Executive Insights

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Four Steps to Developing a Winning Wealth Management Proposition for an Ageing Population

On paper, today's retirees are the wealthiest retired generation yet. However, their greater overall wealth almost always includes illiquid assets, and the fact that any savings and investments are producing low yields means that generating a sustainable income to fund their retirement presents a significant and growing challenge.

With the number of retirees set to rise and life expectancy increasing faster than retirement age, the combination of more people with a growing problem presents serious challenges for the U.K. economy and significant opportunities for the wealth management sector.

A wealth management advice gap has long been acknowledged yet remains a perennial problem. The market is hampered by models that are fit for a proportion of the market but don't engage those who need — and indeed want — advice most. The market should revisit the opportunities for offering more suitable advice to help a generation that needs a more coherent, relevant and engaging advice and product proposition more than ever. In this paper, we identify the key challenges that need to be addressed in order to fill the wealth management gap.

A positive picture (at first glance)

Those who fall into the retired, or close to retiring, age bracket today appear to be enjoying a level of wealth that no previous generation has enjoyed and that is unlikely to be matched by future generations.

In the U.K., 70% of wealth is controlled by those aged 55 and above, with a national mean average household wealth of nearly half a million pounds (£490,000). Those just starting to enjoy their retirement — i.e., those aged 55 to 64 — have the highest average household wealth of all, with an average of £754,000 per household (see Figure 1).

This "golden generation" has enjoyed several positive factors that have helped escalate their wealth, including rising property values, stock market growth and defined benefit pension schemes. It's a set of circumstances that following generations are unlikely to ever see again. The theory follows that these retired, or newly retired, consumers should be enjoying the fruits of being the wealthiest retired generation ever.

The true picture

The reality, however, is that despite the greater overall wealth of this cohort, the majority of those who are about to retire don't actually have adequate liquid wealth or income to support the lifestyle they hope to lead in retirement (see Figure 2).

Four Steps to Developing a Winning Wealth Management Proposition for an Ageing Population was written by **Eilert Hinrichs** and **Ashish Khanna**, partners in L.E.K. Consulting's Financial Services practice. Eilert and Ashish are based in London.

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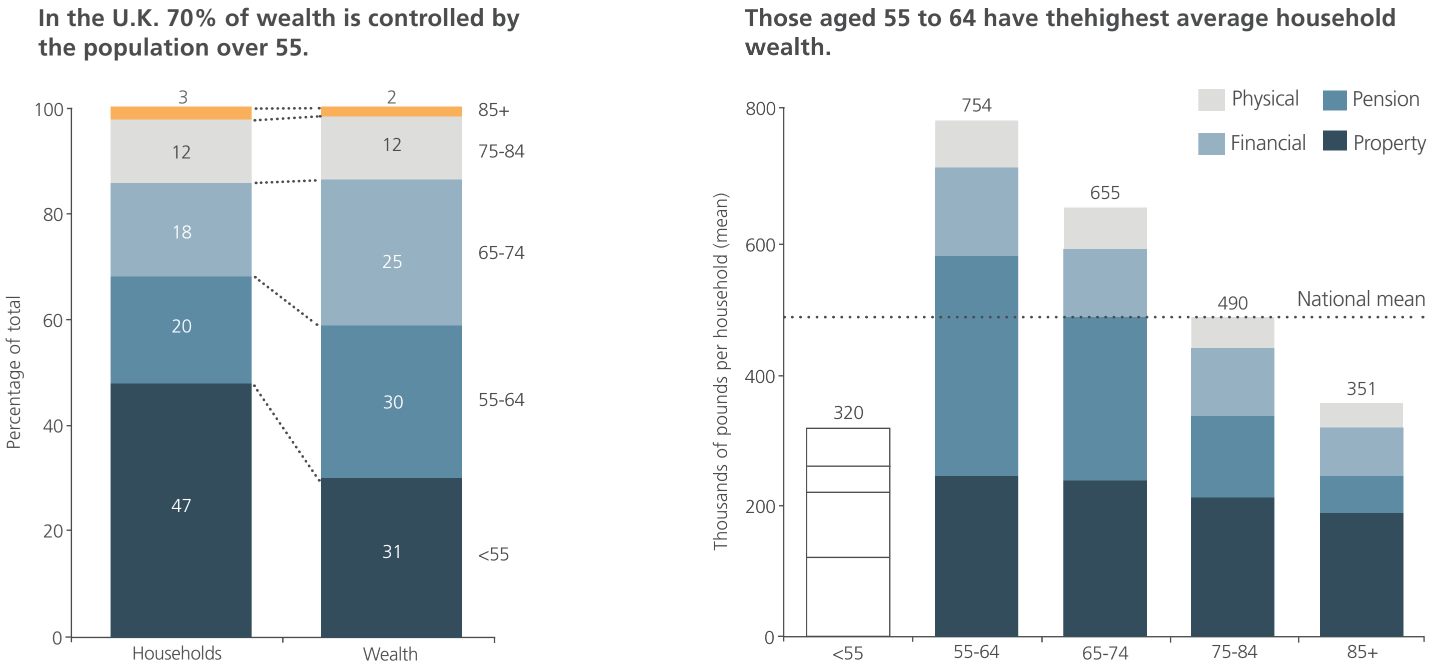
Figure 1
U.K. household wealth



