GLOBAL WEALTH 2018

SEIZING THE ANALYTICS ADVANTAGE



BCG

THE BOSTON CONSULTING GROUP

The Boston Consulting Group (BCG) is a global management consulting firm and the world's leading advisor on business strategy. We partner with clients from the private, public, and not-for-profit sectors in all regions to identify their highest-value opportunities, address their most critical challenges, and transform their enterprises. Our customized approach combines deep insight into the dynamics of companies and markets with close collaboration at all levels of the client organization. This ensures that our clients achieve sustainable competitive advantage, build more capable organizations, and secure lasting results. Founded in 1963, BCG is a private company with offices in more than 90 cities in 50 countries. For more information, please visit bcg.com.



Global Wealth 2018

SEIZING THE ANALYTICS ADVANTAGE

ANNA ZAKRZEWSKI

BRENT BEARDSLEY

DANIEL KESSLER

MARTIN MENDE

FEDERICO MUXI

MATTHIAS NAUMANN

JÜRGEN ROGG

TJUN TANG

TYLER WOULFE

ANDRÉ XAVIER

June 2018 | The Boston Consulting Group

CONTENTS

3 INTRODUCTION

5 GLOBAL WEALTH MARKETS: A YEAR OF STRONG GROWTH
Key Aspects
Pools of Opportunity
Highlights by Region
The Offshore Perspective

14 BRIDGING THE REVENUE GAP
Winners Focus on Revenues, Not Costs
Smart Pricing Is a Key Driver of Revenue Uplift
Client Satisfaction Directly Drives Revenue
New Revenue Streams Are There for Banks Willing to Explore Them

20 UNLEASHING THE VALUE OF ADVANCED ANALYTICS
What Is Holding Wealth Managers Back?
Accelerating Top-Line Growth
Building Efficiency That Drives Margin Expansion
Unlocking the Value of Data
How to Get Started

30 FOR FURTHER READING

31 NOTE TO THE READER

INTRODUCTION

The overall growth of global personal wealth continued its momentum in 2017. Residents of North America held over 40% of global personal wealth, followed by residents of Western Europe with 22%. The strongest region of growth was Asia, which posted a 19% increase. All wealth segments grew robustly, but high growth rates were especially prevalent in the uppermost wealth segments.

This report, which is The Boston Consulting Group's eighteenth annual analysis of the global wealth-management industry, includes two topics that we reexamine each year—global market-sizing and wealth manager benchmarking—as well as a special chapter on the rise of data and advanced analytics.

The market-sizing review encompasses 97 countries that collectively account for over 98% of the world's gross domestic product (GDP). It outlines the evolution of personal wealth from global and regional perspectives—including viewpoints on different client segments and offshore centers—and examines the large pools of opportunity that await forward-thinking wealth managers.

The benchmarking study focuses on why so many wealth managers struggle to maintain their top-line margins despite strong growth in personal financial wealth and assets under management (AuM). The best practices of top-performing players offer many answers and potential solutions. The benchmarking stems from a survey of more than 150 wealth managers and involves more than 1,500 performance indicators related to growth, financial performance, operating models, sales excellence, employee efficiency, client segments, products, and trends in different markets and client domiciles. It also scrutinizes smart pricing practices and looks at ways to enhance client satisfaction.

Our discussion of advanced analytics and data addresses the various challenges—and opportunities—involved in using the wide spectrum of tools now available to wealth managers for creating personalized customer experiences that reflect the clients' individual needs, preferences, contexts, and behaviors. Leveraging technical capabilities in these areas to the fullest has become critical to the success of any wealth management enterprise. In our view, wealth managers should embrace the opportunity to embark on the advanced analytics journey and to capture the considerable value it offers.

