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**Ethos Partners: Driving Growth in UK Long-Term Savings**

*Intro to Market Map, Customer Balance Sheet*

**May 2024**



# UK long-term savings sector context: Players universally seeking growth but challenged to formulate strategies that will deliver a step change

- Competitive intensity and potential over-capacity: 7 diverse sectors competing for finite pools of assets and customers
- Competitive fragmentation: digital business models lowering barriers to entry via cloud-based architecture; evident particularly with trading-led businesses (FreeTrade, Trading 212, Interactive Brokers, etc)
- High interest rate environment triggering rational investor behaviour: large outflows from the markets into instant access, term-based cash products, with ISA's, GIA's particularly impacted
- Underperformance of UK equities relative to other markets: shift of portfolios into foreign equities, particularly the US; implications for trading volumes, capabilities such as FX
- Regulatory complexity---e.g. Consumer Duty, pricing reviews, advice---costly, consume large % of budgets, management attention
- Margin pressures: continued downward pressure on AMC's; evidence of increased uptake of passives, use of ETF's for portfolio construction; Master Trusts marginally profitable and taking volumes from high margin group contract-based pensions
- IT & operations: on-going states of replatforming, digitising, building data lakes, with pace of tech advancements outpacing sectors' ability to absorb, generate returns
- Advisors & Wealth Managers: A dying breed playing yesterday's game and in need of rejuvenation
- Demand side shifts: incumbents challenged to follow these effectively at this point
  - ✓ Demographics & generational divides
  - ✓ Wealth concentration acceleration: redefinition of boundaries of UHNW/HNW
  - ✓ Increasing up-take of alternatives, privately held assets, real estate
  - ✓ Players' business models, capabilities hard-wired in product SILO's for accumulation---challenged to shift
  - ✓ Inflection points: attitudes towards money, advice, instruments (e.g. crypto, NFT's)
  - ✓ Challenges in identifying, capturing new flows/"money in motion"

# Developing growth strategies for clients in the long-term savings sector: challenges in building market forecasts and quantifying opportunities

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- Supply side: Multiple data sources; none aligned
  - ✓ SILO'd by product, tax wrapper type
  - ✓ Mixing of institutional, wholesale, retail assets
  - ✓ Definitional issues and “decommissioning” of historic products (e.g. with profits, endowments, PEP)
  - ✓ HMRC, ONS changing definitions, how data is cut, or eliminating historical reporting categories
  - ✓ Categories of un-reported, non-addressable assets or flows—lead to over/under estimation of opportunities
  - ✓ Multiple gaps—some addressable via modelling; some requiring primary research
- Demand side: no customer led view
  - ✓ Few AUM led views at customer level
  - ✓ Experion segments: multiple challenges, including quantification for purposes of investment allocation, prioritisation, opportunity quantification, mapping to customer base, actionability
  - ✓ Multiple and incomplete data sources requiring significant modelling
  - ✓ Challenges in determining non-publicly traded or off-shore assets
  - ✓ “Wonkiness” in sizing, data accuracy at higher asset bands due to non-disclosed or off-shore assets
  - ✓ Heavy reliance on primary research with small sample sizes: costly, need for frequent repeating, year on year comparability a challenge
- Impact is multiple versions of the truth within organisations which slows decision making; challenges to quantification of opportunities; over/under-statement of target markets; cost

Methodologies developed to help address some of these challenges

# Ethos Market Maps & Customer Balance Sheet Models<sup>®</sup>: baseline quantification as inputs to development of growth strategies

## Views

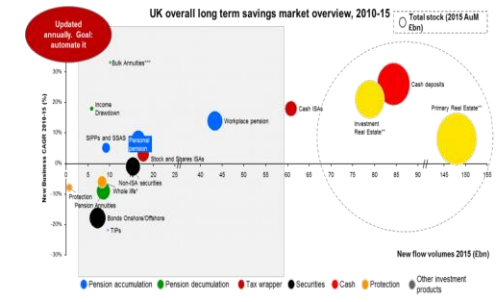
## Outputs

## Today

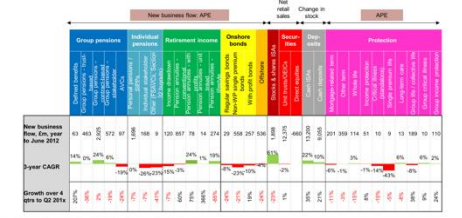
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**Supply side: Long-Term Savings "Market Map" Model**

- ✓ All long-term savings products—pensions, investments, protection, savings, cash, primary, secondary real estate
- ✓ Dynamics on stock (AUM) and flow (new money) across different product groups
- ✓ Historical trend analysis and projections



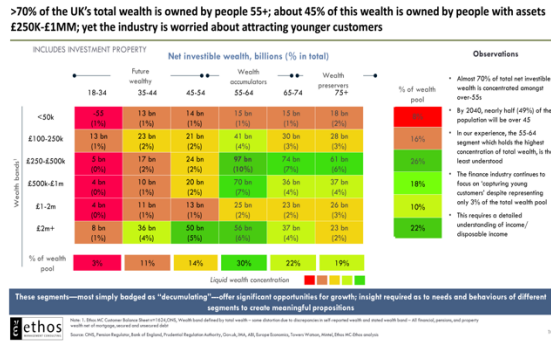
UK Long-term Savings Market Map: Stock, flow, CAGR by product



