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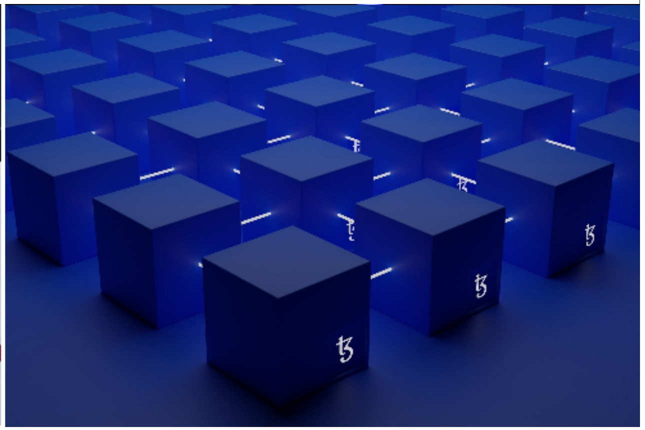
Building a Future-Ready Investment Firm

How firms are reinventing their businesses for the next era of investing

Executive summary



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Becoming future ready

The global wealth management industry faces converging megatrends that that are redefining investor needs and reshaping the industry. These trends include rapid technology innovation, mounting regulation, heightened competition, demographic shifts, and economic and geopolitical uncertainty.

To prepare for the next era of wealth management, investment firms need a clear view into the changing future expectations of today's diverse set of investors—and how competitors are rethinking their products and services, go-to-market plans, value propositions, and business models to keep them happy. Having an artificial intelligence (AI) and digital transformation strategy will be an imperative.

Making the investor the North Star

Investment firms must put the investor at the center of their plans. This requires fresh thinking, since traditional investor segmentation no longer adequately addresses today's heterogenous marketplace. With investor demographics shifting fast, creating a mix of investors by wealth, age, source of income, location, gender, and lifestyle, providers need a deeper understanding of their customers and their morphing needs and behaviors.

To provide wealth management professionals with insights into investor shifts, ThoughtLab joined forces with a select group of wealth industry experts, including Deloitte, FNZ, Genesys, and Amazon Web Services (AWS), to conduct a new study, ***Building a Future-Ready Investment Firm***.

Rigorous evidence-based research

The research is based on a survey of 2,000 investors, conducted in October-November 2023, across countries, wealth levels, ages, lifestyles, occupations, and other characteristics. It explores the future of the wealth industry through the eyes of investors: how their expectations around client experiences, interactions, and relationships are changing; what products and services they want in today's era of democratization; which fee structures and value propositions will work best; and the firms they plan to work with to meet their investment needs.

The study also included a benchmarking survey of senior executives from a cross-section of 250 wealth management firms, from independent wealth advisors and private banks to wealth management divisions within regional and international banks. It examines how service providers are adapting to the shifting investor imperatives, including their plans around product and services, pricing and business models, and use of digital technologies. To gain greater insight, we also conducted interviews with top executives from 11 firms.

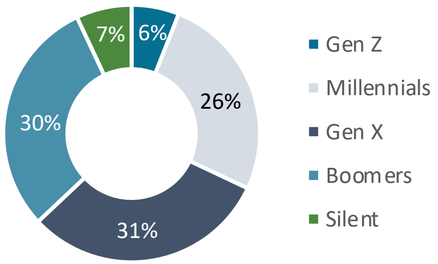
To cope with seismic industry shifts ahead, wealth management providers will need to harness digital and process innovation to become future ready. This report provides them with the road map to do just that.

