

29 May 2026 (No. of pages: 8)

Japanese report:20 May 2026

The Importance of Banking Functions in the Wealth Management Divisions of Major U.S. Financial Institutions

Leveraging Banking Functions is the Key to Growing the Wealth Management Business

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Summary

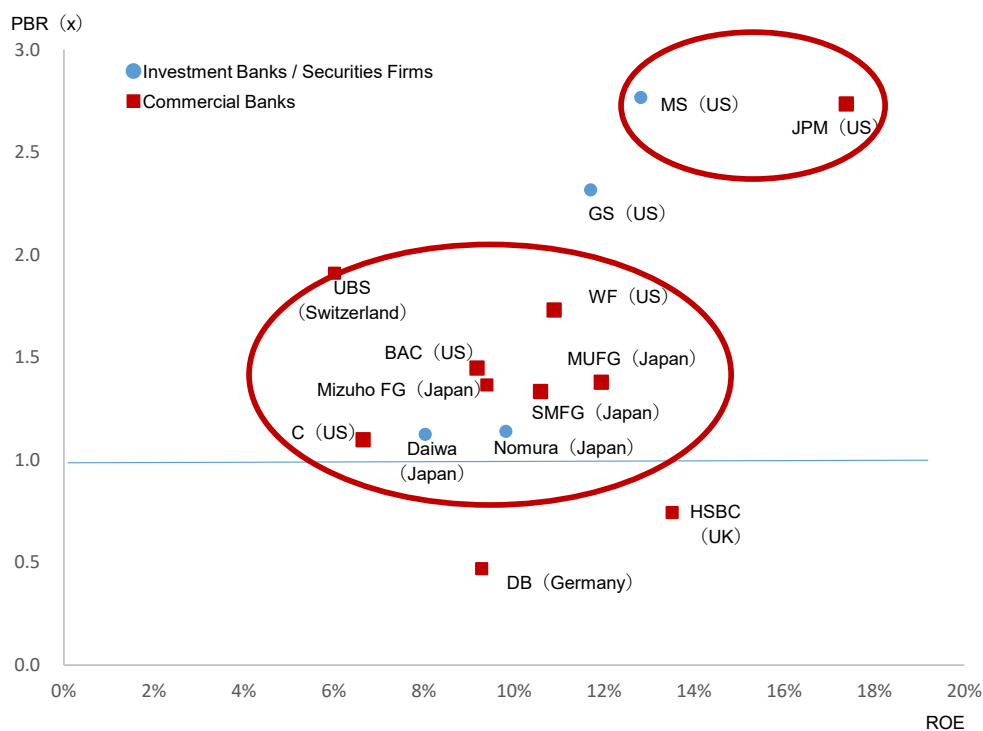
- The period of rising interest rates has ended, and for major U.S. financial institutions, simply expanding their balance sheets through increased deposits and lending is no longer sufficient to improve performance or enhance corporate value. The strength of their wealth management divisions has become the main factor differentiating corporate value.
- These major U.S. financial institutions can be categorized into two models: the "commercial bank-type AWM model," which places commercial banking at the center of its business and engages in asset and wealth management (AWM), and the "investment bank-type AWM model," which centers its business on investment banking and also engages in AWM.
- Commercial bank-type AWM companies leverage their banking operations, targeting a broad range of customers, primarily mass-market clients, while monitoring the flow of funds (payments) in customers' deposit accounts. They focus on capturing potential future wealth management clients (lead clients).
- On the other hand, investment bank-type AWM companies are also strengthening their banking functions, along with workplace-oriented services, to capture prospective clients. However, unlike the commercial bank-type, they are characterized more strongly as "WM-focused banks" targeting affluent and high-net-worth clients.
- Morgan Stanley's (MS) banking subsidiaries exhibit strong characteristics as "WM-focused banks", operating at low cost by not deploying physical branches. This contributes to the stabilization of the group's overall earnings and increases their presence.
- As a result, MS can efficiently provide products and services across the full range of its WM clients' assets, including deposits, with a primary focus on high-net-worth individuals, and has established a highly competitive model with low capital usage.