In preparing this report, we used traditional segment nomenclature that most wealth management institutions will recognize: retail, affluent, lower high net worth (HNW), upper HNW, and ultra-high net

worth (UHNW). These wealth bands tend to vary from player to player. We based segments on the following measures of personal wealth:

- Retail: below $250,000
- Affluent: between $250,000 and $1 million
- Lower HNW: between $1 million and $20 million
- Upper HNW: between $20 million and $100 million
- UHNW: above $100 million

To accurately gauge the evolution of global personal wealth, we continuously update and fine-tune our market-sizing methodology. For the purposes of this report, personal financial wealth represents that of the total resident population, collected by country and by asset class from central banks or equivalent institutions, based on the global System of National Accounting. For countries that do not publish consolidated statistics about financial assets, we performed a bottom-up analysis with country-specific proxies, in line with the System of National Accounting. Proxies also generally originate from the central bank or an equivalent institution.

Data on the distribution of wealth is based on resident adult populations, by country, and the use of econometric analysis to combine various sources of publicly available wealth distribution data. The past and projected growth rates of wealth segments account for shifts of individuals in and out of segments over time.

We performed our forecasting of personal financial wealth at the individual sub-asset-class level, using a fixed-panel multiple regression analysis of past wealth-driving indicators and applying these patterns with forecast indicator values for the future. We included offshore wealth as part of total wealth and calculated it from data published by financial centers and by the Bank of International Settlements, as well as from data generated by BCG project experience.

As always with our annual global wealth reports, our goal in this eighteenth edition is to present a clear and complete portrait of the business and to offer thought-provoking analyses of issues that will affect all types of players as they pursue growth and profitability in the years to come. We take a holistic view of the wealth management ecosystem—emphasizing how the market, the institutions, and the clients interact—with the aim of identifying the best opportunities for wealth managers.

GLOBAL WEALTH MARKETS

A YEAR OF STRONG GROWTH

Global personal financial wealth grew by 12% in 2017 to $201.9 trillion in US dollar terms.[1] (See Exhibit 1.) The total was roughly 2.5 times as large as the world's GDP for the year ($81 trillion).

This expansion more than doubled that of the previous year, when global wealth rose by 4%, and represented the strongest annual growth rate in the past five years (in US dollar terms). The main drivers were the bull market environment in all major economies—with wealth in equities and investment funds showing by far the strongest growth—and the significant strengthening of most major currencies against the dollar.

Investable assets accounted for 60% of global wealth, while low-liquidity assets made up the remaining 40%.

In terms of asset classes, $121.6 trillion (60%) of global wealth took the form of investable assets—mainly equities, investment funds, currency and deposits, and bonds—with the remaining $80.3 trillion (40%) held in non-investable or low-liquidity assets such as life insurance, pensions funds, and equity in unquoted companies.

Key Aspects

Noteworthy in 2017 were the influence of foreign exchange factors on wealth growth and the distribution of different asset classes regionally. Wealth expansion is likely to continue, subject to various market scenarios.