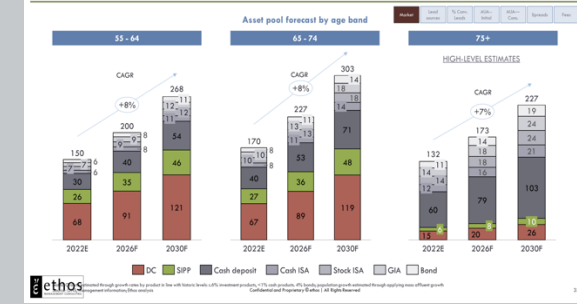
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**Demand side: Customer Balance Sheet Model**

- ✓ Holistic demand-side view of the entire UK household balance sheet
- ✓ Age / wealth band / asset type segmentation of household wealth
- ✓ Overlay of household wealth deciles



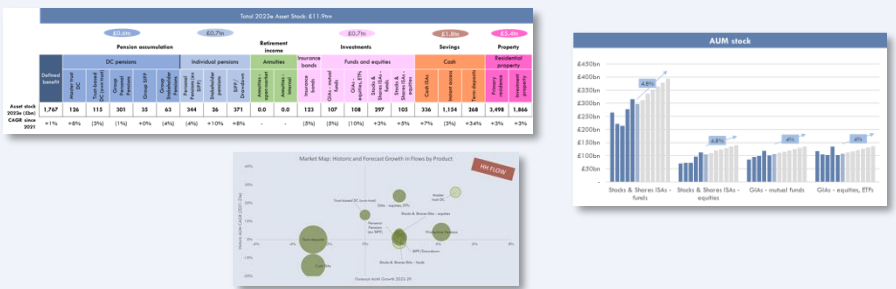
~7-8% projected balance growth across age bands, products; note continued importance of DC 65-74 and cash 75+



...jump off points to archetype definition (additional data sources required)

# Ethos Market Map & Customer Balance Sheet models create an integrated view of UK households' wealth through both a product and a customer segment lens

## Market Map: Supply Side by Product/Wrapper

<b>Purpose</b>	<ul style="list-style-type: none"> <li>Understand the stock and flow of value in different investment savings products and wrappers</li> <li>Identify future growth areas in product terms</li> </ul>
<b>Approach</b>	<ul style="list-style-type: none"> <li>Categories modelled top-down from multiple industry-level sources</li> <li>Some assumptions used (validated where possible) to reconcile data sources, provide additional splits and/or extend data where it only covers part of the market</li> </ul>
<b>Sources</b>	<ul style="list-style-type: none"> <li>Main sources are ONS, HMRC, Bank of England, ABI, Investment Association; additional validation/cross checking from Platform, Compeer, Investment Trends and others</li> </ul>
<b>Outputs</b>	<ul style="list-style-type: none"> <li>AUM stock, HH savings flows into (mainly) existing accounts, gross new business flows into new accounts/transfers</li> <li>5-year forecast of stock and flow by product</li> <li>Overview of key areas of stock and flow on one page</li> </ul> 



## Customer Balance Sheet: Demand Side by Customer Age/Wealth Segments

<b>Purpose</b>	<ul style="list-style-type: none"> <li>Understand the primary segmentation of UK households by age and wealth band</li> <li>Identify the relative size of the pools of wealth</li> <li>Provide a basis for overlaying penetration of age/wealth cells</li> </ul>
<b>Approach</b>	<ul style="list-style-type: none"> <li>Define Lorenz curve (cumulative wealth by percentile of population) by tracking against ONS data by decile; map wealth bands against curve</li> <li>Apply additional datapoints from ONS/HMRC to model age distribution per wealth band</li> <li>Take product category totals from Market Map and apply additional datapoints and smoothing to estimate distribution by product category across age and wealth bands</li> </ul>
<b>Sources</b>	<ul style="list-style-type: none"> <li>ONS Wealth &amp; Assets Survey, HMRC estates data</li> <li>Various other data points on wealth distribution by age/wealth</li> <li>Market Map for product category totals</li> </ul>
<b>Outputs</b>	<ul style="list-style-type: none"> <li>Matrix of wealth pools by age band and wealth band – total pool, number of households, wealth per household</li> <li>Breakouts for major product categories (DC pensions, individual pensions, investments, cash savings)</li> <li>Delta between ONS Lorenz curve total and Market Map total is wealth held in 'off balance sheet' categories not mapped on the supply side</li> </ul>