1. At major U.S. financial institutions, the strength of the asset and wealth management division is the main factor behind differences in corporate value.

When looking at the Price-to-Book Ratio (PBR), which indicates the corporate value of major U.S. financial institutions (see Chart 1), Morgan Stanley (MS) and JPMorgan Chase (JPM) have high PBRs, both exceeding 2.5. In contrast, Goldman Sachs (GS) stands at 2.3, Wells Fargo (WF) at 1.7, and Bank of America (BAC) at 1.4, all at lower levels than MS and JPM. Among major U.S. commercial banks facing declining interest rates, all except JPM have PBRs at or below 1.7. In the U.S., the phase of rising interest rates has ended, and for major commercial banks, simply expanding their balance sheets through increased deposits and lending is no longer sufficient to improve performance or enhance corporate value.

On the other hand, investment banks and securities firms like MS and GS have higher PBRs than commercial banks, with MS being higher than GS. Given this situation, for commercial banks to enhance their corporate value, like JPM, they need to establish a pillar of capital-light businesses, in addition to capital-heavy banking operations. That pillar is the Asset & Wealth Management (AWM) business.

Chart 1: Comparison of Corporate Value among Major Financial Institutions in Japan, the U.S., and Europe



Note: PBR (x) is calculated by Daiwa Institute of Research as the closing stock price of each bank/company on December 24, 2025 divided by the BPS at the end of fiscal year 2024 (FY2024) (net assets ÷ total number of shares issued, based on each company's financial statements). "C" indicates Citi, and "DB" indicates Deutsche Bank.

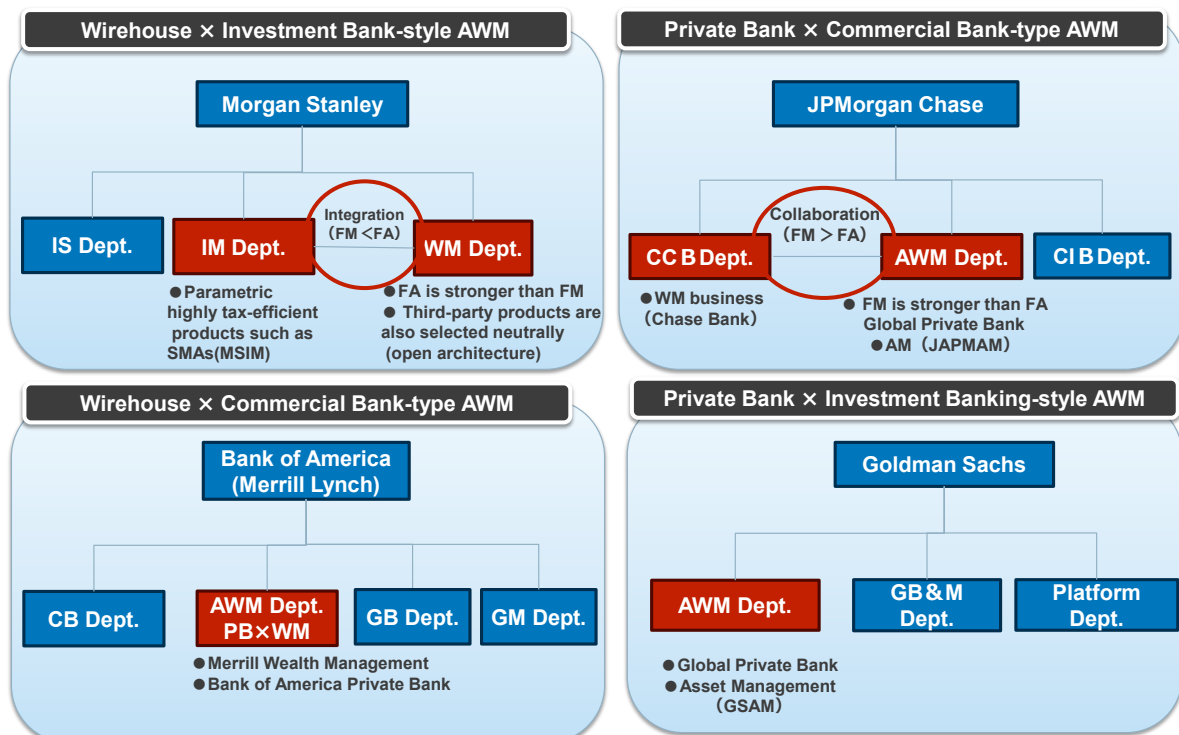
Source: Financial statements data is obtained from publicly available information such as securities reports of each bank/company, and stock price data is based on data from QUICK, compiled by Daiwa Institute of Research.