Louis Celi
CEO, ThoughtLab

Methodology

Investor survey

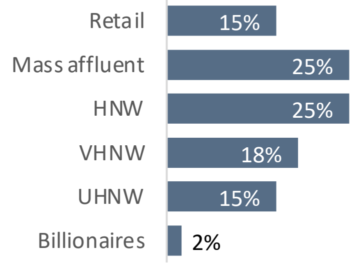
Respondents by generation



Respondents by region and country

Asia Pacific 26%	Europe 43%
Japan 6%	UK 8%
India 5%	Germany 6%
China 5%	Italy 6%
Australia 4%	France 6%
Singapore 3%	Switzerland 6%
Hong Kong 2%	Benelux 5%
New Zealand 1%	Spain 2%
	Nordics 2%
Middle East 2%	**North America 29%**
Saudi Arabia 1%	US 20%
UAE 1%	Canada 9%

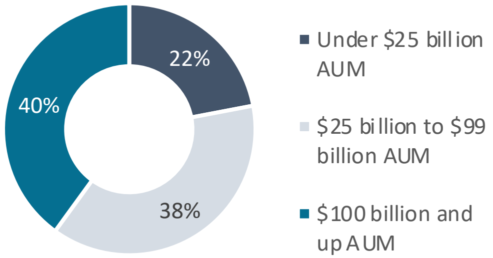
Respondents by wealth level



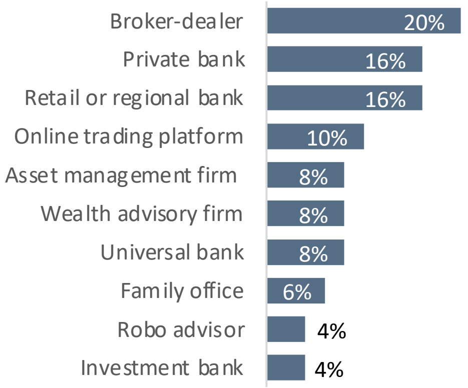
Retail: $25,000 to $99,999 Mass affluent: $100k to $999k	HNW: $1m to $4.9m VHNW: $5m to $29.9m	UHNW: $30m to $999m Billionaires: $1b and over

Investment provider survey

Respondents by AUM



Respondents by sector



Respondents by country

Asia Pacific 28%
Australia 8%
China/Hong Kong 8%
Japan 8%
Singapore 4%
Europe 40%
Switzerland 11%
United Kingdom 10%
Germany 8%
France 8%
Benelux 3%
North America 28%
Canada 14%
United States 14%
Middle East 4%
UAE 2%
Saudi Arabia 2%

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An industry redefined

By 2028, the wealth industry will look very different. Senior executives around the world believe that technological, regulatory, competitive, demographic, and economic shifts will redefine investor expectations and reshape the industry over the next three to five years.

- 69% of executives believe AI will significantly change the way their firms work. And 47% say blockchain and related technologies will reduce the need for intermediaries, such as custodians and clearinghouses.
- 55% of executives say born-digital firms will transform the wealth industry, and 42% think that personal investment advisors will become less necessary.
- 52% of executives say that most products will become commoditized, forcing providers to offer value-added services to defend fees. And 39% believe lines between wealth management, banking, and insurance will blur as investors demand more holistic products and services.

Executive views are in line with investor expectations:

- 68% of investors want their providers to offer digital experiences on par with those from leading born-digital companies.
- 60% of investors want their providers to supply them with better digital tools so that they can manage their investments directly.
- 51% of investors would invest through big brand retailers or tech companies if given the opportunity.

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1. Digitally transform client advice and experience

Technological advances will transform advisor roles and client experiences. Machines will take over many of the tasks formerly handled by advisors, while advisors will need to focus on what they do best—provide trusted, specialized, and holistic advice. Client engagement will move to the palm of the hand and virtual interactions—but personalization will be key.

- Currently, most investors prefer a digital solution for many investment activities. But 46% of investors value advisors for their trusted advice; a third cite holistic planning, innovative ideas, and availability in difficult times.
- Technology will make advisors more productive by giving them more time for value-added tasks: 60% of advisors expect to use AI tools to service clients over the next three years. And 67% of firms will move to a hybrid, tech-driven approach, with more limited personal advice, in three years.
- However, over the longer term, as technology—particularly AI—evolves, younger investors believe that they may not need to use advisors. According to our survey, 60% of Gen Y and Z do not expect to use advisors due to advances in technology by 2030.
- Over two-thirds of investors prefer smart phones for accessing account information, learning about products, and trading. Over half prefer video meetings for financial planning and advisor interaction. Providers are underestimating these shifting preferences.