Note: Definitions: Physical — all possessions; Financial — net assets; Pension — exc. state basic / earnings related; Property — net of mortgages
Source: L.E.K. analysis of ONS Asset and Wealth Survey Wave 3 (2010/12, published in 2015)

This realization often comes too late for many who had simply assumed that because they have more on paper than their parents did, a comfortable retirement income is ensured.

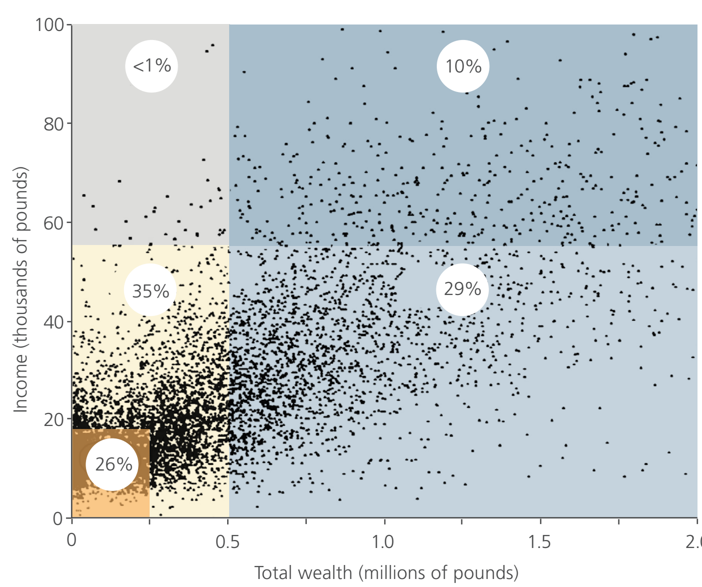
However, the markets and circumstances have changed significantly. While the assets of these retirees may be more significant, the low-yield environment of today is very different — and it means that consumers will be forced to live off their asset stock itself rather than relying on the returns from their capital and investments as their parents may have done in the past.

Couple this with a greater likelihood of individuals paying for their own private healthcare and social care — private residential care costs £30,000 a year on average, for example — as well as confusion about recent pension reforms, tax implications, where and how to invest, and the need to generate an income from such assets, and it becomes clear that wealth isn't going to last as long as individuals might have thought.

The need for help

With limited income options, more advice is needed for how to realize value from assets without having to sacrifice them completely. According to a survey by L.E.K. Consulting[1], around 80% of those at or near retirement age say that they recognize the need for financial advice over the next few years. Indeed, it's a trend that is universal across income and wealth bands, age, geography, and gender.

Figure 2
Wealth and income profiles of the retired population



Source: L.E.K. analysis of ONS Asset and Wealth Survey Wave 3 (2010/12, published in 2015)

[1]L.E.K. Ageing Population Survey 2016; the study surveyed about 2,500 UK residents in March 2016.

Figure 3
Addressing behavioral barriers to engagement

Source: Saga Investment Services

But while they may acknowledge the need for help, fewer than 20% of consumers actually sought financial advice in the past three years. This figure is further skewed by the wealth of those involved.

That leaves 60% of consumers who acknowledge the need for advice but are not taking what is currently on offer.

Why does the advice gap exist?

The advice gap has long been evident, particularly since the introduction of the Retail Distribution Review, and is widely recognized by the industry as a concern. But why does it exist? There are several key reasons outlined below, and it's these that need to be tackled by a new breed of advisers and products if opportunities are to be realized (see Figure 3).

Consumers feel that current advice models are outdated. With little change or innovation in this segment of the market, consumers feel that the advice on offer is not applicable or affordable to them.

- Market propositions are not relevant for the mass market. Despite consumer concerns, advisers are failing to offer alternatives to traditional face-to-face advice, even though this is an outdated model in a digital world.
- There has been a change in the meaning of "retirement." What was once instant is now a more gradual wind-down that requires more flexibility of advice. This change in behavior and requirements means a more fluid option is needed. Naturally, consumers often assume this will be more expensive, since their advice needs are likely to change.
- Consumers want advice but can't see the value in spending money on it, particularly when relative prices are high. Providers should consider developing pricing structures that reflect broader and changing needs.
- There has been a failure by the industry to take a holistic, client-centric view and look at an individual's other needs and assets, beyond simply his or her investable income. Many feel isolated by the the market's focus on those consumers with greater investable wealth that can generate the higher fees. This also serves to generate distrust among consumers.