2. Investment Bank-Type AWM Model and Commercial Bank-Type AWM Model in the United States

Of course, in the banking industry as well, it is important to expand the balance sheet by increasing highly profitable loans (measured by RORA or Return on Risk Assets). However, to increase ROE (Return on Equity) while expanding the balance sheet, a large amount of capital (E) is required, so it is necessary to relatively increase profits (R). To achieve this, banks must either accumulate highly profitable risk assets, improve efficiency by reducing costs to increase profits, or pursue both strategies. JPM has successfully balanced these approaches and has consistently maintained a high ROE, making it a so-called commercial bank-type AWM. MS, on the other hand, has integrated its Investment Management (IM) division into its Wealth Management (WM) division, creating a flexible structure in which both divisions collaborate to personalize asset management portfolios according to clients' needs. MS also has an investment banking division as another pillar of revenue, making it a investment bank-type AWM.

Chart 2 compares the AWM business models of four major U.S. financial institutions, based on the typology of AM (Asset Management) and WM (Wealth Management). In the wirehouse-type WM model, Financial Advisors (FAs), who serve as the sales channel, hold significant power within the organization, making the model susceptible to trends across the entire sales channel. In contrast, in the private bank-type WM model, the focus is on portfolio construction by fund managers, particularly on improving performance by incorporating private and alternative products. Additionally, the ability to provide highly personalized “wrap” solutions that deliver superior tax or cost efficiency is considered a key differentiator in terms of added value.

Chart 2: Comparison of the Business Models of AWM at the Four Major Financial Institutions in the United States



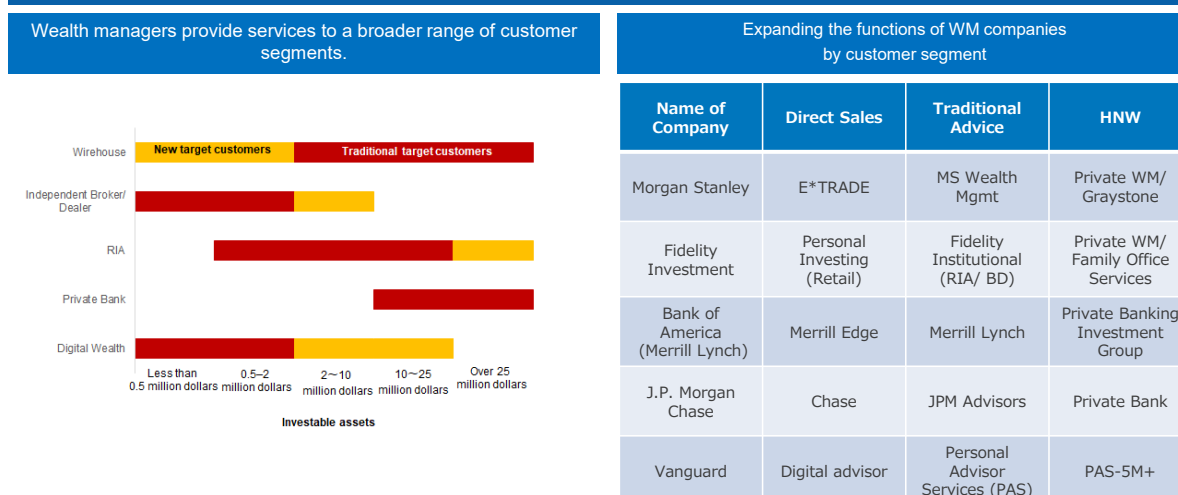
Source: Compiled by Daiwa Institute of Research based on Form 10-K filings, company information, and various materials from each company.

