consumers to understand the benefits and for advisors to understand how to best integrate these products into broader portfolios
Wealth management, Insurance, Banking	• Wealth management and insurance firms partnering with technology platforms to provide ancillary services such as personalized and digital healthcare as well as more personalized portfolio management platforms

Asset management | Wealth management | Insurance | Banking | Recordkeeping/technology

Source: Oliver Wyman, Morgan Stanley Research

Looking forward, we expect to see a continued push toward greater collaboration — whether through partnerships or a higher degree of integrations of multi-line organizations. As the next section makes clear, however, achieving the benefits of an integrated operating model can be elusive.

Integrated models, in particular, are struggling to make full use of the inherent advantages that they have

The integrated models described in Model 2 above present certain inherent advantages — for example, they can have lower client acquisition costs, create more customized offerings, offer better control and smoothness within the client experience, and capture a greater share of the economics in the process.

In practice, based on our conversations with multiple clients, even leading integrated firms in the industry would admit they are struggling to make full use of their inherent advantages.

Some of these common challenges and perspectives on how to address them are summarized in Exhibit 30 .

Exhibit 30: For existing integrated players, a variety of challenges have limited their full potential

Challenge	Key Issues		Overcoming Issues
Lack of clear, unified strategy	• Each business unit develops strategy in individual silos, often leading to competing priorities	Medium	• Set at the top-of-house a single, overarching strategy that maximizes the benefit to the firm as a whole
Pricing doesn't reflect synergies	• Due to barriers between business units, cross-divisional products are complicated and not cost-effective	Medium	• Optimize and streamline pricing across divisions and ensure transfer pricing incentivizes cross-divisional collaboration
Mismatched incentives	• Key KPIs may differ across units even when they have been designed in tandem • In worst case scenarios, it can make it easier to work with competitors than with another business unit	High	• Incentives need to be designed with downstream 2nd and 3rd order impacts in mind and consistently re-evaluated to ensure alignment with overarching strategy
Cultural misalignment	• Cultural mismatch leads to friction and reduced collaboration • Attitudes towards risk-taking and innovation are the most common areas of disagreement	High	• In the near-term concerted education efforts can reduce "understanding" barriers across divisions while longer-term cultural initiatives take shape
Governance and decision-making	• Cumbersome and disjointed governance structures leads to reduced agility and misalignment between different business units • Most often occurs when governance is wholly separated across business units	Low	• Re-configure governance and operating model structures to facilitate "assembly" of client-driven solutions across business units that optimize for bringing together the whole to best serve the end-client vs. optimizing for the economics of the individual business unit
Regulation hurdles	• Fear of breaching clients' best interest and suitability limits collaboration even if combined solution is delivering more value for the client	Medium	• Ensure internally sourced products are competitively priced and provide value to the end-consumer
Technology integration Issues	• Integrated players (who are often older) are straddled with "tech debt" that is difficult to untangle and integrate • Creates a disjointed customer experience even when dealing with the same company and limits "single source of truth" internally causing inefficient operations	Medium	• Invest in technological uplift to ensure systems and data are unified across teams and across customer experiences

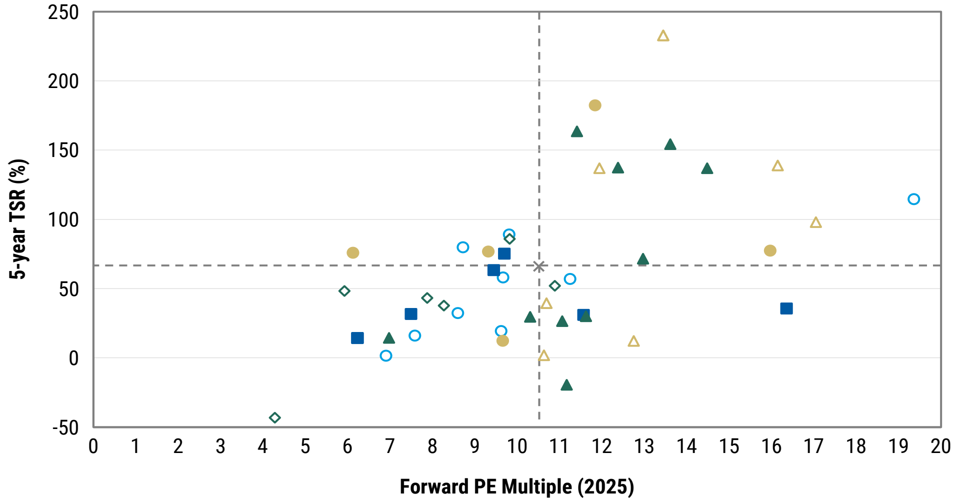
Time/resources needed to resolve High *Medium* *Low*

Source: Oliver Wyman, Morgan Stanley Research

Based on these challenges, the benefits of integration — whether it be to craft unique retirement solutions or, more broadly, create more value than the sum of the parts — are difficult to achieve in practice.

