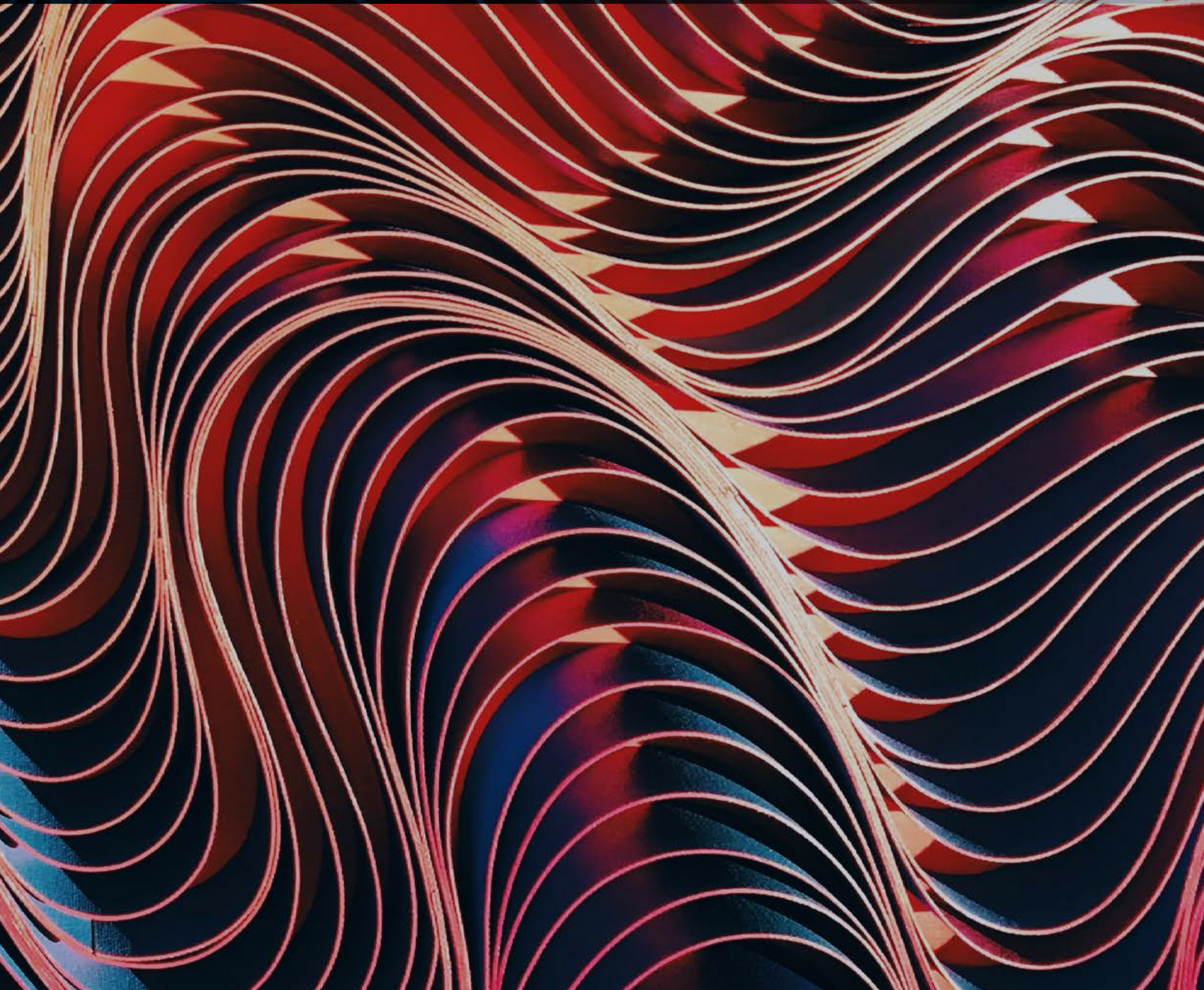
FINANCIAL SERVICES INDUSTRY

# UK WEALTH MANAGEMENT OUTLOOK 2024:
## FOUR KEY TRENDS SHAPING THE MARKET



ALVAREZ & MARSAL

LEADERSHIP. ACTION. RESULTS.℠

# INTRODUCTION

FOR MANY BUSINESS LEADERS IN WEALTH MANAGEMENT, DESCRIBING 2023 AS "CHALLENGING" FEELS LIKE AN UNDERSTATEMENT. JUST GETTING BUSINESS DONE FELT RELENTLESS, AS THE INDUSTRY GRAPPLED WITH COST PRESSURES, POOR MARKET PERFORMANCE, INCREASING CONSUMER EXPECTATIONS, GREATER FOCUS FROM SHAREHOLDERS ON RETURNS AND VALUE REALISATION, AND OF COURSE REGULATORY CHANGES.