3. Intensifying Competition for New Clients in the AWM Industry

In the U.S. wealth management (WM) industry, there are five types of business models: 1) wirehouses (such as MS, BAC, WF), 2) independent broker/dealers, 3) RIAs (Registered Investment Advisors), 4) private banks (such as JPM, GS), and 5) digital wealth (direct-to-consumer firms like Fidelity and Vanguard). Each of these five types of WM firms has solidified its existing client base by leveraging the unique characteristics of their respective business models. Traditionally, 1) wirehouses have targeted high-net-worth individuals with over \$2 million in assets, 2) independent broker/dealers have focused on clients with less than \$2 million, 3) RIAs have targeted clients with \$0.5 million to less than \$25 million, 4) private banks have served ultra-high-net-worth individuals with over \$10 million, and 5) digital wealth firms have targeted clients with less than \$2 million. However, competition for client acquisition has intensified, including efforts to attract clients from other firms, in order to expand their customer base. In the U.S., financial assets tend to be concentrated among the wealthy, so independent broker/dealers, RIAs, and digital wealth firms—which have traditionally targeted clients with relatively lower asset levels—are now expanding their target segments to include the traditional client bases of private banks (ultra-high-net-worth individuals with over \$10 million) and wirehouses (high-net-worth individuals with over \$2 million). As competition for clients intensifies, wirehouses have also started to target clients with lower asset levels, specifically those with \$0.5 million to less than \$2 million (see Chart 3, left).

Chart 3 (right) shows the portfolio of sales channels by target client segment for each WM firm. MS operates E*TRADE, and BAC operates Merrill Edge, both of which are online brokerage platforms. On the other hand, JPM provides wealth management services through its group company, Chase Bank, covering clients with lower asset levels such as bank deposit customers. This is a strategy to strengthen their grip on prospective clients who may become high-net-worth individuals in the future.

Chart 3: Traditional clients of wirehouses are being encroached upon by RIAs and digital wealth platforms, prompting expansion of services.



Source: Compiled by Daiwa Institute of Research based on various materials from Cerulli Associates and interviews with major financial institutions during a business trip to the United States (November 2025).

4. Utilizing banking functions provides an advantage in acquiring prospective customers in the future.

The background to the superiority of the commercial bank-type AWM model lies in the fact that, in the United States, the sharing of personal information between banks and securities companies is based on an “opt-out” system. Under this system, customers are notified in advance that their information will be shared, and consent is deemed to have been obtained unless the customer requests to stop the sharing of their information. This makes information sharing easier compared to Japan, where an “opt-in” system is adopted, requiring explicit consent from customers before their information can be shared. As a result, regulations are stricter in Japan than in the United States. As shown in Chart 4, commercial bank-type AWM companies such as JPM and BAC benefit from this opt-out system. They can identify lead clients within their broad customer base, mainly mass-market customers, by monitoring the flow of funds (payments) in their customers’ deposit accounts as part of their banking operations. However, it should be noted that capital regulations apply to banks. On the other hand, investment bank-type AWM companies and digital wealth firms are trying to acquire new and lead clients by entering the workplace segment.

Notably, both MS and GS have banking functions and provide banking services. Investment bank-type AWM companies are entering banking to enjoy the same advantages as commercial bank-type AWM companies. The reasons for utilizing capital-intensive banking functions are: 1) as mentioned in the previous section, competition for new clients in the AWM industry is intensifying, and 2) providing services in the workplace segment requires significant upfront costs to acquire potential future clients, making it difficult to assess cost-effectiveness. Given these factors, leveraging banking functions will be key to the future success of the AWM business. However, it should be noted that investment bank-type AWM companies use banking functions primarily for high-net-worth clients. The following sections will provide an overview of the banking functions of MS and GS.