We see this manifesting in the unclear impact on valuations. Integrated firms with asset management, wealth management, and/or insurance capabilities exhibit a wide range of P/E multiples and shareholder performance, with — on average — no appreciable difference to standalone firms (Exhibit 31). While many factors affect valuations (e.g., capital intensity, mix of private market vs. active vs. passive strategies), what is notable is that the positive (theoretical) impact of integration is not immediately discernible in the data.

Exhibit 31: 5-year Total Shareholder Return (TSR) vs. Forward Price-Earnings (PE) Multiple for a sample of asset managers, wealth managers, insurers, and integrated players



Categories	Average PE Multiple	Average TSR
Standalone AM	10.2x	52%
Standalone WM	13.3x	112%
Standalone Ins	7.9x	37%
AM Ins	9.6x	38%
AM WM Ins	10.6x	85%
AM WM	11.6x	74%
Total[1]	10.5x	66%

1. Average of all categories Source: S&P Market Intelligence / Capital IQ, Forward PE multiple as of 9/1/2024, 5 Year Total Shareholder Return from 1/1/2020 through 9/1/2024;

Asset management and insurance product partnerships proliferating to create retirement solutions

Over the last 5-10 years, private equity players have fundamentally transformed the insurance landscape by striking partnerships, aggregating closed insurance blocks or integrating entirely with insurance companies. The latter model — in particular — has given rise to what we refer to as the "asset manager-led insurer." The logic behind these structures revolves around getting access to stable, permanent capital (insurance liabilities) that can then be deployed in the asset manager's investment strategies (largely private and structured credit). But there is another rationale for these types of partnerships or integrated structures: creating retirement solutions that integrate investment capabilities of asset managers and longevity protection elements provided by insurers. In contrast to the products highlighted in Section 3A, which were (with the exception of the mortality pooling product) twists on traditional asset management products, we are seeing significant innovation, not only in traditional insurance-centric products but, more interestingly, in products that combine more novel insurance and asset management elements.

Exhibit 32: Insurance-led and insurance-asset management solutions (non-exhaustive)

Solution	Description	Considerations	Example products
Annuities embedded in asset allocation mutual funds	• Guaranteed income with minimum payout (at or past retirement) within an asset allocation mutual fund	• Requires support from recordkeepers to implement (if included within DC plan) • Introduces non-liquid component & portability limits into the fund • Other investments are liquid with upside potential • Outsources due diligence on annuities to mutual fund providers	• TDF with annuity sleeve such as single premium immediate annuities (SPIA) and deferred income annuities (DIA) • Lifestyle fund
Accumulation annuities or wrapped asset allocation mutual fund	• Provide an income guarantee as a rider or wrap to an investment offering	• Requires explicit fee to fund income rider or wrap • Requires support from recordkeepers to implement (if included within DC plan) • Individuals retain some liquidity and upside potential	• Wrapped TDF with annuity income rider
Income annuities as a distribution option with asset allocation mutual fund	• Guaranteed income stream with fixed payouts for life (longevity protection)	• Assets leave plan and require high degree of participant education (if within DC) • Typically, irrevocable and illiquid; may have a death benefit	• Income annuities
Unit-linked insurance	• Combines life insurance and investment to pay out units based on investment performance and size of life insurance benefit	• Provides both death benefit coverage and investment upside • Varying level of guarantees	• Growth super fund (typical investments in shares and property) • Hybrid UL
Annuity-based alternatives	• Annuity wrapper around various underlying alternatives products	• Combines benefits of alternative investments with annuity tax deferral benefits • Targeted to HNW and family offices	• Individual private market funds offered through a variable annuity wrapper with no guarantees

Source: Oliver Wyman, Morgan Stanley Research

It is worth noting that annuities (which have not always had the best reputation given perceived costs, complexity, and illiquidity) have never been more popular within markets such as the US, where there is a strong emphasis on individual retirement savings, favorable tax treatment, and a wide product array. Some 52% of US pre-retirees are now considering annuities in order to convert assets into guaranteed lifetime income, a significant increase from just 33% five years ago.[21] Bolstered by higher interest rates as well as evolving product features like income riders and consumer protection regulations, this interest has translated to nearly $385 billion in annuity sales in 2023, up 23% year-over-year and up nearly 60% since 2019.[22] While interest rates are a key driver, we project a higher level of sales to persist as rates normalize and individuals continue to seek guaranteed income solutions. Other insurance-oriented products such as income funds and equity release products tend to appeal more globally due to their flexibility, simplicity, and alignment with diverse regulatory environments.