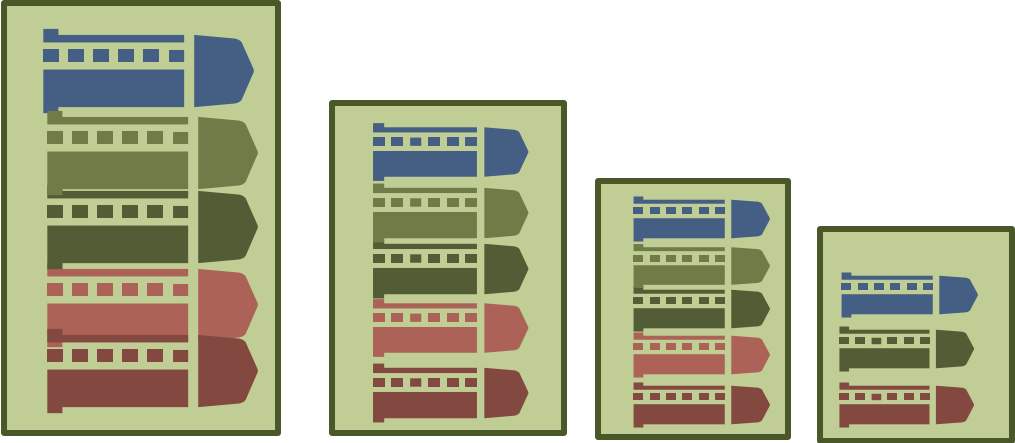
# The Customer Balance Sheet enables us to shift perspective from the legacy inside-out, wrapper led perspective to a customer led view of segments' overall holdings by age, wealth

## From: Inside Out, Supply-Led, SILOd

- The typical way our industry has looked at the market is “inside out” by tax wrapper and/or by product
- This “supply side” lens is out of sync with which customers invest in what wrappers, why, how, at what level of flows, & for how long

## To: Outside in, Demand-Led, Integrated View

- Customers have personal balance sheets in which they are making decisions, trade-offs about how/where to save, how to deal with their workplace pensions, what other wrappers to invest in, into which assets and where
- There are important dynamics re: wealth accumulation, concentration in the UK, demographics
- The Customer Balance Sheet quantifies the UK investment sector by segments by age, liquid wealth bands, and typical holdings by key product wrappers where HL plays (addressable market)
- The CBS enables you to take a view of share of wallet & opportunity pools; it fills a gap between ad hoc customer surveys & external data sources (FRESCO, CACI)—difficult to overlay, project, action



## Applications for Market Map & Customer Balance Sheet

Profit / revenue pool sizing / business case development	Stock & Potential Addressable Flows	Investment Thesis Formulation, Validation	CDD's	Sensitivity & scenario analysis
Relative Market Share	Value Creation Opportunities	Target Market Definition & Quantification	Competitive positioning, i.e. top ups vs new flows across market players	On-us/off us money & share of wallet
Granular views on asset types, e.g. ETFs vs managed funds	Experian post code data overlay for geographical analysis	Client Data Overlays	Channel Mix (Supply) & Digital Adoption (Demand)	Back book analysis





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# Example Outputs





# Market Map Headlines: The UK long-term savings market is large, growing and increasingly dynamic, with notable shifts in flows to foreign equities, passive funds, cash, and non-listed instruments

**UK household wealth just over £12trn in 2023**



- Liquid asset pool of £4.0trn split between investments and cash
- £2.2tn of this amount regarding investments are in the sweet spot for long-term savings providers
- GIA, equities and ETFs, term deposits, stocks & shares ISAs and SIPPs/ personal pensions generated highest compound growth in the last five years

**Assets in Trust-Based DC and Group Personal Pensions have almost doubled in last 5 years**



- Trust-Based DC and Group Personal Pensions now constitute c.85% of stock in the Occupational/ Workplace market (excl. DB)
- They represent a slightly higher amount of flow
- Group SIPP assets reflect 5.5% of total market assets for Occupational and Workplace pensions

**SIPPs have experienced the strongest growth within individual pensions**



- Personal Pensions and SIPPs have similar levels of AUM, together accounting for c. 97% of individual pension stock and flow
- In contrast, stakeholder pensions assets have almost fallen by half since 2018

**Mutual funds in Stocks and Shares ISAs form half of the investment market**



- Mutual funds held in Stocks and Shares ISAs almost 50% total stock and flow in investments
- Despite fluctuations in flow in the last five years, both products are expected to return to growth as customers gradually return to risk-based investments