Chart 4: Status of Service Provision for Customer Acquisition in Investment Bank-type AWM and Commercial Bank-type AWM

	Corporate name	Provision of services for workplaces (Retention of lead clients)				Provision of advisory services (Retention of highly profitable clients)			Provision of Other Services		Provision of banking services (lead clients)
		Capital Policy	Equity Plan Mgmt.	Retirement	Nonqualified Deferred Compensation Plan	HNW Advice	Alts. + Private Market Products	Family Office	Digital Direct (lead clients)	Securities Services for Institutional Investors (highly profitable clients)	Deposits, loans, remittances, etc.
Investment bank-type AWM	MS	◎	◎	◎	◎	◎	◎	◎	◎	◎	○
	GS	◎	◎	◎	◎	◎	◎	◎	◎	◎	▲
Commercial bank-type AWM	JPM	◎	◎	◎	◎	◎	○	○	○	◎	◎
	BAC	▲	○	○	○	◎	○	○	◎	◎	◎

Note: ◎ indicates "full deployment," ○ indicates "partial deployment," ▲ indicates "limited deployment."

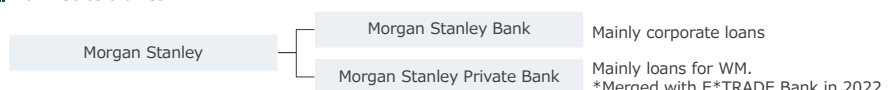
Source: Compiled by Daiwa Institute of Research based on "Jed Finn (Head of Wealth Management at Morgan Stanley) to Speak at the Bank of America Financial Services Conference, 'Achieving 30% Margins Through Growth', Feb 22, 2024."

5. Overview of Banking Functions in MS and GS

As shown in Chart 5, MS's banking subsidiaries consist of Morgan Stanley Bank, which focuses on corporate lending, and Morgan Stanley Private Bank, which specializes in personal lending. The combined assets of both banks amount to approximately \$487.3 billion (about 76 trillion yen). Of this total, around 57%, or \$277 billion (about 43 trillion yen), is allocated to loans (with a loan-to-deposit ratio of 68%).

Chart 5 Overview of Banks Owned by Morgan Stanley

Bank Subsidiaries



Balance Sheet (Combined basis for both banks)

*Liabilities and net assets are simply aggregated without eliminating intra-group transactions, so the left and right sides do not balance.

Assets \$487Bn		Liabilities \$465Bn	
Cash, etc. \$78Bn		Deposits \$408Bn	Shareholders' Equity \$43Bn
Loans \$277Bn Loan-to-deposit ratio 68%			
Securities \$133Bn			

As of End of December 2025

Income Statement (Combined basis for both banks)

*Simple aggregation without eliminating intra-group transactions

Unit: million dollars	FY2024	FY2025
Net Interest Income	8,172	8,275
Interest income	19,977	20,412
Interest expense	11,805	12,137
Non-interest income	3,227	3,893
Net revenues	11,399	12,168
Provision for credit losses	194	217
Non-interest expenses	2,214	2,589
Pre-tax earnings	8,991	9,362

Note: Calculated at an exchange rate of 1 USD = 155 JPY. The same applies below.

Source: Compiled by Daiwa Institute of Research based on Form 10-K and various materials.

Goldman Sachs has two main banking subsidiaries: Goldman Sachs Bank USA, which is primarily based in the United States, and Goldman Sachs International Bank, which is mainly centered in the United Kingdom. As shown in Figure 6, their total assets amount to approximately \$644.9 billion (about 100 trillion yen), of which around 34%, or \$216.5 billion (about 33 trillion yen), is allocated to lending (loan-to-deposit ratio: 49%) (see Chart 6). Compared to the banking subsidiaries of Morgan Stanley, Goldman Sachs has a lower loan-to-deposit ratio.