21. LIMRA, Future Retirees Face a Different Reality and Increasingly Look to Annuities for Financial Security, 2024.

22. LIMRA, Note: global sales figures also include annuities without a lifetime income component or significant income guarantee.

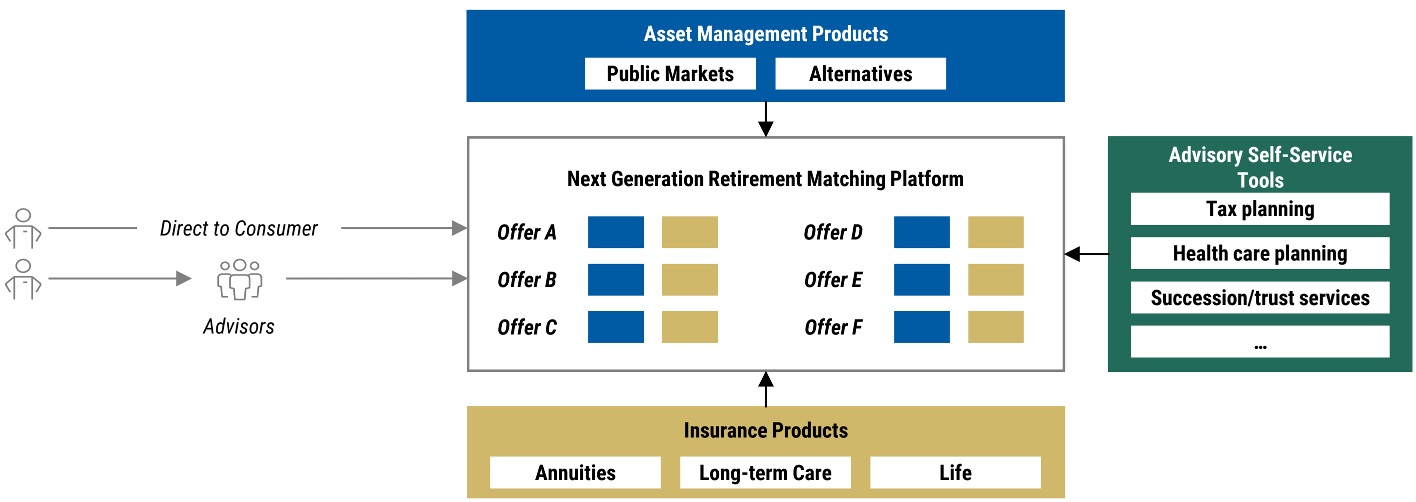
In the long term, watch out for more disruptive technology-led platform plays

Imagine what a perfect solution to the retirement challenge could look like. An individual — likely assisted by an advisor — enters (or, better yet, seamlessly links) a detailed set of personal data covering their demographics, financial status, health factors, risk appetite, and any other critical information into an interface. The interface then prompts them to describe their financial and financial-adjacent considerations, such as their investment portfolio size, the age they'd like to retire, desired retirement income, interim goals (e.g., college savings, buying a second property), relative prioritization, amount of downside risk, wealth transfer considerations, and preferences on health care planning.

The interface then processes that information and — rather than merely serving as a passive product marketplace — serves as an active, matching engine to translate an individual's unique set of goals and characteristics into a bespoke product. This would be created by having manufacturers (internally and externally) "bid" to supply products that can be structured into a custom retirement "policy" composed of securities and insurance components to meet each individual's needs and capacity to contribute. This policy can then be dynamically updated each year (or on shorter timeframes) as more information becomes available (e.g., policy performance, individual's situation changes).

In cases where individuals specify impossible or incompatible objectives, the interface would revert with the "next best option" to place them as close to their ideal solution as possible. This exercise alone would be useful to make individuals more conscious and realistic of the actual "costs" (e.g., savings rates, contribution rates, insurance premiums) of what they're asking for.

Exhibit 33: Illustrative next generation retirement platform



Source: Oliver Wyman, Morgan Stanley Research

To be clear, no such system exists today (though some firms have comparable concepts in production), and the platform faces a variety of complicated technological, regulatory, and business model challenges. The point of this thought experiment is not to explicitly design this perfect matching mechanism but to conceive of the optimal solution and determine what pieces of it can be actually delivered today.