WHILE THESE HEADWINDS HAVE EXACERBATED EXISTING STRAINS IN SOME BUSINESSES, THEY HAVE PROVIDED THE ADVICE SECTOR WITH THE OPPORTUNITY TO STEP BACK AND REALLY LOOK AT THEIR BUSINESSES MORE HOLISTICALLY – AND TAKE IN THE GOOD, THE BAD AND THE UGLY.

## WILL 2024 BRING ANY RESPITE? THE SHORT ANSWER IS NO

Some in the sector may be tempted to hope for a pause to address the implications of changes from last year. However, while there are indications that markets are stabilising, it's more likely that 2024 will see a similar pace of change, demanding even more tenacity from wealth managers.

In addition to the headwinds faced in the past 12 months, wealth managers will need to contend with the implications of geopolitical changes as the world goes through 76 state elections, making this the biggest election year in history, according to The Economist.

# THE (202)4 THINGS TO CONSIDER

THERE ARE ALWAYS COMPETING PRIORITIES, HOWEVER BASED ON OUR TEAM'S INDUSTRY AND ADVISORY EXPERIENCES, WE EXPECT THE FOLLOWING TRENDS TO INFLUENCE THE WEALTH SECTOR MOST SIGNIFICANTLY IN 2024.

## 01 ~~CASH~~ CONSUMER IS KING

While most wealth managers and financial planners will say that the consumer has always come first, evidence from some parts of the sector shows otherwise. The Financial Conduct Authority (FCA)'s introduction of the Consumer Duty last summer put consumer protection at the forefront of the agenda – and it's not going away.

Consumers are influencing much more than the regulatory agenda. With more optionality – demonstrated by new advice firms entering the U.K. market, new wealth-tech providers offering "DIY" opportunities and the rise of financial influencers – the consumer is in a strong position to influence customer experience and fees. The "sticky" consumer profile seen previously will be challenged even more and value – in all its forms – will be key to client attraction and retention (see point 2 below).

It's not just the existing client banks which advisers need to address. With the FCA's advice boundary review, and the goal of making financial advice more accessible, businesses will need to deploy more mature client segmentation and proposition development.

Tweaking technology and generic propositions will not address these consumer changes. The "holistic" approach that many financial planners encourage their clients to adopt, should now be taken on by their businesses. Meeting these consumer demands will require a fundamental review of the business model for most, and a redesign for many.

### WHAT WE'LL BE LOOKING OUT FOR IN PARTICULAR:

- **TRUST:** A MORE MATURE APPROACH TO PRODUCT POSITIONING COMBINED WITH IMPROVED TRANSPARENCY MAY LEAD TO A TANGIBLE AND POSITIVE IMPACT ON ENHANCING TRUST IN THE SECTOR (EVIDENCED BY INCREASED CLIENT LOYALTY TO THE BRAND AND ENHANCED BRAND VALUE).
- **THE TRUE COST OF THE CONSUMER DUTY:** ANECDOTAL EVIDENCE POINTS TO INCREASED COSTS ACROSS ADVICE BUSINESSES, HOWEVER THERE'LL BE MORE QUANTITATIVE EVIDENCE COLLECTED DURING THE YEAR WHICH WILL START TO QUANTIFY THE COST OF MEETING THE CONSUMER DUTY OUTCOMES.

