EUROPEAN ASSET MANAGEMENT STUDY 2024: REMAINING CAUTIOUS DESPITE MARKET GROWTH

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After geopolitical upheavals, especially the implications of Russia's attack on Ukraine, led to a decline in global assets under management (AUM) in 2022, the European asset management industry saw a trend reversal in 2023: global AUM growth regained speed and the market grew by around 9% Despite this upswing, however, market growth alone is no reason to sit back – lower revenues , cost pressure, technological disruptions and a rise in geopolitical tensions are posing enormous challenges for asset managers after a decade of an upward momentum. In our European Asset Management Study 2024, we have once again analyzed recent developments of European asset managers. On the one hand, we shed light on current trends and their impact on the future of asset management, and on the other hand we identify unused efficiency levers and key areas in which there is an urgent need for action to ensure competitiveness.

Our article provides insights on the following topics:

1. Market developments and challenges in the global asset management industry
2. Forecasts for the European asset management industry: 5-year simulation
3. Survey results and recommendations for competitive positioning

Market developments and challenges in the global asset management industry

Our Asset Management Study, based on key figures of 40 asset managers with a significant footprint in the European market, shows that the European asset management industry is in a phase of profound transformation, driven by regulatory innovations, especially regarding sustainability, technological advance, and changes in the investment behaviour of private clients and institutional investors. These developments are putting traditional business models under increasing pressure and are being exacerbated by shrinking margins and persistently strong competition. The industry is therefore forced to adapt and realign.

After the marked slump in the markets caused by the Covid-19 pandemic and geopolitical tensions, assets under management recovered noticeably. Nevertheless, the situation remains fraught: the consequences of the war in Ukraine are still being felt, the Gaza conflict is creating additional uncertainty, and persistently high inflation is weighing on economic stability. The rise in interest rates in recent years restored the attractiveness of bonds and money market products, while stocks only started to record inflows towards the end of the year. Stagnating or falling interest rates in 2024 are contributing to a continuation of this trend.

In this challenging environment, investor preferences are increasingly shifting towards lower-cost, passively managed strategies, which will put further pressure on the revenue margins of asset managers in the long term. ETF assets have increased considerably over the past few years. Driven by the strong performance of the products, ETFs saw increased net inflows at the end of the year resulting in a global growth of 22% in 2023. Sustainable investments are slowly recovering after a weak 2022, although at less than 10%, their share of total assets remains comparatively low and is heavily concentrated in the European market. Alternative investments, such as infrastructure and private equity/debt, on the other hand, are still on the upswing and achieved significant inflows.

In terms of global market share, the United States still holds half of the world's assets under management, but the APAC region is becoming increasingly important.

Our survey of European asset managers, also part of our study, revealed that 90% of respondents (multiple answers were possible) see digitalization, including the use of artificial intelligence, as the top agenda item for the coming years. However, many organizations lack a comprehensive understanding of the relevant technologies, which is why it is essential to build up know-how as a fundamental prerequisite and knowledge management as a preliminary step.

This lack regarding the status of digitalization of expertise is confirmed by the responses of the asset managers taking part in the survey: over 60% of respondents state that their employer's level of digitalization could be improved. Important recommendations to boost the level of digitalization include consolidating data pools and increasing data quality, implementing innovative technologies, stabilizing and updating existing systems, and standardizing production processes.

The optimization potential that can be realized through digitalization varies depending on the technology used. From the digitalization of processes and automation to the use of machine learning and generative AI, each technology offers specific advantages, but also requires particular conditions and has its own limitations. Despite the currently strong focus on AI, it is not a one-size-fits-all solution and should be evaluated accordingly.

Success factors for increasing digitalization include a sound management understanding of the opportunities and risks, a fundamental willingness to rethink existing data logics and system landscapes, and a tidy data architecture.