In capturing the retirement opportunity, there is no single winning model, but there are challenged ones

All three models can potentially work — it depends on how they are executed. For players that already have multiple components of the solution, making an integrated model work means overcoming the governance, organizational, incentive, and technology hurdles that are preventing cooperation and development of more holistic and compelling retirement value propositions. Players that have just single components of the solution need to take a retirement ecosystem view and consider how different partnership structures or M&A opportunities could help fill the gaps. For those pursuing an M&A path, firms will need to pay particularly close attention to how they integrate the different pieces together to avoid creating another disjointed and siloed organization. For those contemplating a partnership, it will be critical to lay out the details of the collaboration, including how the economics will be shared, how responsibilities will be split, which KPIs will be used to assess the health of the partnership, and what the joint go-to-market strategy needs to look like. And regardless of whether firms pursue an integrated or partnership approach, both can and should take inspiration from the concept of the platform model because it puts the client experience at the heart of everything.

Which brings us to what a challenged, disjointed model looks like. Imagine business units and underlying systems being so siloed that it is *actually easier for a customer to roll over their retirement accounts from one institution to a competitor rather than within the different business units of the same institution*. This isn't a hypothetical — these types of situations happen all the time because organizations built their business units based on different products they pushed to the customer. Given the complexity and multifaceted nature of the retirement challenge, coupled with rising client expectations for what an excellent experience looks like, the lack of integration is becoming only more evident. Organizations that can truly anchor their business and operating models in what's required to solve the client's holistic needs will be the ones who win; organization that continue to operate in product and service silos will end up pushing their clients elsewhere.

4. The Gen AI Revolution — One Year Later

Does Gen AI have the power to truly transform industries and society? The position that we took last year was a resounding "yes." A year later, based on our hands-on consulting engagements with clients and discussions with dozens of industry leaders, our position hasn't changed.

While there has been some unfounded hype, organizations that have truly embraced the opportunity have learned a tremendous amount over the last year about how to extract genuine benefits from the technology. We note six key points:

1. Gen AI has moved from whiteboard to production as use cases proliferate across the value chain.
2. Firms are seeing significant productivity enhancement and are exploiting the gains that come from the "lowered cost of cognition."
3. Advancements in methodology and how the technology is deployed have reduced hallucinations and made the output more usable and reliable.
4. While Gen AI has led to "Super Analysts," human oversight and incorporation of predictive analytics drive significant value.
5. There is significant investment in bespoke development to create differentiated capabilities.
6. The greatest value comes from driving user adoption, rather than having the most sophisticated model or technical capabilities.

1. Gen AI has moved from whiteboard to production as use cases proliferate across the value chain

Over the past year, Gen AI has transitioned from a promising technology to an increasingly indispensable tool for wealth and asset managers. In turn, the conversation has shifted from cautious experimentation to a race to unlock AI's full potential, reflected in the questions firms are now asking.

Exhibit 34: Changes in the types of questions firms are asking: 2023 vs. 2024

2023 — What we heard from clients last year	2024 — What we're hearing now
What is Gen AI (and what is hype vs. reality)?	How do I scale Gen AI use cases?
What are my peers across the industry doing?	What technology and solution providers should I partner with?
What use cases should I experiment with?	How do I integrate Gen AI into existing systems, processes, and workflows?
How should I think about value creation and ROI?	How do I realize value at an organizational level?
	How do I rapidly get buy-in from internal stakeholders (e.g., Legal, IT, Risk)?
	What societal and industry shifts are happening (and who are going to be the winners)?
	How do I ensure responsible use of Gen AI?

Source: Oliver Wyman, Morgan Stanley Research

As firms come to better understand the capabilities of Gen AI — what it is good for and what it is not — practical applications have proliferated. Revisiting the list of potential use cases from last year's report, we note that several of these have now been implemented into the core part of daily operations for asset and wealth managers (see Exhibit 35 and Exhibit 36).