**HL competes in 66% of the market (by total 2023e asset) outside DB and property**

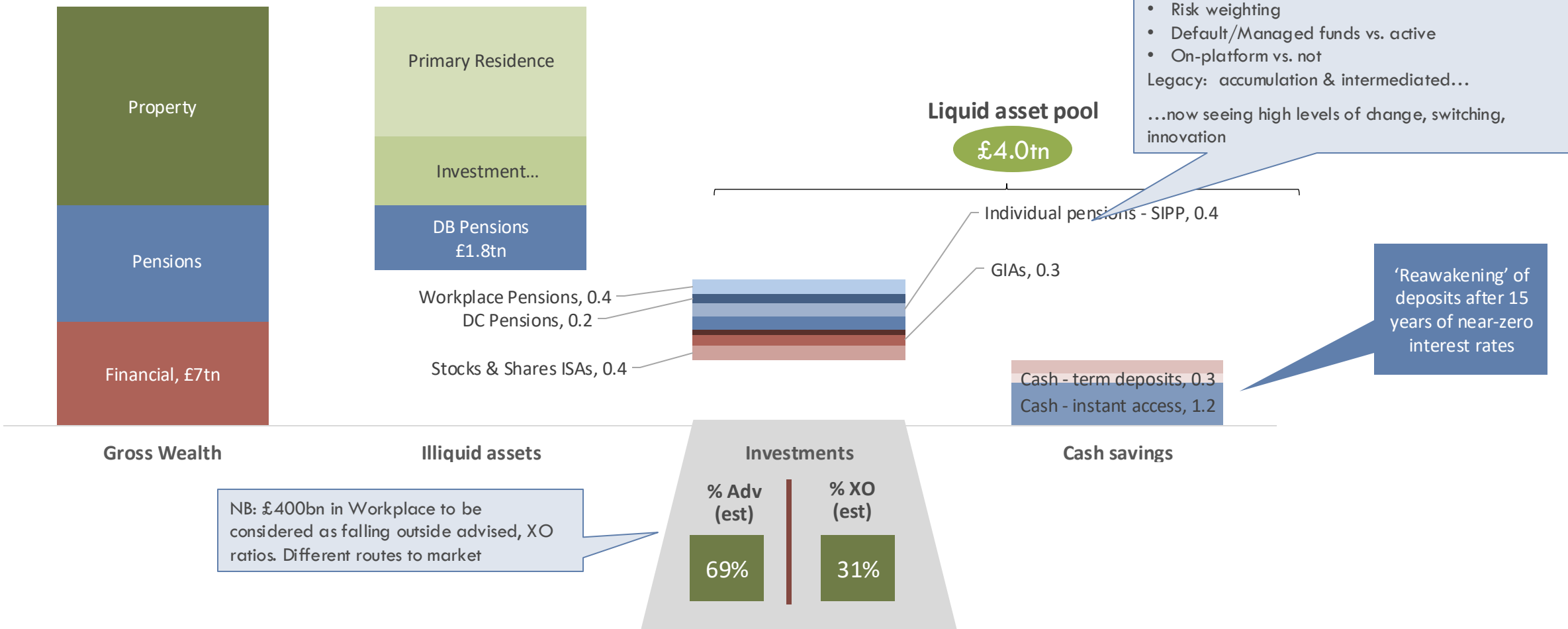


- HL competes in markets for each of the major household wealth categories

**Demographic trends---e.g. an older, wealthier population---manifested in acceleration of flows into pensions; new market entrants are challenging established business models, with “multi-homed” customers becoming a norm**

# UK household wealth is ~£11tn; £2.2tn “liquid” assets the traditional sweet spot of long-term savings players; the cash savings pool adds an incremental £1.8tn

## UK Net Household Wealth, 2023e



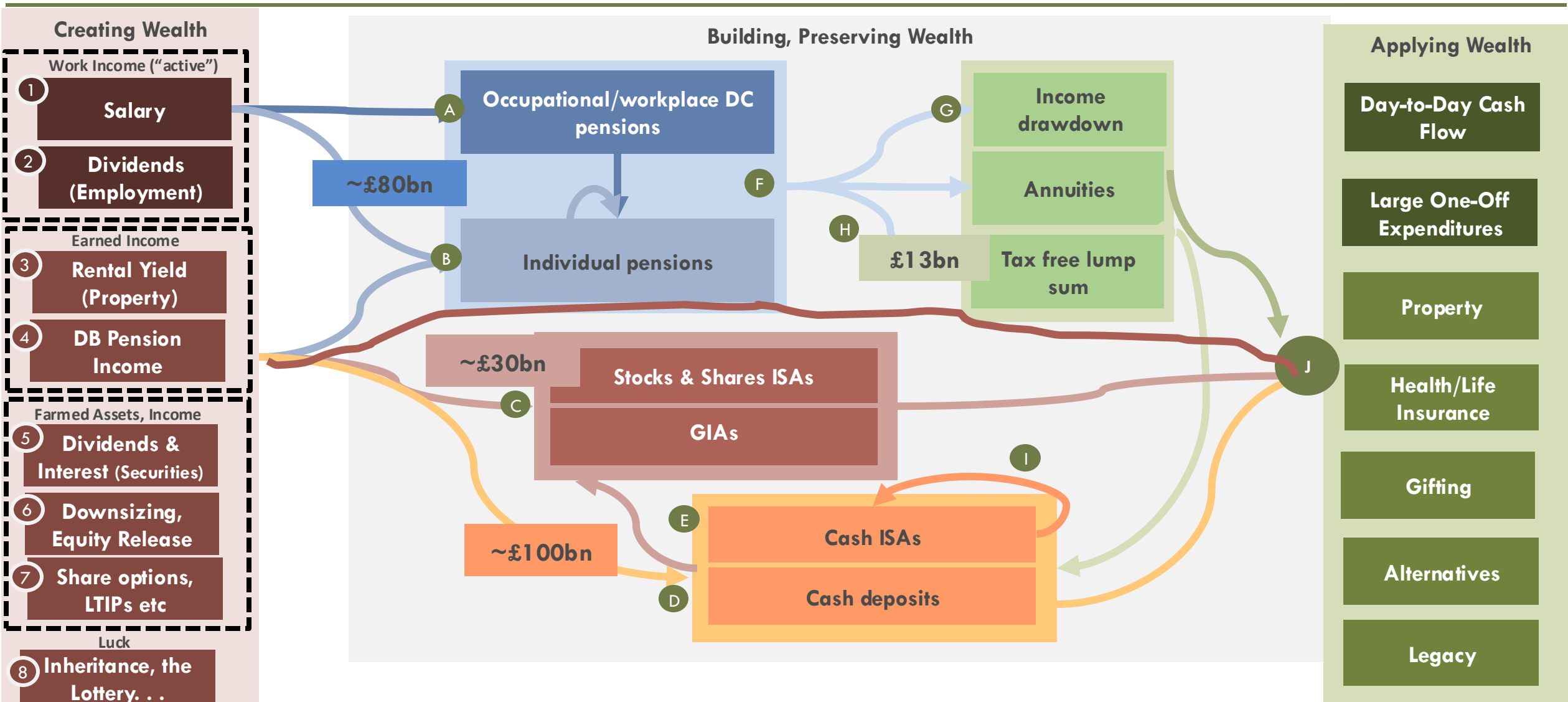
# Cash capturing vast majority of new flows, unsurprisingly; pensions—e.g. work-place, personal, and SIPP/DD attracted flows of £20-£30bn(est) in 2023

