

OCTOBER 2011

McKinsey Quarterly

FINANCIAL SERVICES PRACTICE

Europe's struggling asset managers

Despite some bright spots, the industry is losing market share and having trouble attracting funds.



Europe's asset managers are not only struggling to attract new funds from investors but have also lost market share to other forms of saving, such as bank deposits, since the onset of the financial crisis, according to the recent McKinsey & Company report *Will the goose keep laying golden eggs? Is the turbulence behind us?* Moreover, while on average the European industry's profitability picked up in 2010, it was still well below the levels achieved three years earlier.

Confirmation of the difficulties comes amid renewed stock market turbulence, emphasizing the scale of the uphill battle asset managers face to rebuild their businesses. Assets under the global industry's management stood at €35 trillion by the end of 2010, roughly back to the level of 2007 (at constant exchange rates), thanks to the rebounding performance of stock markets after the 2008 downturn. Overall net new inflows were negligible in 2010, though the regional picture was mixed: emerging markets, such as Africa, Asia (except for Japan), and Latin America, were buoyant; developed markets, such as Western Europe and the United States, mostly flat.

Within Western Europe, there were bright spots, too, such as the United Kingdom, the Scandinavian countries, and Germany, where asset managers enjoyed net inflows from retail investors of between 3 and 8 percent. By contrast, the Benelux countries,¹ France, Italy, Portugal, and Spain saw outflows: banks in Spain, hoping to shore up their balance sheets, were particularly aggressive in encouraging investors to switch assets from mutual funds to savings accounts.

More disturbing than the overall lack of new inflows has been the loss of market share as both institutional and retail investors turned away from asset managers and sought alternative homes for their money. Our research shows that the European asset-management industry accounted for just 13.8 percent of global financial assets last year, down from about 15.4 percent in 2006. This means that the industry is potentially missing out on €1.3 trillion of assets—equivalent to a revenue opportunity of almost €4 billion.

On average, the industry's profitability and cost margins showed signs of recovery. Profitability in Europe picked up, from 9.6 basis points of assets in 2009 to 12.5 basis points in 2010, but last year's outcome was still below the 16.6 basis points achieved in 2007. Cost margins were down 0.8 basis points last year, to 21.2 basis points, but remain historically high (and even slightly up compared with 2007). In absolute terms, the industry's total cost base is 75 percent higher than it was in 2000.

Looking ahead, we expect profit margins to remain below pre-crisis levels until at least 2013 and cost margins to fall only slowly in the next few years. Despite growing

¹ Belgium, the Netherlands, and Luxembourg.

Related thinking

“How institutional investors should step up”

“Controlling costs in European asset management”

“The opportunity in asset management in China”

“The liabilities of Europe’s asset managers”

“Asset management in Europe”

opportunities (in part driven by regulation) to capture economies of scale, asset managers have consistently struggled to control costs—in particular, fund-management costs.

It is in this context that the industry must start to address its long-term health. Europe’s asset managers must act to reverse their falling market share by targeting a broader pool of financial assets owned by institutional and retail investors, to improve their understanding of customer needs, and to devise more efficient business models to capture the available scale economies.

Download the full report on the McKinsey & Company Web site. [○](#)

Copyright © 2011 McKinsey & Company. All rights reserved.