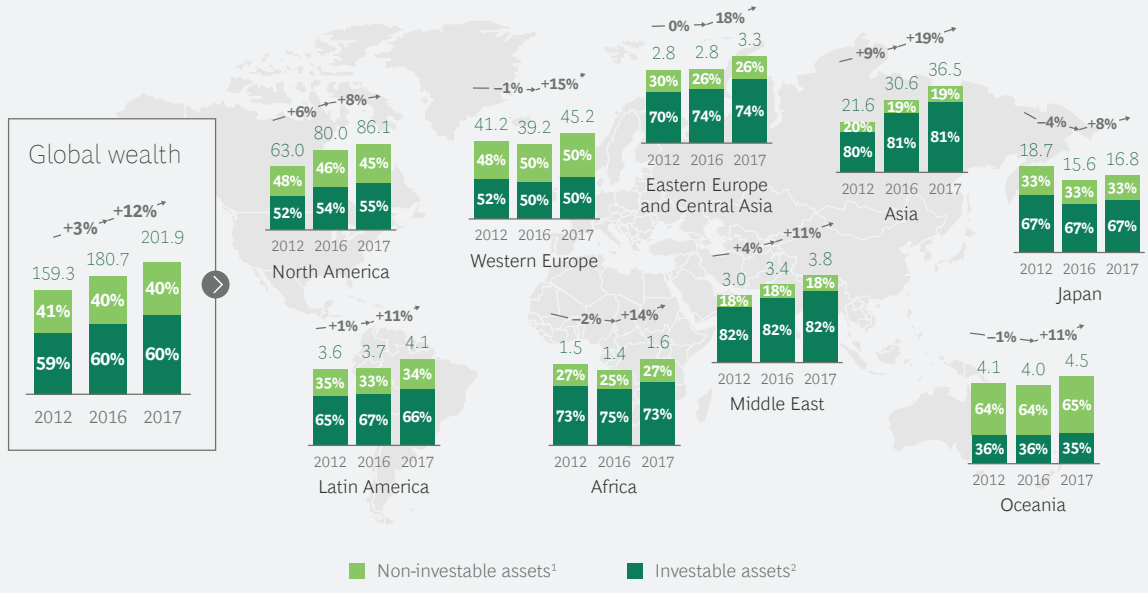
The Impact of Exchange Rates on Growth

Currency effects have strongly influenced the growth of personal wealth in US dollar terms over the past five years—and markedly so in 2017. (See Exhibit 2.) For example, if the year-end 2017 exchange rate were applied to every year, growth in 2017 would be far lower (7%), as there would be no accounting for growth from the appreciation of major currencies (especially the euro) against the dollar. That said, over the entire period of 2012 to 2017, the dollar actually strengthened against most currencies, leading to lower growth at the aggregated dollar level than populations experienced in terms of wealth expansion in their local currencies.

The Mix of Asset Classes

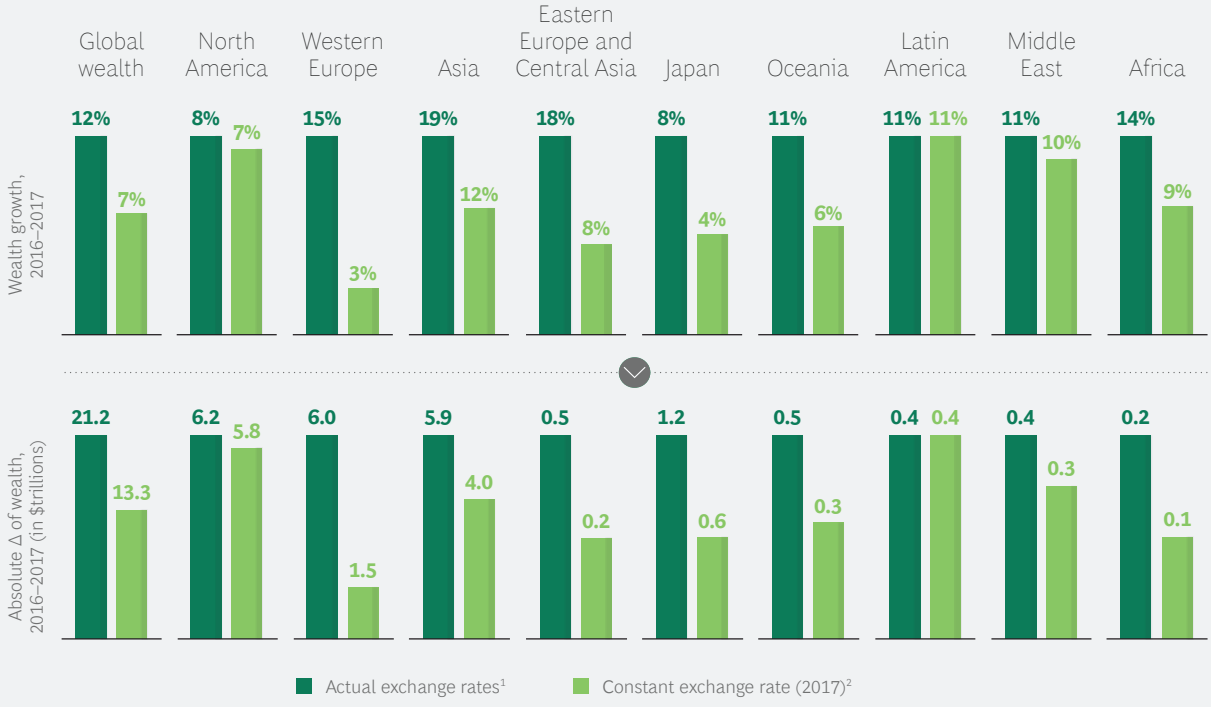
The distribution of personal financial wealth across investable and non-investable assets differed markedly from region to region in 2017, with developed markets generally holding a higher share of wealth in non-investable assets—notably pension fund entitlements—than developing markets. The Middle East accounted for the highest share of wealth held in