## UK Household Wealth by Product Type, 2023e – stock, flow, growth rate

	Pension accumulation						Retirement income		Investments						Savings			Property			
	Group pensions						Individual pensions			Annuities		Insurance bonds	Funds and equities				Cash			Residential property	
	Defined benefit	Master trust DC	Trust-based DC (own trust)	Group Personal Pensions	Group SIPP	Group Stakeholder Pensions	Personal Pensions (ex SIPP)	Stakeholder pensions	SIPP/ Drawdown	Annuities - open market	Annuities - Internal	Insurance bonds	GIAs - mutual funds	GIAs - equities, ETFs	Stocks & Shares ISAs - funds	Stocks & Shares ISAs - equities	Cash ISAs	Instant access	Term deposits	Primary residence	Investment property
<b>Asset stock 2023e (£bn)</b>	<b>1,767</b>	<b>126</b>	<b>115</b>	<b>301</b>	<b>35</b>	<b>63</b>	<b>344</b>	<b>26</b>	<b>371</b>	<b>0.0</b>	<b>0.0</b>	<b>123</b>	<b>155</b>	<b>140</b>	<b>297</b>	<b>105</b>	<b>336</b>	<b>1,154</b>	<b>268</b>	<b>3,498</b>	<b>1,866</b>
<b>CAGR since 2021</b>	+1%	+8%	(3%)	(1%)	+0%	(4%)	(4%)	+10%	+8%	-	-	(5%)	(3%)	+5%	+3%	+5%	+7%	(3%)	+34%	+3%	+3%
<b>Household savings flow 2023e (£bn)</b>	<b>n/a</b>					<b>5</b>	<b>17</b>			<b>n/a</b>	<b>n/a</b>		<b>0.1</b>		<b>21</b>						
<b>Gross new business flow 2023e (£bn)</b>	<b>n/a</b>						<b>49</b>		<b>73</b>	<b>15</b>	<b>9</b>	<b>16</b>			<b>4</b>	<b>1.7</b>	<b>76</b>				

