

ThoughtLab

Wealth and asset management 4.0

How digital, social, and regulatory shifts will transform the industry

Executive summary

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Introduction

The pandemic has been a watershed event for the wealth industry, accelerating dramatic changes in investor attitudes, behaviors, and expectations. Our study reveals six key megatrends that will alter the course of the Industry: (1) a shift to digital interaction; (2) a growing desire to invest with purpose, (3) a wider demand for democratized products and services, (4) a requirement for higher integrity and standards, (5) an expectation for lower fees and pricing transparency, and (6) a greater willingness to switch providers if their needs are unmet.

These profound shifts have overturned conventional wisdom about investors. Digital is no longer just the domain of the millennial retail market; it is now preferred by older and richer investors. At the same time, millennials, like other generations, want face-to-face meetings and other contact beyond digital. Even social impact investing is no longer just for younger generations; in fact, it is now a higher priority for baby boomers than millennials and for the ultra-rich over the mass affluent.

To succeed in this transformed marketplace, wealth and asset management firms will need to revise their thinking about customers and shift from a product- to a customer-centric approach—one focused on the person not the demographic. That will require firms to reimagine their client segmentation and go-to-market strategies, as well as their range of products, services, and pricing models. Crucially, firms will need to kick their digital transformation programs into high gear, while finding the ideal calibration between a high-tech and high-touch approach. Wealth and asset management firms that embrace digital transformation increase their productivity by 13.8%, AUM by 8.1%, and revenue by 7.7%.

The evidenced-based insights in this report are based on a comprehensive global survey of 2,325 investors across age and wealth levels, together with a cross-regional survey of 500 wealth and asset management firms, including investment advisory groups, private banks and trust companies, broker-dealers, robo-advisors, family offices, and retail, institutional, and alternative asset management firms. The study was completed in November 2021.

We give special thanks to the sponsors that provided the intellectual and financial support for the program. They include Appway, Deloitte, eToro, FIS, HCL, LexisNexis, Publicis Sapient, Refinitiv, Recordsure, Salesforce, and TCC. Without their generous support, this study would not have been possible.



Lou Celi
CEO
ThoughtLab



Janet Lewis
Managing Editor,
Finance, ThoughtLab

“We are living through a period of disruption that will ultimately redefine the financial services industry. Not only has COVID accelerated digital transformation, but it has also heightened environmental concerns and awareness of social justice, equality, and inclusion. These personally held beliefs can no longer be kept distinct from business.”

Melissa Cullen,
Global Head of Strategy,
Wealth and Retirement, FIS

The pandemic has changed investor thinking

The pandemic has been a watershed event for the wealth industry, accelerating dramatic changes in investor attitudes, behaviors, and expectations. Our study reveals six key megatrends that will alter the course of the industry:

Megatrend 1: The shift to digital. Because of the pandemic, 40% of investors say digital access has become a greater priority. And 75% of wealth executives expect digital interaction will be the norm in two years. Indeed, 89% of investors say their preferred channel will be mobile apps.

Megatrend 2: Investing with purpose. Over the next two years, 34% of investors will seek ESG investing advice. Over four out of 10 providers believe that clients expect them to be knowledgeable on social impact investing and to offer ESG products and services.

Megatrend 3: Product and service democratization. In two years, 67% of investors want to invest in alternatives like private equity, and 49% in IPOs. Also in two years, 58% of investors will want personalized financial planning and 53% will want day-to-day financial management services.

Megatrend 4: Setting higher standards. About half of investors say that acting in their best interests is the most effective way for advisors to build relationships with them. The same percentage of investors have become more concerned about regulatory and tax changes since the pandemic.

Megatrend 5: Lower fees and greater transparency. Only 37% of investors are happy with their provider's fees and 36% with their fee structures. Even fewer, 35%, understand how their advisors are compensated.

Megatrend 6: Investors will switch providers to get what they want. Over the last year, one-third of investors moved over 20% of their funds to providers that offered what they want. Over the next two years, 44% plan to do so.

“Customers increasingly expect hyper-personalization. They want firms to treat them—their families, their experiences, their situations—as unique. It’s hard to do, but technology has made it much easier. As with everything else, technology has driven down costs and driven up efficiency, meaning we can do more.”

Cory Haberkorn
Industry-Go-To-Market Senior Manager
Salesforce.com

These profound shifts have upended long-held views about investors

The dramatic market shifts that accelerated during the health crisis have overturned conventional wisdom about investors.

Wealth and asset management firms will need to replace their assumptions about age and wealth levels with a new client lens focused on personal needs, attitudes, and life stages. The smartest firms will not just democratize their products, but also their thinking about investors.

Myth 1

Digital is just for young mass-market investors

The study shows little difference in digital tastes. The proportion of investors preferring to use a mobile app to engage with their wealth firms is identical for the ultra-rich, baby boomers, and millennials, at 89%.