2. Make client diversity a business opportunity

Over the next three years, investors will be even more diverse by age, location, gender, wealth level, and lifestyle. Understanding their needs and behaviors—and tailoring solutions accordingly—will be vital for the future of wealth management firms.

- To take advantage of generational trends, 98% of firms will continue to target Gen X; 94% will target Gen Y (up from 81% now); and 42%, Gen Z (up from 18% now). Robo advisors (94%) will particularly target Gen Z.
- Nearly half of firms (49%) will move up-market to attract wealthier investors, while 15% will go down-market—particularly robo/online platforms and wealth divisions of large banks (both 30%).
- With global wealth projected to rise by 38% by 2027, according to the Global Wealth Report 2023 published by UBS and Credit Suisse—thanks partly to a growth in emerging-market investors—38% of firms plan to expand across borders.
- Nearly two-thirds of firms (63%) are expanding within their main client segments, which includes carving out new investor niches and deepening share of wallet with their most important investor groups.

Understanding investor needs and behaviors will require firms to gather investor information from various internal and external sources. Because investors like to work with those with similar profiles, provider firms will want to make sure their advisors are as diverse as their clients.

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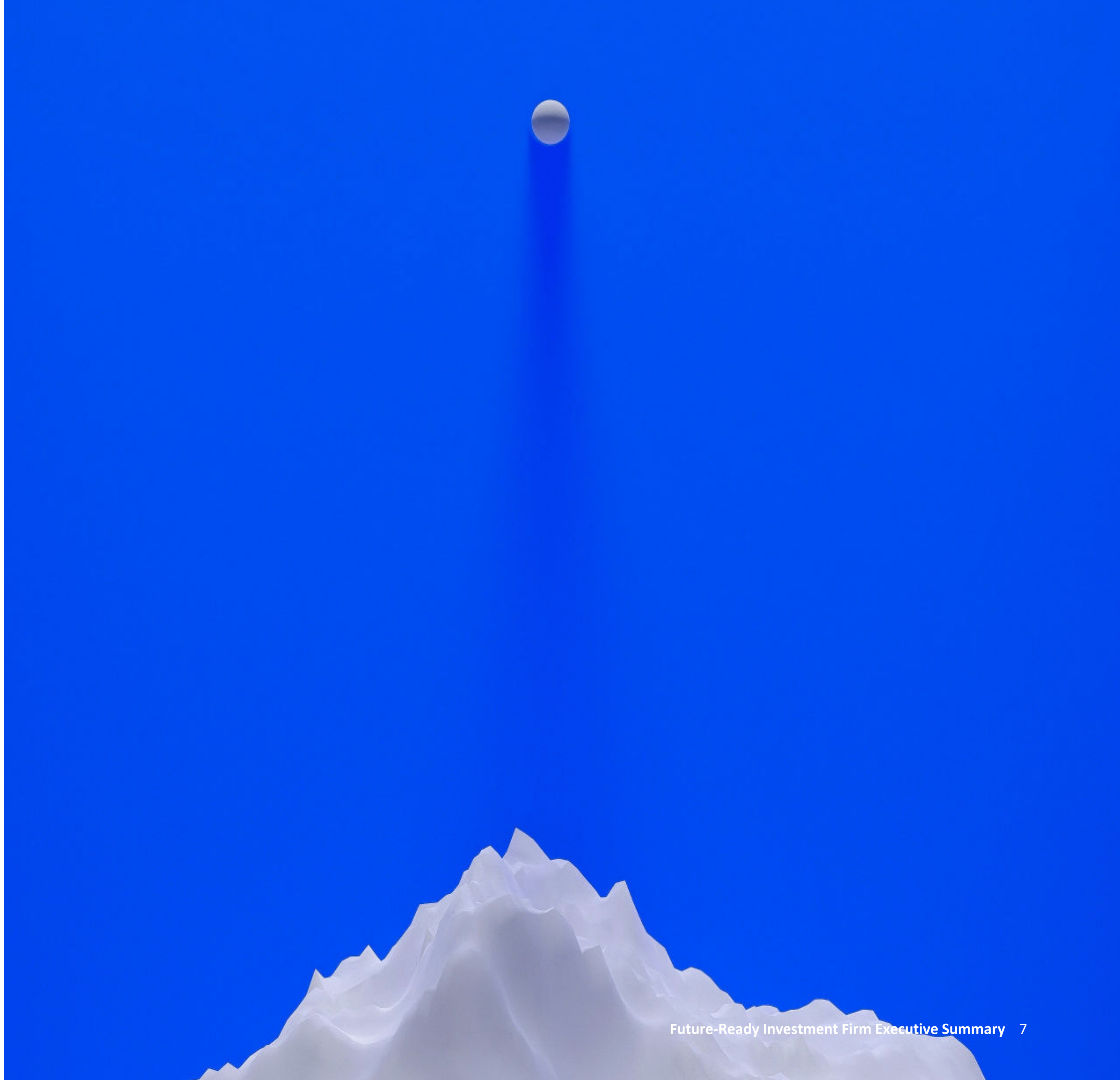
3. Drive performance through AI and digital innovation