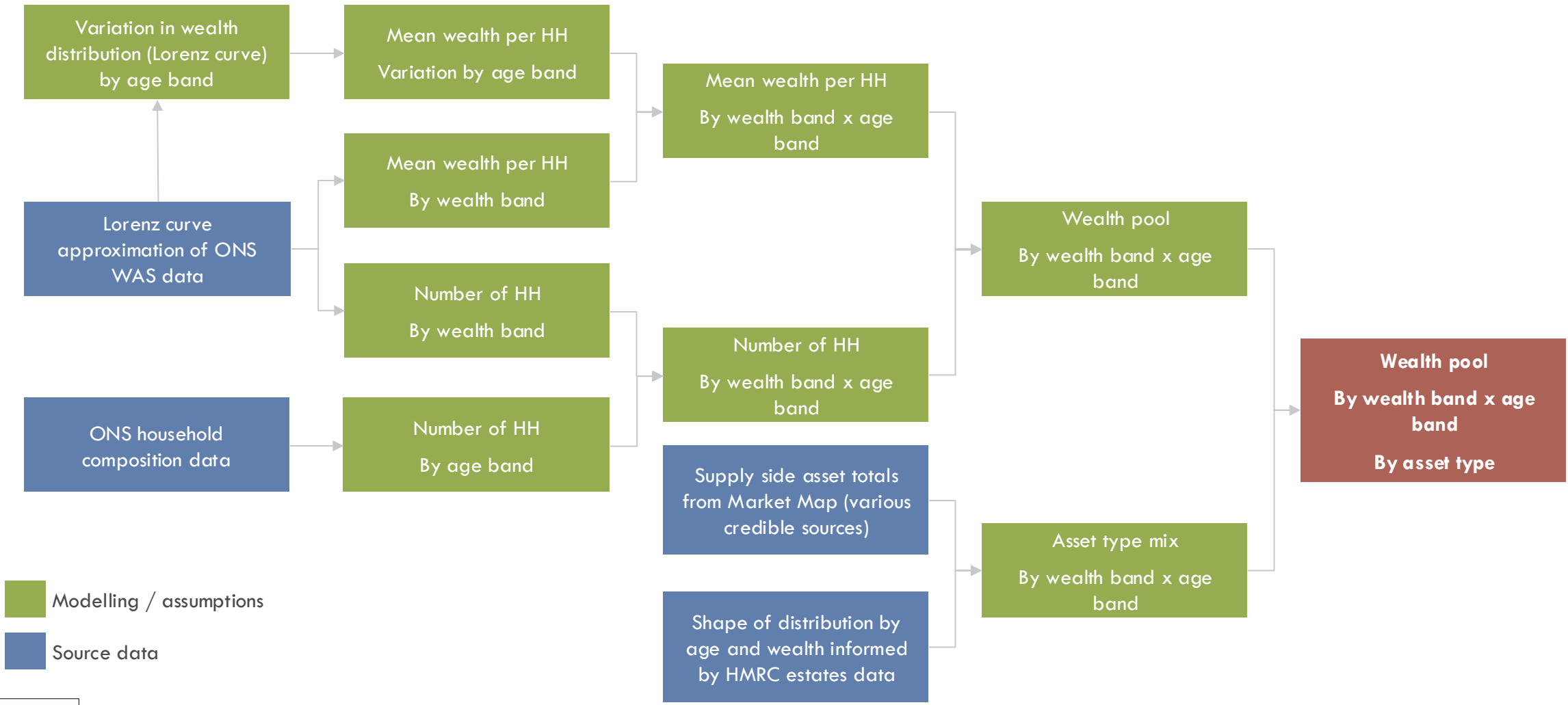
Source: Ethos Partners Market Map

Flows: majority of focus on inflows from employment; ISAs; churn. Older segments have more, richer sources of flows than “accumulators” & majority are untapped



# The Customer Balance Sheet Methodology: built up from the integration of multiple, complex data sources, enhanced via modelling and intensively cross-checked assumptions

Customer Balance Sheet Structure (Simplified)





# The UK Customer's Balance Sheet: Key Headlines

**“Barbell” effect in wealth concentration: ~ 50% of UK HH have £1K in liquid assets**

- 70% of assets held by HH with assets £500K+, representing deepest & most lucrative pools to fish in
- Volume/value trade-off considerations: e.g. many households, lower assets—cost to serve & efficiency essential; more limited set of households—share of wallet, proposition considerations

**Wealth concentration has accelerated since ‘14, in sync with global trends**

- # HH with £2MM+ average Aum has accelerated: benefit of market growth, compounding; skews at much higher wealth bands (e.g. £5-10MM+ manifestation of acceleration of wealth disequilibrium)

**Demographic shifts: 35% of population will be 55+ by 2040; immense value to be captured**

- 55-65: “peak accumulators” drive highest flows into products in their life-time due to lower expenses, higher salaries, desire to maximise retirement pots; these are “must retains”; priority acq. Targets
- 65+: Drawdown, tailored propositions for “next era of financial life”; underserved segment

**Workplace pensions =80-90% of customer's balance sheet <35**

- Auto-enrolment has accelerated uptake of workplace pensions across a broader % of the UK employed population; increasing focus on pensions as part of overall employee benefits propositions to attract/retain talent; many providers working to more actively engage scheme members

**Est 31% of total AUA, ~£700MM—XO; advised assets warrant scrutiny**

- Nature of XO sector evolving given availability of information, social media communities, chat rooms
- Largest asset pools allocate % of balances sheets to both; “advised” often a label vs. a reality
- Evidence that many approaching retirement have state intent not to use advisers due to expense:value perceptions

**Cash is beloved by all—regardless of age, wealth level**

- The anchor asset class of all portfolios
- Concentrations evident in youngest, oldest
- HNW hold high proportions of cash in their personal balance sheets

# Total Addressable Wealth Pools by Age, Wealth Bands: concentration of on-balance sheet assets increases in the £200K-£1MM segments 45+

UK Household Addressable Liquid Wealth Pools excluding non-addressable investments, 2023e

Investable wealth band	Future wealthy		Wealth accumulators		Wealth preservers		% of wealth pool	% of households
	20-34	35-44	45-54	55-64	65-74	75+		
0-£50k	£x	£1 bn	£2bn	£2bn	£1 bn	£1 bn	0%	x
£50k-100k	£x	£x	£43bn	£x	x	£41 bn	6%	17%
£100k-200k	£x	£46bn	£x	x	£x	£61 bn	9%	11%
£200k-500k	£x	£x	£x	£223bn	x	£x	x	x
£500k-1m	£x	£112bn	x	x	x	£x	30%	7%
£1m-2m	£x	£x	£96bn	£x	x	£x	17%	2%
£2m+	£19bn	x	x	£120bn	x	£x	x	1%