Chart 6 Overview of Banks Owned by Goldman Sachs

Bank Subsidiaries



Consolidated Balance Sheet

Assets \$645Bn		Liabilities \$498Bn	
Cash \$112Bn		Deposits \$439Bn	Shareholders' Equity \$63Bn
Loans \$216Bn Loan-to-deposit ratio 49%			
Securities \$223Bn			

As of End of December 2025

Consolidated Income Statement

Unit: million dollars	FY2024	FY2025
Net Interest Income	8,906	10,787
Interest income	31,906	31,970
Interest expense	23,000	21,183
Non-interest income	9,547	7,085
Net revenues	18,453	17,872
Provision for credit losses	1,596	-1,028
Non-interest expenses	6,375	7,021
Pre-tax earnings	10,482	11,880

Source: Compiled by Daiwa Institute of Research based on Form 10-K and various materials.

6. Differences in the Characteristics of Banking Business between MS and GS

As shown in Chart 5, the net interest income of MS's two banking subsidiaries is approximately \$8.3 billion (about 1.3 trillion yen), accounting for 82% of MS's total consolidated net interest income (about \$10 billion). The combined assets of the two banks amount to approximately \$487.3 billion (about 76 trillion yen), with pre-tax earnings of \$9.36 billion. On the other hand, GS's banking subsidiary has total assets of \$644.9 billion (about 100 trillion yen) and pre-tax earnings of \$11.88 billion. While MS's banking subsidiaries are strongly characterized as "WM-focused banks" in both lending and deposits, GS serves both corporate and individual clients in lending and funding (see Chart 7).

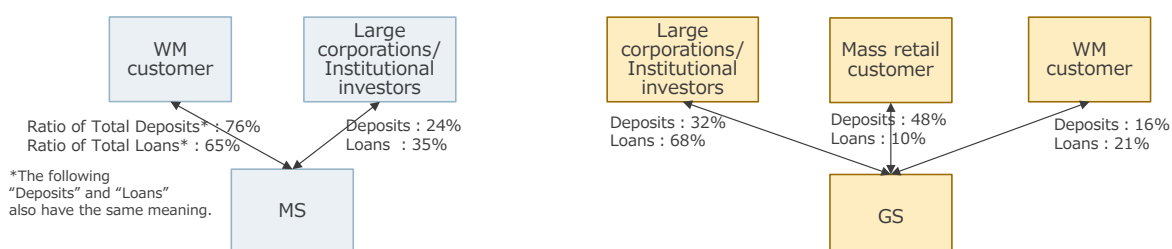
GS entered the banking business online and simultaneously sought to strengthen its grip on retail customers by securing payment services through credit cards and mobile payments. Ultimately, this effort proved unsuccessful. Specifically, in 2016, GS entered the banking business with its digital bank "Marcus," aiming to capture lead clients as JPM does. In 2019, GS launched credit card businesses such as Apple Card and partnerships with GM. Although Marcus continues to offer services today, the business has been significantly downsized, and it can be said that GS effectively withdrew from this area in 2023.

Chart 7: Comparison of Banking Business Characteristics between MS and GS

Comparison of total assets, deposits and loans, and pre-tax earnings for both companies

	Morgan Stanley	Goldman Sachs
Total Assets	\$487.3 billion (76 trillion yen)	\$644.9 billion (100 trillion yen)
Deposits	\$408.1 billion (63 trillion yen)	\$439.1 billion (68 trillion yen)
Loans	\$277.0 billion (43 trillion yen)	\$216.5 billion (33 trillion yen)
Pre-tax earnings	\$9.36 billion (1.5 trillion yen)	\$11.88 billion (1.8 trillion yen)

Overview of Loans and Deposits Structure for Both Companies (including some estimated values)



Note: Certificates of Deposit (CDs) are classified as deposits for large corporations and institutional investors. Securities-backed loans are classified as WM (Wealth Management), while other collateralized loans and corporate loans are classified as loans for large corporations and institutional investors. Sweep services (which automatically transfer funds between bank accounts linked to securities accounts) are classified as services for individuals. Due to the presence of "Other" categories, the total does not add up to 100%.

