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‘Huge’ opportunities to disrupt European DC pensions

By Anna Devine 3 August 2021

The European pension market is poised for disruption, with “huge” growth opportunities for active asset managers in the defined contribution “platform” segment, according to new research.

Indefi, the asset management consultancy, predicts that the defined contribution pension market will climb to more than €10 trillion by 2030, more than doubling from €4 trillion at the beginning of 2020.

The traditional institutional segment, where the client is a pension fund or insurance company, amounts to €2.7 trillion, of which 37 per cent or €1 trillion is outsourced to third-party managers.

However, it is the “platform DC” segment, where the client is a corporate sponsor or distributor serving small and medium-sized businesses or individual clients, that should prove the more “attractive” opportunity for active asset managers.

Indefi says almost two-thirds, or €800bn, is currently outsourced to third-party firms and promises more attractive revenues than in the institutional space.

The €1.4 trillion defined benefit market in the Netherlands is the “big elephant in the room”, according to Richard Bruyère, managing partner at Indefi.

Legislation expected to be implemented in 2023 will see organisations switch from defined benefit to defined contribution plans, he says.

Other European markets on the continent moving to a defined contribution model include Germany and France.

Indefi says the defined contribution platform market is a hybrid market that mixes traditional institutional and fund distribution features.

In a report, the group says: “When assessing opportunities through the lens of associated accessible revenue pools for third-party asset managers, the platform DC segment is more than 1.5 times bigger than the institutional DC segment and where growth will come over the next 10 years. Platform DC is where the game will be played.”

Mr Bruyère says a good example of a product in this market is an individual contract with a retail investor such as the self-investment personal pension in the UK.

He says organic growth prospects in this space are “huge”, unlike the more established institutional segment.

This is because as the pension market moves from a defined benefit to a defined contribution model, individuals are having to take greater responsibility for their pension pots, and are switching to these “new arrangements”, according to Mr Bruyère.

“That’s where the growth will be played,” he says. “Nobody dominates it from a European standpoint. You have local leaders, global leaders in every market.”

The question is who can disrupt this market, he says.

“The growth prospects of that market, the promises that technology can bring, and the fact you are an individual retail investor – you need to be taken by the hand [towards a] coherent pension product,” he says.

“The digital tools are clearly something that is adapted to this. It’s a way to deliver advice in a cost effective manner. Whereas if you had to go through the traditional advisory channel, it would be very expensive. It is very expensive.

“If you combine your growth prospects, the advantages that technology can bring to a business model, you have a good case for asset managers or insurance companies or whoever to disrupt and to take advantage of the growth prospects,” he adds.

Mr Bruyère says it is “too early” to say which firms will emerge as potential disruptors but that asset managers are asking a lot of questions about this segment.

However, he adds that offering environmental, social and governance solutions will be key to success.

Private assets and passive products are also in demand, according to the report.

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