- ▶ “Barbell effect”: many households with little wealth; few households control the majority of assets; volume vs. value trade-offs
- ▶ The Wealth Effect: 10% of households own 59% of the addressable financial assets (69% if including ‘off balance sheet’ assets)
- ▶ The Struggling Mass Market: The bottom two thirds of households own 5% of financial assets
- ▶ The Age Effect: 83% of addressable wealth is held by those over 45 – 63% over 55

% of wealth pool	6%	11%	20%	x	18%	x
% of HH	17%	17%	19%	18%	13%	x

Source: Ethos Partners Customer Balance Sheet (v1.2) based on data from ONS, HMRC et al



# Customer Balance Sheet: Mean addressable wealth per household by segment

Mean Addressable Wealth (excluding non-addressable investments) by Segment, 2023e

Investable wealth band	Future wealthy		Wealth accumulators		Wealth preservers		All age bands
	20-34	35-44	45-54	55-64	65-74	75+	
0-£50k	x	£0k	£1k	£1k	£1k	£x	£1k
£50k-100k	£x		x	£	x	x	£52k
£100k-200k	x	£x	£110k	x	£x	£x	£111k
£200k-500k	£x	x	£x	£x	£x	x	£290k
£500k-1m	x	£596k	x	£xk	£x	£6x	£631k
£1m-2m	£819k <sup>1</sup>	£x	£1.09m	£x	£x	£x	£1.04m
£2m+		£x	£2.03m	£2.41m	£x	£x	£2.09m
Mean, all wealth bands	£54k	£92k	£152k	£178k	£188k	£200k	

Mean for 0-£50k band is very low due to large number of households with no investable wealth at all

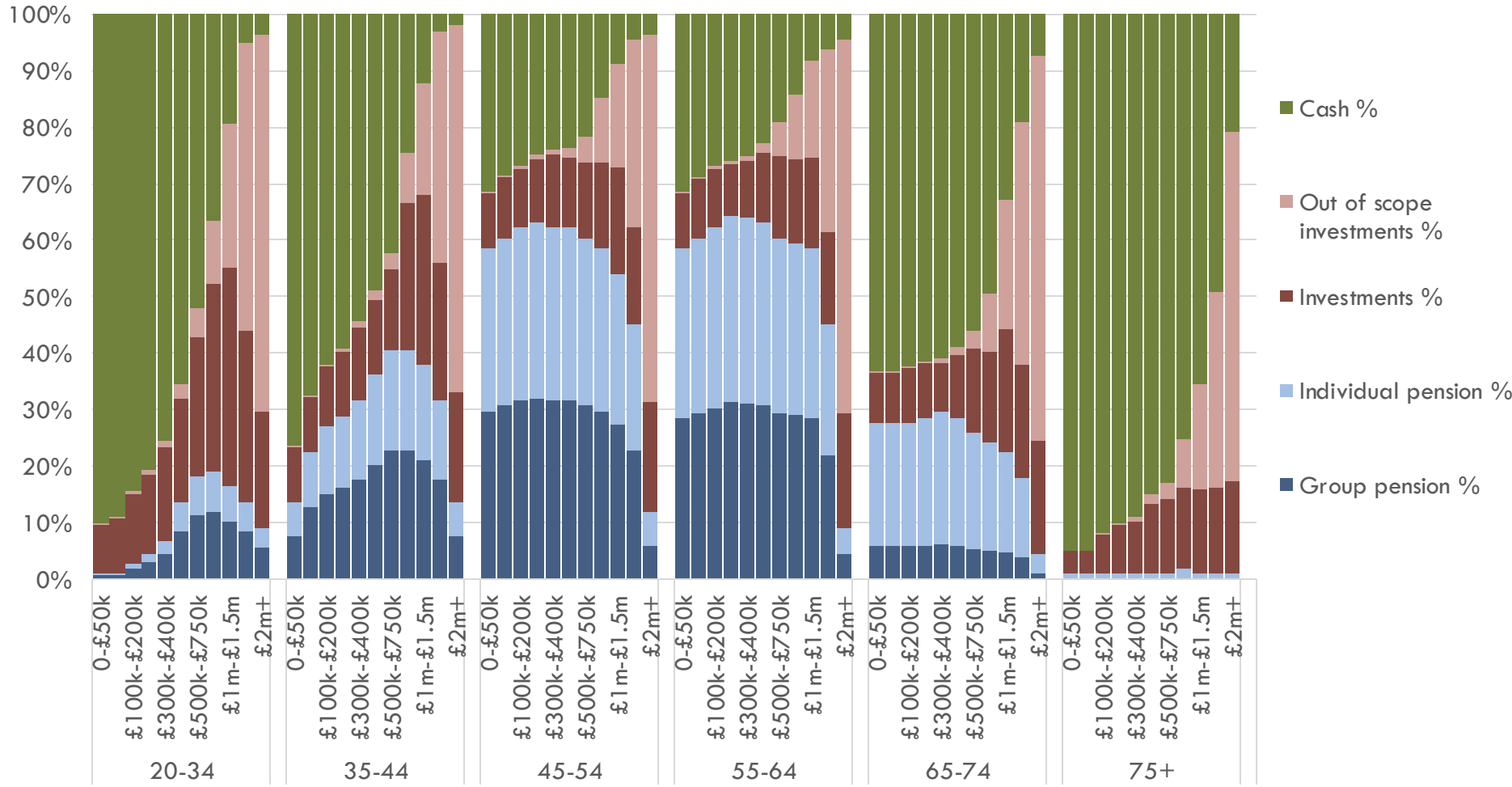
For households in this band with *non-zero* assets, mean investable wealth is approx. £15k