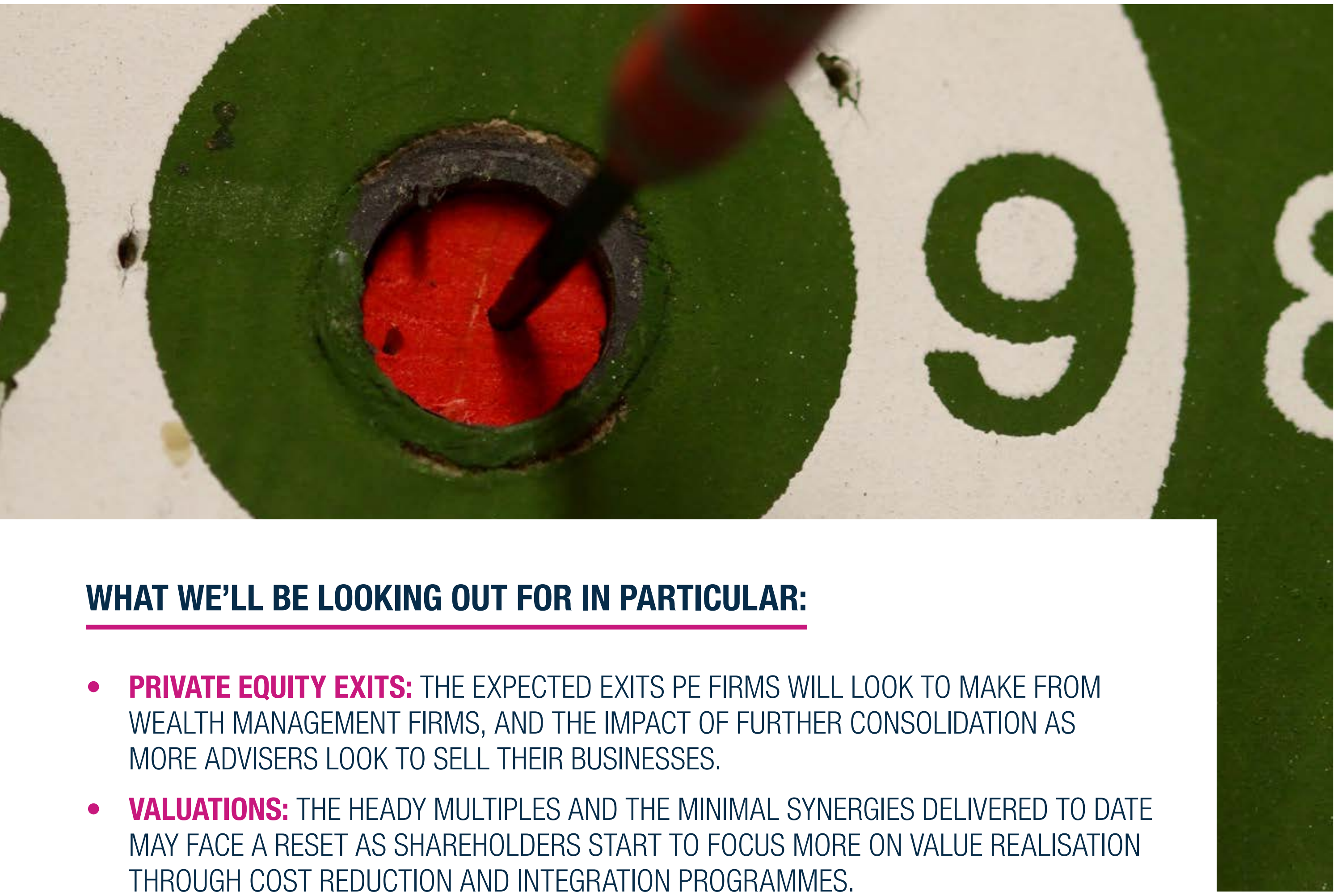
# 02 VALUE WILL WIN

Everyone wants to feel that they're getting value out of the products, services and businesses with which they engage. It's no different in the wealth sector.

Consumers want to know they are getting value for money. The focus on fees has been exacerbated by poor client servicing. As with most services, consumers are willing to pay, but only if they understand and feel the value. With poor market performance, some advisers have struggled to articulate the value proposition which in turn drives potential and existing consumers to look elsewhere.

Advisers want value out of the platforms and partners they work with. The pressure on platforms to perform will only increase; advisers want a better onboarding and engagement experience, advice firms want streamlined processes (for example, managed portfolio service (MPS) rebalancing), and regulators are increasingly demanding visibility around charges and more specifically, clarity with respect to interest on cash holdings.

Shareholders and potential buyers are also demanding more value. While the consolidation wave isn't over, acquisitions have clearly slowed down and the multiples seen in 2022 and early 2023 are on a downward trajectory. For the firms that adopted the bolt-on approach and have yet to deliver fully on their integration and value creation strategies, there will be increasing focus from both current shareholders and potential future investors.



## WHAT WE'LL BE LOOKING OUT FOR IN PARTICULAR:

- **PRIVATE EQUITY EXITS:** THE EXPECTED EXITS PE FIRMS WILL LOOK TO MAKE FROM WEALTH MANAGEMENT FIRMS, AND THE IMPACT OF FURTHER CONSOLIDATION AS MORE ADVISERS LOOK TO SELL THEIR BUSINESSES.
- **VALUATIONS:** THE HEADY MULTIPLES AND THE MINIMAL SYNERGIES DELIVERED TO DATE MAY FACE A RESET AS SHAREHOLDERS START TO FOCUS MORE ON VALUE REALISATION THROUGH COST REDUCTION AND INTEGRATION PROGRAMMES.