Source: Created by Daiwa Institute of Research based on Form 10-K filings, company data, and various materials.

7. MS's "WM-Focused Bank" Increasing Its Presence

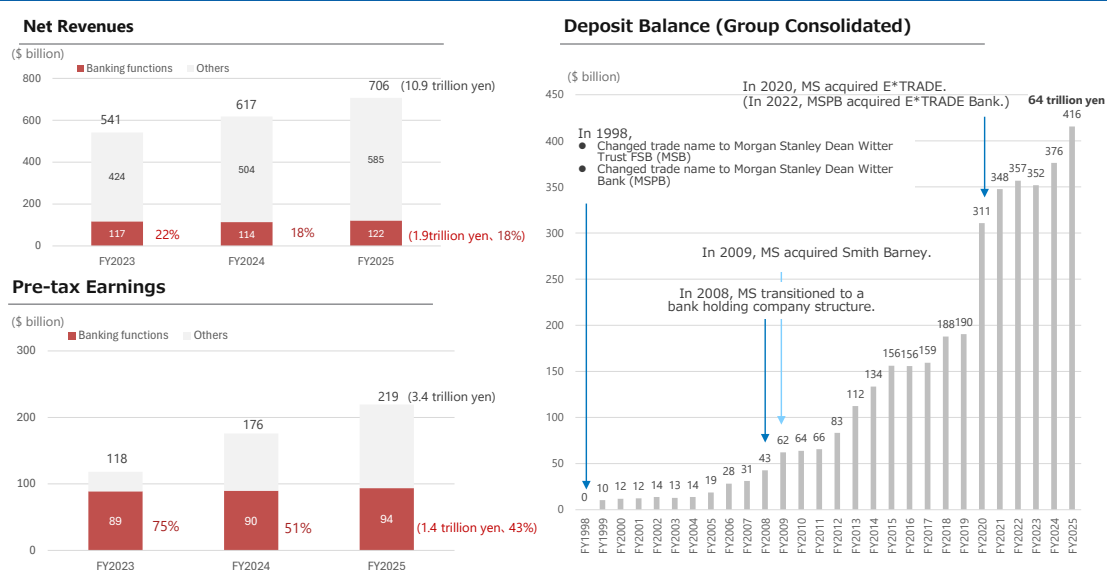
MS's banking subsidiaries are further increasing their presence by contributing to the stabilization of earnings. MS does not have a dedicated banking division, but its banking subsidiaries provide banking functions to both the WM and institutional investor-focused securities businesses (equivalent to IS).

As shown in Chart 8 (left), in the most recent two fiscal years, the pre-tax earnings of these banking subsidiaries (banking functions) accounted for 40–50% of MS's consolidated pre-tax earnings, demonstrating a significant presence. In fiscal year 2025, the combined deposits of the two banks reached \$408.1 billion (approximately 63 trillion yen), and loans to \$277 billion (approximately 43 trillion yen), with 76% of deposits and 65% of loans directed to WM clients. Furthermore, the operation is low-cost, as there are no physical branches and personnel expenses are kept low.

As shown in Chart 8 (right), the banking subsidiaries have grown significantly over the past decade. From fiscal year 2015 to 2025, deposits have increased 2.6 times and loans 3.4 times. The acquisition of E*TRADE has contributed to the increase in deposits, while the growth in loans is attributable to securities-backed lending in the WM division. Net interest income in the WM division has also increased along with rising interest rates.

As a result, MS has established a highly competitive model that efficiently provides products and services to the overall assets of WM clients, mainly high-net-worth individuals, including deposits, while keeping the capital employed at a low level.

Chart 8: The presence of banking functions within the MS Group is significant and contributes to the stable improvement of profitability



Source: Compiled by Daiwa Institute of Research based on data from Form 10-K, MSB & MSPB annual reports, and various materials.

References (Japanese only):

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