Source: Ethos Partners Partners Customer Balance Sheet based on data from ONS, HMRC et al  
 Notes: 1. Out of bounds for wealth band because non-addressable assets are included in the banding but excluded from the mean shown here  
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# Asset mix by age and wealth band

Asset Mix by Age and Wealth



- ▶ Profiling by age and wealth band is informed by various data points, e.g. ONS Wealth & Assets Survey, HMRC data on pensions and deceased estates
- ▶ Category totals are aligned with supply-side Market Map:
  - ▶ While the profiling is not exact, it is reasonable representation – the potential for error is limited by smoothing and the need to arrive at validated category totals
  - ▶ Further validation would require primary research

Source: Ethos Partners Customer Balance Sheet based on data from ONS, HMRC et al





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# About Ethos Partners





# About Ethos Partners: What we do and for whom

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**What We Do:** We specialise in supporting clients in defining options and making decisions that will drive top line or bottom-line growth at a organisation, country, line of business, or function level. Our methodologies and frameworks have been created, adapted, and applied over the past 25 years under all types of scenarios. They are grounded in detailed analysis to enable fact-based decision making. They engage and align senior stakeholders throughout as this buy-in is essential to driving to decisions, actions, and outcomes. They ensure that a realistic view of people, culture, and capabilities are embedded into recommendations as these are essential to implementing the engagement roadmap and delivering the growth & value required by the business.

Our engagements are short, sharp interventions, ranging from 6 to 16 weeks depending on scope and extent of stakeholder engagement and are structured in three phases: 1) Diagnostic & Option Definition; 2) Deep Dives & Option Recommendation; 3) Quantification & Roadmap

We emphasise collaboration with clients but recognise that some cases require limited engagement with only a select group of senior stakeholders

**Our sector focus:** Life Assurance, Wealth Management/Private Banking, Asset Management, Insurance

**Our clients include:** Global, regional, and domestic PLC's in the banking, wealth, life, insurance, and reinsurance sectors; fin/insurtechs; governments, regulators, and NGO's. We have covered the spectrum from major globals to start-ups in developed, emerging, and frontier economies.

**Our clients call us for:**

- **Strategic Reviews & Turn-Around Plans** Triggered by shifts in strategic priorities; capital requirements; business under-performance
- **Growth Strategy Development, Option Selection/Quantification, & Execution Roadmap** Triggered by Stock price performance; flat-lining growth (mature sectors, markets); annual strategic planning cycles; performance decline in critical function
- **Disruptive Change: Impact scenarios & quantification; scale, timing of response** Triggered by threats to revenue /profitability or growth/value created by regulation; economic cycles; socio-demographics; buyer preferences; new technologies; new market entrants
- **New Market Entry** Triggered by a desire accelerate growth via geographic expansion, new lines of business, customer segments, routes to market, adjacent product lines/propositions

# About Ethos Partners: Our business model

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## The Ethos NextGen Consulting Model

We are tapping into the extensive range of talent that exists outside of conventional consulting firms

The legacy consulting model is increasingly out of sync with client needs, demographics and how large pools of experienced people want to work. We are tapping into the extensive range of talent that loves what they do but are opting out of the well-established firms for myriad reasons: lack of diversity, mandatory retirement ages, unclear career paths, or a desire for greater flexibility to accommodate multi-lane lives that balance other careers, family, academics, or business pursuits.

We assemble teams that are bespoke to each client and engagement based on the skills and experience required to add value quickly. We commit a significant amount of partner time to each engagement. Our lean business model enables us to deploy experienced talent at a fraction of the cost of established firms, whose high overheads require high fees, minimal partner involvement, and analyst-heavy delivery teams.

## The Ethos Eco-System

We have an eco-system of like-minded firms who share our values and are taking a similarly modern approach to supporting clients. These firms bring complementary experiences and skill sets and include:

- **Trimstone Partners:** specialists in leading strategic change in the life, wealth, and insurance sectors and led by founding partners Miguel Ortiz & James Platt <https://trimstone.com/>
- **Solve Partners:** specialists in delivering high impact IT transformation in the wealth sector and led by CEO Dave Mason and Chairman Donald Reid
- **SigDiff:** specialists in statistical modelling & data analytics to support complex segmentation, customer analysis, data overlays, and opportunity quantification; founder, Tony Isaacs, a Cambridge educated mathematician
- **Galleon Blue:** specialists in qualitative and quantitative customer research; segmentation; marketing; and branding; founded by Ruth Saunders, former P&G, McKinsey, and Prophet



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