Myth 2

Millennials only want to do things digitally

Another myth. Millennials, like older generations, want personal contact when investing: 46% of millennials prefer face-to-face meetings and 40% prefer phone calls.

Myth 3

Younger investors care more about sustainability

Not so. Only 10% of millennials plan to invest in green bonds over the next two years vs. 15% of boomers. Only 22% of millennials plan to invest in ESG funds vs. 32% of boomers.

Myth 4

Women know less about investing than men

Our study shows that 24% of women have a high knowledge of wealth management vs. 16% of men. Percentages of both genders willing to make high- or very high-risk investments are largely the same.

Myth 5

The very rich focus less on ESG goals

Over the next two years, 61% of billionaires will seek ESG investment advice vs. 34% of investors on average. Billionaires also are more likely than investors on average to put money in green bonds (50% vs. 13%) and ESG funds (36% vs. 27%).

Wealth management firms are striving to adapt

To address fast-changing investor expectations, providers are rethinking their strategies, offerings, and pricing models. As they look toward the future, executives will want to consider four critical questions:

1. How well do my offerings align with investor needs? Most investors want better investment ideas (57%) and high returns (50%), intuitive digital experiences (49%), and advisors that act in their best interests (49%). They also desire a wide range of products and services (48%), including active (48%), tax efficient (48%), and specialized (42%) products.

2. Where should we look for future growth? Over half of firms are expanding up-market, 37% are entering new geographic markets, 35% are building on current niches, and 23% are going down-market. While firms now focus on HNW clients (66%) and gen-Xers (93%), in two years they will pay more attention to VHNW clients (+22 pts to 56%) and boomers (+17 pts to 80%). They will also go deeper into key niches, such as business owners (+7 pts to 62%), beneficiaries of existing clients (+22 pts to 46%), and specific religious groups (+13 pts to 48%) as faith-based investing rides the ESG wave.

3. How should we adjust our offerings to meet new client demands? Almost two-thirds of providers plan to offer alternatives over the next two years—a top requirement for investors—and around four out of 10 will also offer private placements or venture capital opportunities packaged for a wider range of clients. On the services side, more than half of all firms plan to offer goals-based planning over the next two years and, as a result, will also add more ancillary financial-related services.

4. Which pricing formula will work best? While most investors prefer to pay for financial planning with either a fixed or hourly fee, most providers expect to charge them on a performance basis or as a percentage of AUM over the next two years. For non-discretionary investment, investors also prefer hourly or fixed fees, yet while a fifth of providers expect to offer hourly fees in two years, only 12% of providers will offer a fixed fee structure.

“By 2030, we are going to see a lot of hundred-billion-dollar fintechs, some of which will manage over a trillion of dollars. Some of them will end up taking over traditional financial institutions. To survive, traditional firms will need to adapt to become essentially very large fintechs—and the best of them will succeed.”

Yoni Assia
CEO, eToro

Avoiding market misconceptions

Our investor survey shows the need for wealth management firms to align their strategies with new market realities.

MISCONCEPTION 1

Wealth providers can drive huge gains by consolidating client assets

In fact, only 6% of investors surveyed prefer fewer providers in the future; 53% want to stay with the same number and 42% prefer more. Providers would be smart to focus on investment performance and broader offerings, which are the main reasons that clients would consider switching over the next two years.

MISCONCEPTION 2

The best way for providers to differentiate themselves is through personal relationships

Not so. Our survey shows that providing innovative investment ideas is that best way to attract investors, cited by 57%. And simple intuitive digital experiences, ethical business practices, active management products, and tax-efficient investments are now the top criteria that investors use when evaluating wealth providers.

MISCONCEPTION 3

Investors are generally happy with their firms' fees and pricing models

Think again. More than 6 out of 10 investors are not happy with fees or pricing structures, and many of them are doing something about it, or plan to do so. Over the last year, 23% of investors moved substantial funds to firms that offered better fee structures and another 19% to firms that offered lower fees. This trend will likely continue.

MISCONCEPTION 4

Generational wealth transfer is moving the focus from older investors to millennials

Instead, our survey shows that providers are planning to shift more attention to baby boomers (from 63% now to 80% in 2 years) than they are planning to do with millennials (61% now to 66% in 2 years). Firms are betting that baby boomers will work and live longer and will continue to be strong targets for financial services.

Firms are transforming to compete in a digital-first world

Wealth and asset management firms are making great progress in digital transformation. Almost three-quarters are ahead in interactive CX, and over half in automated processes, AI, blockchain, and cloud. Firms also have made major strides in other digital areas, including data analytics, cybersecurity, and digitized employee experiences. Private banks, retail asset managers, and broker-dealers are speeding ahead, while alternative asset managers and family offices are falling behind.