Exhibit 35: AI Use Cases for Asset Managers

Sales & Client service

1. Sales & Fund Raising
- 1.A Hyper personalization of customer journey with tailored communications
- 1.B Drafting of customized insights about clients and talking points for sales
- 1.C Drafting of customized pitch or RFP response documents

2. Marketing
- 2.A Drafting of customized marketing materials and scripts targeted to multiple segments or channels
- 2.B Synthesis of market feedback and customer behavior data to generate marketing campaign ideas and plans

3. Client servicing
- 3.A Interpretation of inquiries and matching with similar questions and corresponding answers in internal knowledge-base
- 3.B Drafting of customized periodic investor reports

Product

4. Product development
- 4.A Summary and comparison of market intelligence, including trends, competitor offerings
- 4.B Brainstorming of new product/ solution ideas, tailored to client needs
- 4.C Drafting of business plan incorporating data from multiple sources for committee approval

Investment & Research

5. Portfolio Management
- 5.A Scraping and transforming large amount of information from news or reports for prediction of market movements or risk of securities
- 5.B Generation of market or risk scenarios and synthetic historical and predicted data for backtesting
- 5.C Proposal of new investment ideas and selecting relevant securities from a defined universe

6. Research
- 6.A Synthesis of research and extraction of data from multiple sources, including data room
- 6.B Drafting of market commentaries and outlooks
- 6.C Drafting of investment committee documents

7. Trading
- 7.A Substantiation of trading wheel rules by incorporating market information real-time
- 7.B Intelligent hedging and unwinding
- 7.C Proposal of trade optimization strategy by synthesizing counterparty price elasticity information

Mid & back office

8. Risk, Legal & Compliance
- 8.A Searching and summary of legal and compliance documents
- 8.B Drafting of risk and performance reports
- 8.C Augmented security master updates

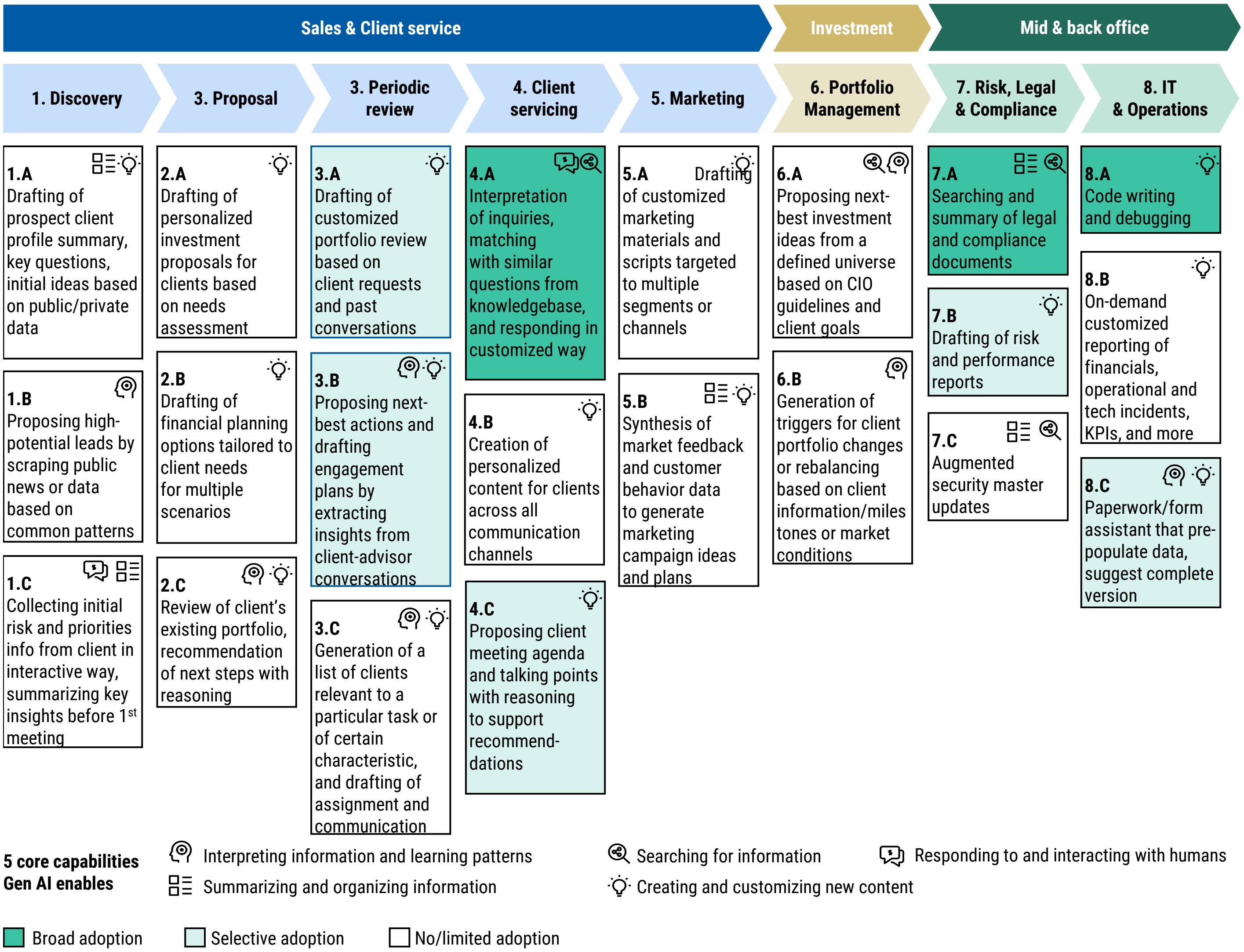
9. IT & Operations
- 9.A Code generation and debugging
- 9.B On-demand customized reporting of financials, operational and tech incidents, KPIs, and more
- 9.C Paperwork/form assistant that pre-populate data, suggest complete version