Despite stable revenues and the solid performance of selected asset classes, many market participants have been struggling for several years with rising costs that continue to outstrip income growth. There is a predominantly even development in the various AM categories, but small medium size providers tend to have a less favorable cost-income ratio in 2023 compared to their relatively stable position in 2019. Contrary to the trends of recent years, the current data shows that medium size asset managers in particular saw a considerable increase in their cost-income ratio (CIR) in 2023 despite a (2%) reduction in their costs often achieved through stringent outsourcing. While large providers have been able to keep their CIR largely stable, medium-sized providers continue to struggle with high costs due to a lack of economies of scale and a missing focus in their business models. Profits are declining across the industry, which indicates that pressure is growing due to untapped cost-reduction potential and the tendency to sell low-margin products (see Figure 1).

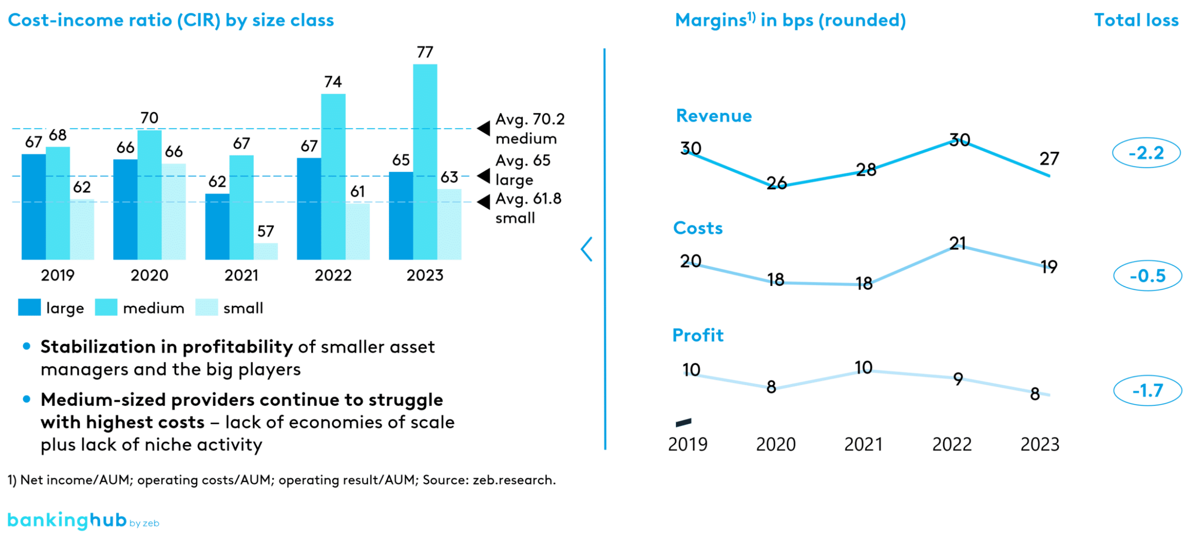

Figure 1: CIR and margins 2019–2023

Our study reveals that the dominance of individual large asset managers observed in recent years is continuing. The winner-takes-all effect is still clear to see: 65% of net new money (NNM) was generated by just five global players, which poses increasing challenges for smaller asset managers and requires proactive measures. Especially the observable consolidation of the industry is contributing to the increased dominance of large asset managers.

Within this base scenario, the developments predicted vary for the different size classes of providers:

- **Small providers** will have to contend with sustained cost pressure in the long term, which will further reduce the profit margin to 12.2% by 2028, despite a satisfactory margin of 17.4% in 2023. The simulation shows that earnings power will remain, but will come under strong pressure compared to costs, leading to a decline in profitability.
- **Medium-sized providers** are particularly vulnerable as they suffer from insufficient economies of scale and low margins. Their profit margin will shrink from 6.9% in 2023 to 4.1% in 2028. In the active management segment, they are facing challenges due to the ongoing decline in fees, which, together with low net inflows, is having a considerable impact on profitability.
- **Large providers** benefit from their high economies of scale. Their profit margin is solid at 7.8% in 2023 and will decrease only slightly to 6.3% by 2028. Their greater technology affinity and capital strength enable them to remain competitive even in a difficult market environment.

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