Firms across sectors plan to raise their total IT spending over the next two years. Companies will continue to invest in core technologies, but investment will plateau or even drop in areas like cybersecurity, which has been the top investment area over the past two years. The biggest rise over past levels will be in AI (52%, or up by 11 pts). Meanwhile, in the front office, firms are investing most in digital customer onboarding (47%) and digitizing financial planning (43%). In the back office, the top areas are data analytics (41%) and client account servicing (40%).

Almost half of all firms are seeing increased revenue from digital transformation now. Over the next two years, almost as many expect improved profitability. But firms expect an increase in operational and strategic benefits as well, particularly improved planning and decision-making, greater innovation, enhanced customer analysis and retention, and faster creation of new products. Financial planning is the area that has generated the highest return on digital investment for wealth management firms, with 35.6% getting a high ROI. Finance, client reporting, and portfolio accounting have also been areas of high returns.



Firms have seen a nearly 14% increase in productivity as a result of digital transformation. This has contributed to an 8.1% rise in assets under management. Digitization has also lifted revenue by 7.7%, market share by 7.3%, and shareholder value by 5.8%, although it has also increased costs as firms beef up their digital investments.



“Wealth firms must understand that digital transformation is an ongoing that may take years to complete. There are two main risks along that journey. The first is delaying investment or not investing enough. The second is investing heavily for two or three years and then getting tired and thinking you are done after the initial wave.”



Gauthier Vincent
Principal, Deloitte Consulting

Meeting the needs of investors (and shareholders) through digitization



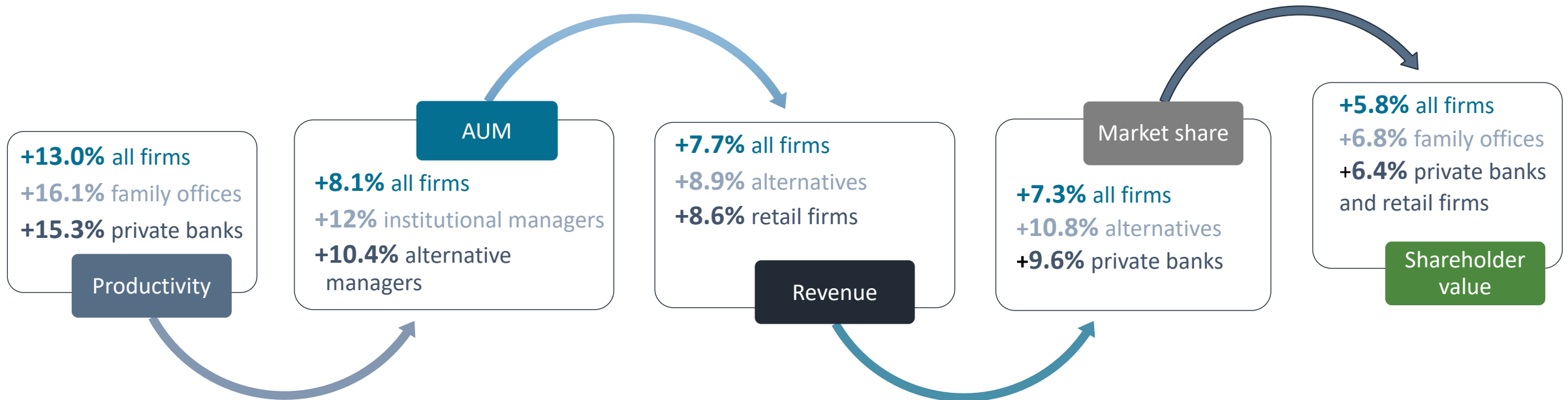
- 40%** For 40% of investors, digital access has become a higher ongoing priority because of the pandemic. 
- 77%** of investors use the provider's website as the predominate channel for interaction today.
- 89%** want to use smart phones in the future. 
- 49%** of investors now see a simple, intuitive, digital experience as the top criteria for evaluating firms.

- 73%** of providers have made major progress on interactive CX. 
- 57%** have done the same with automating internal processes.
- 22%** Firms will hike their total IT spending by 22%, from 6.9% of revenue to 8.4% in two years. 
- 40%** of firms will boost their investment in data analytics and 32% in workflow automation in two years.

- 47%**  of firms now see higher revenue from digitization.
- 45%** of firms expect greater profits in two years from digitization.
- 32%** of firms expect greater AUM in two years from digitization. 
- 28%** of firms expect decreased costs in two years from digitization

Digital transformation boosts performance across key indicators

As wealth and asset management firms advance in digital transformation, they see steady improvement in key performance indicators. Digital innovation boosts productivity and AUM, which translates into higher revenue and market share, and eventually greater shareholder value.



ThoughtLab

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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