5 core capabilities Gen AI enables
- Interpreting information and learning patterns
- Summarizing and organizing information
- Searching for information
- Creating and customizing new content
- Responding to and interacting with humans

Broad adoption | Selective adoption | No/limited adoption

Source: Oliver Wyman, Morgan Stanley Research

Exhibit 36: AI Use Cases for Wealth Managers



Source: Oliver Wyman, Morgan Stanley Research

Building on last year's predictions, we have categorized Gen AI use cases in asset and wealth management into three distinct groups – with examples for each category in Exhibit 37 .

Exhibit 37: Example use cases in practice

Category	Example use cases
Broad adoption: Use cases which are increasingly table stakes	Querying and summarizing research: Many firms have a secure chatbot that can query and summarize proprietary data, including company reviews, earnings reports, corporate culture insights, and interview transcripts
	Code debugging: Similarly, many firms have a version of coding copilot tool. At a global asset manager, such a platform has resulted in an 11% increase in the volume of source code written
	Legal documents: Document review models – which ingest PDFs, perform semantic tagging, sectionalize content, and organize for easy access – have been used to process Limited Partnership Agreements (LPAs) in minutes (when this would typically take an entire quarter)
Selective adoption: Use cases which are emerging among leading firms, but not yet widespread nor integrated into workflows	Automated due diligence: A U.S. private equity firm employs Gen AI to compile company information in minutes, compared to a human taking hours
	Expert rolodex: A global asset manager is developing a tool to allow users to prompt the system to find real-time contacts with specific expertise within the organization, thereby facilitating knowledge sharing and collaboration
No/limited adoption: Use cases where there are technical or organizational limitations	Intelligent hedging and unwinding strategies: This remains a challenge for Gen AI. While the potential exists for AI to analyze market conditions and optimize hedging positions, the technology has not yet reached a level of sophistication that allows for reliable execution in real-time trading environments
	Trade optimization strategies: Although there is significant interest in using Gen AI to enhance trading decisions by analyzing vast datasets, the current limitations in technology (primarily the limitations in mathematical and predictive capabilities especially as compared to deterministic models) hinder the ability to implement these strategies effectively across various asset classes

Source: Oliver Wyman, Morgan Stanley Research

2. Firms are seeing significant productivity enhancement and are exploiting the gains that come from the "lowered cost of cognition"

When asked to quantify efficiency gains from Gen AI, "20% to 30% improvement" is a common refrain we hear from executives.[24] So, how are firms arriving at that figure?

They are primarily calculating the difference in time taken to perform a task with and without Gen AI. While this seems simple enough, there are multiple complicating factors that make the "true" impact of Gen AI harder to measure (e.g., quantifying impact of performing tasks previously unfeasible, quantifying the marginal impact of reallocating time from repetitive low-value tasks to more value additive tasks). As a result of these confounding variables, the true impact of Gen AI cannot be captured by a simple metric — in fact attempting to utilize a single number misses the point: Fundamentally, Gen AI lowers the cost of cognition and allows people to achieve feats that would otherwise have been impossible.

For example, imagine having access to a "Super Analyst" who can recall every research note, report, analysis, and market call that the firm has ever created. Traditionally, the process of aggregating the firm's research reports, cross-referencing them with external analyses, and compiling historical financial data could span several days. With Gen AI, this task can now be completed in minutes, yielding significant time efficiency gains.

However, and perhaps more importantly, this Super Analyst supercharges the research outputs of others, by allowing them to consider a wider array of scenarios and insights that were previously inaccessible. Instead of relying on outdated reports or fragmented knowledge, decision-makers can leverage the full breadth of their organization's intellectual capital, leading to more informed and strategic choices.

24. For example, within own proprietary Oliver Wyman's Gen AI tool (OWL), we estimate significant productivity gains of ~8 hours / week in time savings.