Wealth management firms have made huge progress over the past few years in laying the digital foundation for growth, particularly in data management, AI, cloud, and end-to-end platforms. Firms are digitizing their middle and back offices and using technology to deal with regulatory change. Their biggest investments have been in AI, which will be a game-changer for the industry—from investment management and client service to risk management and compliance—with cautious approval from clients. Most firms are seeing high returns on their investments.

- Nearly 9 in 10 providers are either midway or advanced in nearly all areas of digital innovation. Firms are making technology a core competence and competitive differentiator.
- In the next three years, AI will be the top tech investment for providers (58%), followed by cloud (44%), and data analytics and collaboration tools (42%). Most firms (69%) believe AI will significantly change the way their organizations work over the next three to five years.
- Digital transformation drives financial results: 45% of firms report lower costs, 41% higher shareholder value, and 40% increased revenue. Other benefits include improved customer experience (34%), more effective risk management (30%), stronger reputation (29%), and greater staff productivity (27%).



4. Rethink offerings for the next investment era

The democratization of wealth management is giving retail and mass affluent investors more options for growing their returns and managing risks. It is also providing them with more personalized services and advice traditionally reserved for the wealthy. Despite short-term challenges for environmental, social, and governance (ESG) products, sustainable and impact investing will grow over the longer term.

- Investors want a broader range of products. Among the fastest growing over the next three years will be annuities/life insurance (+11 ppts), sustainable investments (+10), and retirement funds (+7 ppts). Firms across sectors are widening product portfolios to meet these needs.
- Over that period, the use of services will also rise, including private banking (+17 ppts) and discretionary investments (+13 ppts), especially among less wealthy investors. Philanthropic planning and advice on sustainable investing will grow the most, particularly among private banks and family offices.
- Two-thirds of firms see strong growth in sustainable investing in the years ahead, but in the shorter term, the challenges are formidable. For firms, these include fiduciary conflicts (51%), while both providers (43%) and investors (44%) cite problems with lack of knowledge about sustainable investing, as well as lack of reliable data and poor company selection by sustainability funds and ETFs.

5. Adapt business models and market positioning

The wealth management industry will continue to see disruption over the next three to five years from changing investor expectations, new entrants, convergence within financial services, and growing internal competition. Investor churn—amid dissatisfaction with performance and fees—will add to the disruption. The resulting consolidation may mean a shakeout among mid-size players, particularly as investors favor larger firms.

