Go to the Flows

Linked In Article: Ed. 1, November 2024

by JP Frohling, Managing Partner, Ethos Partners
www.ethospartners.co.uk

Consumers are sitting on a rich source of flows. Life Co's and Investment managers typically focus on only a small proportion of them. Widening the field of play can unlock significant growth and value.

Flows. Analysts scrutinise them. PE's set multiples by them. Billions have been invested to capture them. Without them, there's no growth. So competition is fierce. And highly concentrated. In what amounts to ~20% of UK wealth—the £120bn of flows into the £2.2tn liquid assets in pensions, ISAs, and investment accounts.

UK consumers earn a living in myriad ways and have a broad variety of assets, many of which sit outside the traditional boundaries of life, pensions, and investment managers, are not well-documented, and are not easily quantified. All create rich sources of incomes and flows, a fraction of which is captured in the ~£100bn flows into cash savings and cash ISA's last year.

Significant new growth and value can be unlocked by widening the pitch you play on in terms of the sources of flows you target and the people who own them, typically the > 50's, who are the majority of UK households and who own >70% of investable assets. The scale and pace of flows from this group will accelerate as they begin to tap these assets for income to fund the next stage of their financial lives…and, ultimately "retirement." This part of the pitch is wide open as the majority of business models are hard-wired to capture income from mass market and mass affluent consumers in private sector employment who are under 50 years old.

To break away and be first to these flows, take 5 actions:

- Develop insights into different sources of income, the assets generating them, and the scale of flows.
- Define the segments of consumers who hold them and the composition of their balance sheets.
- Identify the options for where you want to play and how you will win.
- Document the changes that will be required to your operating model, the investment required and for what returns.
- Map the capabilities you need to build to deliver.

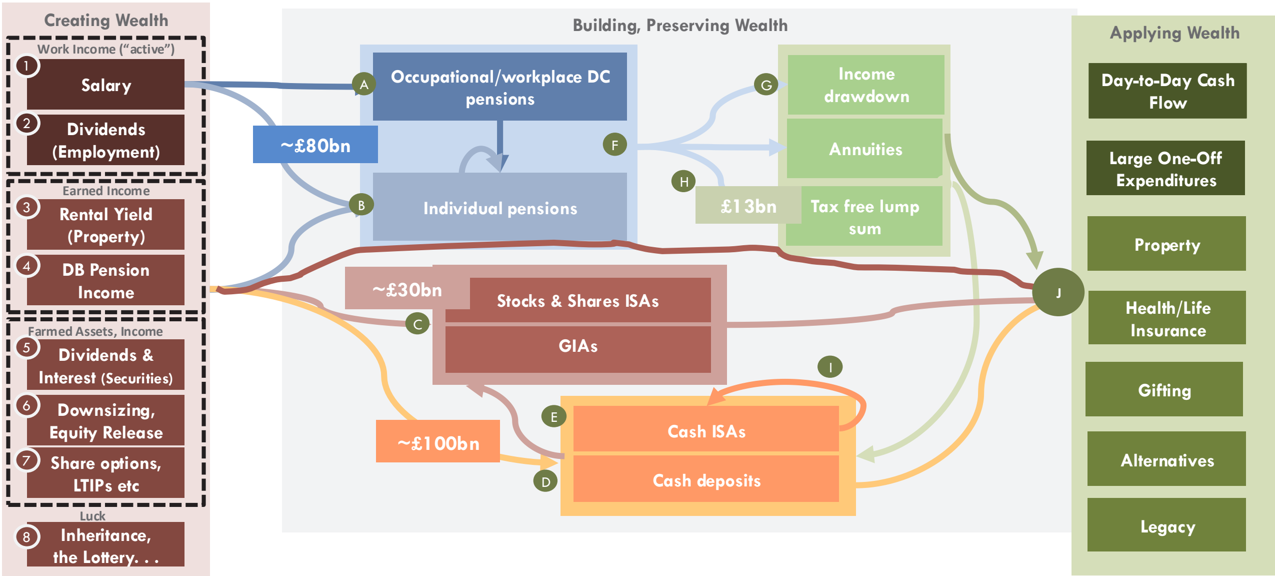
Going to the Flows: Sources of Income

There are four main type of income that create wealth and generate flows:

- I. Work income or "active income", paid out after tax as salaries by employers or taken out as dividends/distributions by non publicly traded LLP's, LLC's, and SME's.
- II. Earned income: from rental properties, public/private sector defined benefit pensions
- III. Farmed income: the extraction, redeployment of income, gains from accumulated assets—e.g. deposits, securities, property, company share schemes and incentive plans
- IV. Lucky income: windfalls from betting, the lottery, inheritance, gifts. Wealth management's equivalent of a Hail Mary pass. Not something you can count on but it's sure nice if you can catch it.

Go to the Flows

Myriad other sources of flow that are largely untapped



Source: Ethos Partners Market Map based on data from numerous sources (principally ONS, HMRC, BoE, ABI, Investment Association); numbers have been rounded.

Consumers Wealth managers and financial advisers have visibility of each of these sources of income through suitability assessments and financial planning. However, the "manufacturers"--life, pension and investment companies-- have built their business models almost exclusively around work income---primarily from conventional employment--the slow burn of converting monthly disposable income into assets in workplace pensions and, potentially ISA's, if there's enough left over.

In contrast to Work Income, Earned Income and Farmed Income are generated by often substantial asset pools that have the potential to throw off significantly larger and more consistent flows. Most of these flows emerge as cash in savings and current accounts at banks and building societies. Life co's, investment managers, and D2C platforms have a clear right to play here.

There is a massive opportunity to develop propositions that tap these flows at source and support consumers in aggregating and redeploying them in a way that is tax effective, meets cash flow requirements and savings targets, and produces good customer outcomes. The caveat: a 180° shift in mind-set and business model is required—from helping customers put money in to enabling them to take money out---and from assets that may or may not be under your direct control.

In the next edition of Go to the Flows, we'll discuss getting to the source of flows in greater detail---e.g. assets generating different types of income--and understanding the segments who own them.

ethos PARTNERS