3. Advancements in methodology and how the technology is deployed have reduced hallucinations and made the output more usable and reliable

In addition to continued productivity and efficiency unlocks, techniques to improve the quality and relevance of Gen AI have continued to become more advanced and accessible over the last year — yielding higher accuracy, less hallucination, and better performance (see Exhibit 38).

Exhibit 38: Technology advancements in the last year

Higher accuracy	• Retrieval Augmented Generation (RAG) allows large language models (LLMs) to generate answers based on a custom database leveraging firms' proprietary data, reducing hallucinations • Current generation LLMs can better understand and generate sophisticated language than earlier AI systems • Open AI's GPT-4 now scores in the 90th percentile on the Uniform Bar Exam and 99th percentile in the Biology Olympiad (previously 10th and 31st percentiles respectively for GPT 3.5) • OpenAI has released a new model, "o1," built for multi-step reasoning; it is already showing significant improvements at science, coding and math – scoring 83% on the International Mathematics Olympiad exam compared to GPT-4o scoring 13%
Better performance	• Can handle more context (GPT-4 is capable of handling over 25,000 words of text) • Can handle image inputs and outputs • Up to 50% faster
Wider training data	• Trained on more recent data • Can be coupled with RAG to rely on up-to-date data

Source: Oliver Wyman, Morgan Stanley Research

Separately, the increased number of firms leveraging RAG is particularly important as the best means to improve the accuracy of LLMs is by pointing them to the correct information. RAG allows businesses to anchor AI-generated responses to real, relevant documents, improving contextual awareness and enhancing the quality and reliability of the information provided. LLMs can "reason," but they can't "know." The power of RAG is that allows firms to utilize what LLMs are best at (their immense reasoning power), while utilizing humans for what we are best at (our ability to "know"). Organizations with unique insights and the technical prowess to organize their proprietary knowledge into a machine-readable format stand to benefit most. Many leading firms are already far down this path.

4. While Gen AI has led to "Super Analysts," human oversight and incorporating predictive analytics drives significant value

Despite the tremendous advancements in Gen AI capabilities, they come with certain constraints that prevent them from functioning wholly independently of human oversight.

First, like an entry-level analyst, Gen AI lacks judgment that comes with experience. For example, when summarizing a document, a human can interpret contextual nuances and prioritize key insights based on expertise. In contrast, an LLM generates summaries by identifying patterns in the text and probabilistically determining the best response based on training datasets. This misses slight nuances that a skilled professional would pick up, limiting AI as a stand-alone tool in decision-making scenarios.

Second, while Gen AI excels at interpreting text, its capabilities in extracting and analyzing numbers is still in its infancy. For example, while Gen AI models can summarize information from analyst calls, they struggle when asked to precisely extract and contextualize numerical data from financial reports, albeit advancements in LLMs may soon change this.[25]

Further, Gen AI remains significantly limited in its ability to make predictions. In this case, combining it with Discriminative AI[26] can be particularly powerful. For example, the Factiva Sentiment Signals tool (co-developed by Oliver Wyman and Dow Jones)[27] integrates qualitative insights from vast media sources (i.e., sentiment analysis) with quantitative risk modeling to predict credit downgrades and defaults.

25. For example, OpenAI's new model, "o1," described in the previous section.

26. Discriminative AI has been deployed in asset and wealth management for years, with typical applications focused on predictive analytics that can support use cases like "next best action."

27. Manage Corporate Credit Risk | Factiva Sentiment Signals (dowjones.com).

In another example of combining Gen AI with Discriminative AI, a European asset manager identified 30% of time savings across its platform by combining the technologies.

Gen AI needs to be complemented by other tools, and most important, complemented by knowledgeable humans. This raises the question — how are leading firms embedding Gen AI in their organizations.

5. There is significant investment in bespoke development to create differentiated capabilities

One of the most frequently asked questions we encounter is how to approach the decision between bespoke development, off-the-shelf solutions, and strategic partnerships. While we see several viable solutions, in many cases bespoke development is the best option to drive user experience and adoption.

Bespoke development plays a crucial role in enhancing user experience and driving adoption, particularly in scenarios where off-the-shelf solutions or generic copilots fall short

Many use cases require tailored functionalities that address specific business needs, workflows, and user preferences. For instance, in complex operational environments, a one-size-fits-all approach may overlook unique challenges and nuances, leading to suboptimal performance and user frustration. Ideally, custom solutions can be integrated seamlessly with existing systems, ensuring that users have access to the tools and information they need in a manner that feels intuitive and relevant.