# 03 SCALE TO SURVIVE

As demonstrated by some of the larger mergers seen in recent years and the increasing cost challenges, the most probable route to survival for wealth managers is through scale. The only exception to this is where wealth managers have a unique selling proposition (USP) – not the generic USP references, but consumer offerings that have a pull-factor particularly for ultra- and high-net-worth consumers who are looking for more bespoke, human-focused, wealth management and private banking services.

Scale is not easy to achieve without changing the status quo. The sector has patted itself on the back for too long following the adoption of some technology during the pandemic, however with the continuing advancement in artificial intelligence and more mature digital offerings from some wealth-tech providers, it's time for firms to invest in more robust technologies to enable scale – either through partnerships or proprietary technology (acknowledging the significant costs that come with the "build" approach).

## WHAT WE'LL BE LOOKING OUT FOR IN PARTICULAR:

- **INNOVATIVE PARTNERSHIPS:** WEALTH MANAGERS AND PLATFORMS ARE STARTING TO CONSIDER INNOVATIVE PARTNERSHIP MODELS AND JOINT VENTURES, AND OTHERS ARE LOOKING AT ACQUISITIONS TO INTEGRATE MORE VERTICALLY.

# 04 AGILITY IS THE NAME OF THE GAME

It would be easy to say that addressing the three points above will suffice; the reality is that there will be more change. If anything, the last few years have shown that uncertainty is the only certain thing.

The U.K. general election, now likely to take place in the second half of the year, will inform product propositions particularly with reference to pensions. Other elections (including in the U.S. and India) and crises will inevitably influence the market. The much-needed focus on climate change and sustainability-related requirements will (rightly) remain under scrutiny. The regulator will continue to address a number of areas in financial services including diversity and inclusion, and the role of alternatives including cryptocurrency will continue to evolve.

The list goes on. In this environment, wealth businesses need to stay focused on delivering for consumers amid these broader market challenges and geopolitical changes. Those businesses that respond proactively and responsibly stand in good stead. Agility will be key.

## SURELY, IT'S NOT ALL NEGATIVE?

THERE'S SPACE TO WIN.

WHILE IT'S NOT A "WINNER TAKES ALL" OUTLOOK, THIS MAY BE THE YEAR OF "DIFFERENTIATION" – WE SEE STRONG PERFORMING BUSINESSES MAKING EVEN GREATER ADVANCEMENT, BY WIDENING THE GAP WITH WEAKER PLAYERS AND LEAVING A TRAIL OF LOSING BUSINESSES BEHIND (THE TAIL WILL SHRINK).

HOWEVER, DIFFERENTIATION WON'T BE EASY. IN A SECTOR WHERE SENSITIVITIES AROUND ADVISER PUSH-BACK HAVE SOMETIMES DRAGGED THE PACE OF CHANGE, THERE WILL BE TOUGH CALLS FOR WEALTH LEADERS WHO WANT TO WIN.

**ALAN COUTTS**
MANAGING DIRECTOR
LONDON
+44 7951 485 522
acoutts@alvarezandmarsal.com

**NNEKA ORJI**
SENIOR DIRECTOR
LONDON
+44 788 807 1823
norji@alvarezandmarsal.com

## ABOUT ALVAREZ & MARSAL

Companies, investors and government entities around the world turn to Alvarez & Marsal (A&M) for leadership, action and results. Privately held since its founding in 1983, A&M is a leading global professional services firm that provides advisory, business performance improvement and turnaround management services. When conventional approaches are not enough to create transformation and drive change, clients seek our deep expertise and ability to deliver practical solutions to their unique problems.

With over 8,500 people across six continents, we deliver tangible results for corporates, boards, private equity firms, law firms and government agencies facing complex challenges. Our senior leaders, and their teams, leverage A&M's restructuring heritage to help companies act decisively, catapult growth and accelerate results. We are experienced operators, world-class consultants, former regulators and industry authorities with a shared commitment to telling clients what's really needed for turning change into a strategic business asset, managing risk and unlocking value at every stage of growth.

To learn more, visit: **AlvarezandMarsal.com**

Follow A&M on:

ALVAREZ & MARSAL
LEADERSHIP. **ACTION. RESULTS.**℠