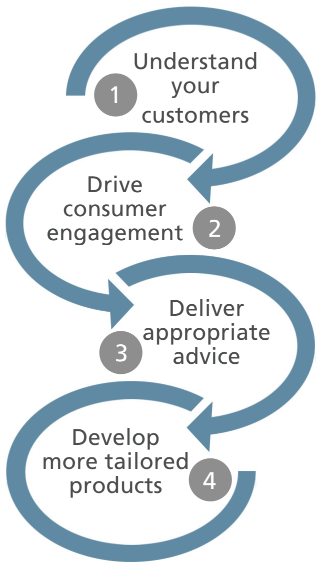
Four key actions: How could the advice gap be addressed?

These barriers are significant, especially when you remember the market opportunity and consumer demand for more relevant, targeted advice. But are they insurmountable? No. In fact, there is a clear opportunity to engage with this consumer base for those prepared to create differentiated business models and product sets that address these failings and better engages the ageing population. This means focusing on four key steps (see Figure 4).

1) Understand your customers (and ensure they understand you)

In the wealth management sector, there continues to be an outdated view of customers and their needs. More needs to be done to embrace the complete customer journey, using all the data on their customers that providers can access — from internal to external data sources and outlets such as social

Figure 4
Four key steps to developing a winning value proposition



Source: L.E.K. analysis

media. In today's world of big data, it's inexcusable not to create a much richer information base about customers that can help in designing products and advice offerings better suited to their needs. This ties in with better technology integration to find other ways of communicating with and educating consumers, such as through the web or social media, rather than just the traditional face-to-face model.

2) Drive consumer engagement

Only when consumers are better understood will providers be able to engage them in a meaningful dialogue. As mentioned above, technology allows for new ways to engage rather than using the traditional face-to-face model, which is time-consuming, inflexible and expensive. The consumer of today wants access to services on his or her own terms and at the time, speed and frequency that he or she chooses. One of the most significant barriers to engagement is the perceived lack of value for money. Consumers in lower wealth brackets are deterred from engaging with financial advice, thanks to the industry's historical focus on wealthier clients with investable assets of more than £150,000 (see Figure 2 for income / wealth distribution).

Today's consumers want and need cost-effective advice that suits their needs rather than making them feel isolated because they may not, at first glance, appear to have the most lucrative investable assets. One way of engaging could be with tiered offerings that allow consumers to better see the different levels of service available and with clearer, jargon-free service offerings that help them truly understand what they are paying for.

3) Deliver appropriate advice

Advice also needs to be more relevant. Today's proposition is static, designed to meet the needs of a retiree from the past, who traditionally worked toward a fixed retirement date and had very limited options, rather than the retiree of today, for whom retirement is more of a phased, gradual approach with many options. Advice, therefore, not only needs to recognize this change but also address it — delivering flexible advice that helps meet retirees' needs as they gradually transition into retirement rather than offering a one-off solution. There will be no single business model in the future to address the changing needs and varying expectations of the consumer. Instead, there needs to be a range of propositions that match customer segment needs and stage-of-life — or even better, state-of-mind — preferences.

The opportunity exists to address all the needs of the consumer — from investment and lending to insurance — when delivering advice, building longer-term relationships with a top-down approach. Coupled with a better understanding and appreciation of cost, this would help overcome the three hurdles of engagement — those of distrust, overconfidence or simply just a lack of awareness that consumers need help in deciding how to deal with their money and the implications of the different options.

4) Develop more tailored products

As well as more tailored, relevant advice, products also need to change to ensure that consumers' needs are fulfilled — from mortgage lending to credit cards and equity release — as they go through the retirement process. Providers need products that support four key consumer needs:

- Money to fund retirement — through asset accumulation and de-accumulation.
- Somewhere to live — through mortgage repayment and, in due course, potentially equity release.
- Staying healthy and independent as long as possible — through social care, private medical insurance, self-pay for social care and healthcare, etc.
- Financial planning for the future — through estate planning, trust services, wills and funeral planning.

Why the time has come for action

The wealth management market opportunity is huge — both for product development and for better engagement with advice.

With 80% of the market wanting advice but only 20% taking it today, there's huge latent demand.

Current offerings are often siloed, when actually the market and consumers are demanding a more holistic, fluid option from providers that embraces all their needs and, more importantly, allows them to be flexible in meeting their needs over time.

Forward-thinking providers should respond to these needs now, adjusting service offerings, engagement models and products to better suit the market and increase the take-up of advice, rather than simply relying on the business models of yesterday.

With the right strategy, business model and positioning in this changing wealth management market, the ageing population offers huge potential.

Further reading

The New Old: Building a Value Proposition for the Ageing in Private Healthcare

About the authors

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