Moreover, bespoke development fosters a sense of ownership and engagement among users, as they see their feedback and requirements reflected in the final product. This tailored approach not only enhances usability but also encourages greater adoption, as users are more likely to embrace solutions that are designed with their specific contexts in mind.

Finally, in industries where regulatory compliance, data security, or specialized functionalities are paramount, off-the-shelf solutions may lack the necessary adaptability. Therefore, investing in bespoke development is not merely a matter of preference; it is essential for achieving meaningful user engagement and maximizing the potential of technological innovations.

That is not to say off-the-shelf point solutions or GenAI-enabled enterprise applications cannot provide significant value to an organization. For the right use cases, and in the right situations, they can, but the value tends to be more limited because it isn't a source differentiation, almost by definition.

Requirements on technology skills have shifted and proprietary data is more important than ever

Another key question asked last year was, "How do I fine-tune my own model?"

Previously, firms were focused on the foundational processes of training (to establish a model's ability to generate coherent text) and static tuning (to refine this capability with domain-specific data). Given their nascent understanding of the subject, the previous answer for many firms to solving this challenge was to poach the best data science talent to focus on training LLMs.

However, as firms have increasingly seen limitations with static models, and a shift toward more dynamic, real-time data retrieval (e.g., RAG, as described previously), they have seen that fine-tuning a model is harder — and, more important, much more expensive — than they expected.

Now, firms are more focused on combining the latest off-the-shelf LLMs with proprietary data in a way that is seamlessly integrated into user workflows. As a result, technology and data teams are focused primarily on how to build the "scaffolding" around an LLM to integrate it within their systems, rather than on understanding the deep idiosyncrasies of an LLM to train one from scratch or fine-tune an existing one.

To that end, having a team with front-end, back-end, infrastructure, and architecture skills that can quickly ship new features (e.g., text-to image generation, conversational agents) effectively and securely is much more relevant than hiring individual data scientists to work in a vacuum.

Proprietary data — in and of itself — has also become more of a differentiator. This shifts key responsibilities back to the organization, emphasizing the importance of codifying internal knowledge and building robust infrastructures that allow LLMs to query this information effectively. Those firms that can invest in this infrastructure will not only maximize the utility of LLMs but position themselves to leverage their unique insights, setting themselves apart in a crowded marketplace.

6. The greatest value comes from driving user adoption, rather than having the most sophisticated model or technical capabilities

There is no denying that Gen AI is an incredibly powerful technology. For a such an incredible technology that can help us perform superhuman tasks, one thing it hasn't been able to help us figure out is how to solve human beings' reluctance to change. Unlocking its full potential isn't so much a technology issue around fine-tuning model parameters or expanding context windows; it is a people issue around driving adoption. As such, firms that have been better able to drive adoption and extract value from GenAI will typically pursue an approach that involves the following key factors.

Exhibit 39: Key factors for success

Leadership Buy-In and Advocacy	• Ensure that top management understands the benefits and potential of Gen AI • Gain support from risk and finance teams, as these can be major roadblocks to implementation
In-House Technology Skills	• Have sufficient skills and capacity in front-end/back-end development, data management, architecture, and UI/UX laser focused on building and improving internal Gen AI tools
Integration with Existing Processes	• Ensure that Gen AI tools and solutions are integrated smoothly with existing workflows and systems to minimize disruption • If it doesn't fit into the workflow then no one will use it – "close enough" often doesn't cut it
Feedback Mechanisms	• Establish clear and reactive channels for employees to provide feedback on Gen AI tools and their implementation • Leading firms are finding the right balance between "information overload" and making sure feedback is sufficiently democratized

Source: Oliver Wyman, Morgan Stanley Research

So, does Gen AI have the power to truly transform industries and society?

Our response now in 2024 to the question we posed last year is this — **this transformation is already underway, and what was once unthinkable has now become table stakes.**

Routine tasks are now automated en masse; unstructured data is searchable and, more important, understandable — allowing humans to extract actionable insights and turn vast troves of raw information into strategic advantages; coding has become accessible to the masses; and use cases are constantly expanding in number, scope, and impact.

Beyond these specific examples, at its core, GenAI can help firms deliver better client outcomes and experiences. Those that cannot keep up with the technology will see their clients take their business to those that can. It doesn't take a sophisticated AI model to forecast that.

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Stock Rating Category	Count	% of Total	Count	% of Total IBC	% of Rating Category	Count	% of Total Other MISC
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Equal-weight/Hold	1724	46%	358	46%	21%	792	47%
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Underweight/Sell	588	16%	81	11%	14%	238	14%
Total	3,740		771			1687	

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