- 52% of firms classified in our study as digital leaders expect a dramatic industry shakeout. Consolidation is already remaking the playing field, with investment providers gobbling up advisory firms and online players to drive scale, efficiency, and competitive advantage.
- As competition heats up, investors are more likely to stray: 56% of them say they are considering changing providers. The top reason is to seek lower fees and simpler structures. Only 41% of investors are happy with the fees they pay and 35% with their advisor’s fee structures.
- To address this, firms are lowering, negotiating, or capping fees for services. Others are offering more value by adding holistic and specialized planning services under the percentage of AUM.
- Over the next three years, 45% of investors plan to use more providers. Investors plan to increase their use of private banks, wealth divisions in different banks, and robo/hybrid advisors. Broker-dealers, online trading platforms, and independent firms may see client erosion.

Calls to action

The stakes have never been higher for wealth management firms. To prepare for the future, executives will want to take decisive action to thrive in the unfolding era of industry disruption. Our research reveals nine critical steps that firms should take now to become future ready:

1. Develop tech-enabled advisors to provide higher value support. As advisors retire, firms will be able to use technology to fill talent gaps and boost the number of investors that advisors can manage. The automation of routine tasks will also free up advisors to concentrate on holistic client management. The winners will be firms that implement cost-effective hybrid approaches that blend high-tech and high-touch elements to meet client demands.

2. Take digital customer experiences to the next level. Customers expect their investment experiences to be on par with those of their favorite born-digital company. To do this, wealth management firms will need to put highly personalized and intuitive interactions in the palm of their hand, through mobile devices, and remotely, through video engagement.

3. Gear your strategy to the new face of investors. Harnessing technology and data to identify investor needs and behaviors, find market niches, and personalize solutions will be table stakes in the next investment era. Building a diverse advisor base that not only understands but also mirrors investor differences will also be critical.

4. Unlock value through digital and process transformation. As firms continue their digital journeys, they will need to invest more in specialized areas, such as AI, cloud infrastructure and services, cybersecurity, robo advisors, open API platforms, video collaboration systems, and holistic planning tools. Tracking ROI and course correcting when needed will be vital.

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Calls to action

5. View your business through an AI lens. Firms should embrace AI for client-facing activities, such as investment management and financial planning, and for internal operations, such as cybersecurity and fraud detection. To achieve the best results, underlying data will need to be accurate, integrated, and real time, as well as secure and free of unwanted bias.

6. Rethink offerings for the next era of investing. Higher-value products and services—from alternative investments, IPOs, and customized index funds, to discretionary investment, tax planning, and private banking services—will need to be on the menu. To democratize their offerings, firms will need to use digital solutions to drive down the cost to serve.

7. Think about sustainable investing as a practice, not a product. Low returns and inadequate metrics and standards have impeded the success of ESG products. As financial performance becomes more intertwined with sustainability goals, investors will expect advisors to keep both goals in mind when managing investments across asset classes.

8. Preserve a place in the new playing field. As digital entrants disrupt the industry, the winners will be firms with open, API-enabled platforms that allow them to integrate fintech solutions quickly and seamlessly. The solution for many will be ecosystem partnerships, rather than competition, between newer and established players.

9. Recalibrate pricing and business models. To retain and attract clients, investment firms will need to finetune their value propositions. One way is to reduce, cap, or renegotiate fees for services like discretionary management. Another is to justify percentage of AUM fees by building in value-added services, such as holistic planning.

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ThoughtLab is an innovative thought leadership and economic research firm providing fresh ideas and evidence-based analysis to help business and government leaders cope with transformative change. We specialize in analyzing the impact of technological, economic, and demographic shifts on industries, cities, and companies.

To learn more about ThoughtLab, visit: **www.thoughtlabgroup.com**

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