EXHIBIT 1 | Global Wealth in US Dollars Grew by 12% in 2017



Source: Global Wealth Report 2018—BCG Global Wealth Market Sizing Database.
Note: Financial assets are per the System of National Accounting 2008 reporting standard, in $trillions. Growth percentages for the period 2012–2016 represent the relevant compound annual growth rates over the period.
[1]Life insurance and pensions, unlisted equity, and other equity.
[2]Equity, bonds, investment funds, currency and deposits, and other, smaller asset classes.

EXHIBIT 2 | Currency Effects Have Heavily Influenced Growth in Terms of US Dollars



Source: Global Wealth Report 2018—BCG Global Wealth Market Sizing Database.
Note: Financial assets are per the System of National Accounting 2008 reporting standard, in $trillions.
[1]"Actual exchange rates" refers to conversion of wealth from local currency into US dollars, using actual year-end exchange rates.
[2]"Constant exchange rate (2017)" refers to conversion of wealth from local currency into US dollars, using the 2017 year-end exchange rate across all periods.

investable assets, while residents of Oceania had the lowest share. In terms of wealth volume, developed markets held the largest pool of investable assets by far, with more than $44 trillion in the US alone. By comparison, the top ten developing countries combined held less than $30 trillion in investable assets.

More granularly, time and savings deposits held more than $32 trillion (27%) of investable assets globally, followed by directly traded quoted equities at $26 trillion (22%), investment funds at $23 trillion (19%), and current accounts or transferable deposits at $19 trillion (15%). The remaining $22 trillion extended across currencies, directly traded bonds, and other smaller asset classes. Over the past five years, individuals have shifted more toward investment funds and directly traded equities—as evidenced by a gain of 6 percentage points in their share of total wealth since 2012—at the expense of bonds and currency and deposits.

Personal financial wealth could rise at a CAGR of about 7% from 2017 to 2022.

Wealth held in investment funds was the asset class that had the strongest growth in 2017, rising by 23% on the back of bull stock markets. Finishing close behind was wealth held in quoted equities, which rose by 18%. Non-investable assets held in life insurance and pension funds that benefited from the strong equity markets also showed high growth. On the other hand, wealth held in bonds declined by 7% (the only core asset class to post negative growth), reflecting the continued low-interest-rate environment and falling yields, which prompted further migration toward equities and investment funds.

The Five-Year Outlook for Global Wealth Growth

If recent wealth expansion patterns continue over the next few years—with the bulk of growth coming from equities and investment funds—personal financial wealth could rise at a compound annual growth rate (CAGR) of about 7%, in US dollar terms, from 2017 to 2022. Depending on the outcome of current geopolitical uncertainties, the level of global economic development, and potential stock-market corrections, however, growth could instead be substantially lower, with a CAGR of about 4%. In a worst-case scenario, if a full-blown crisis were to hit major economies, the five-year CAGR could fall to less than 1%.

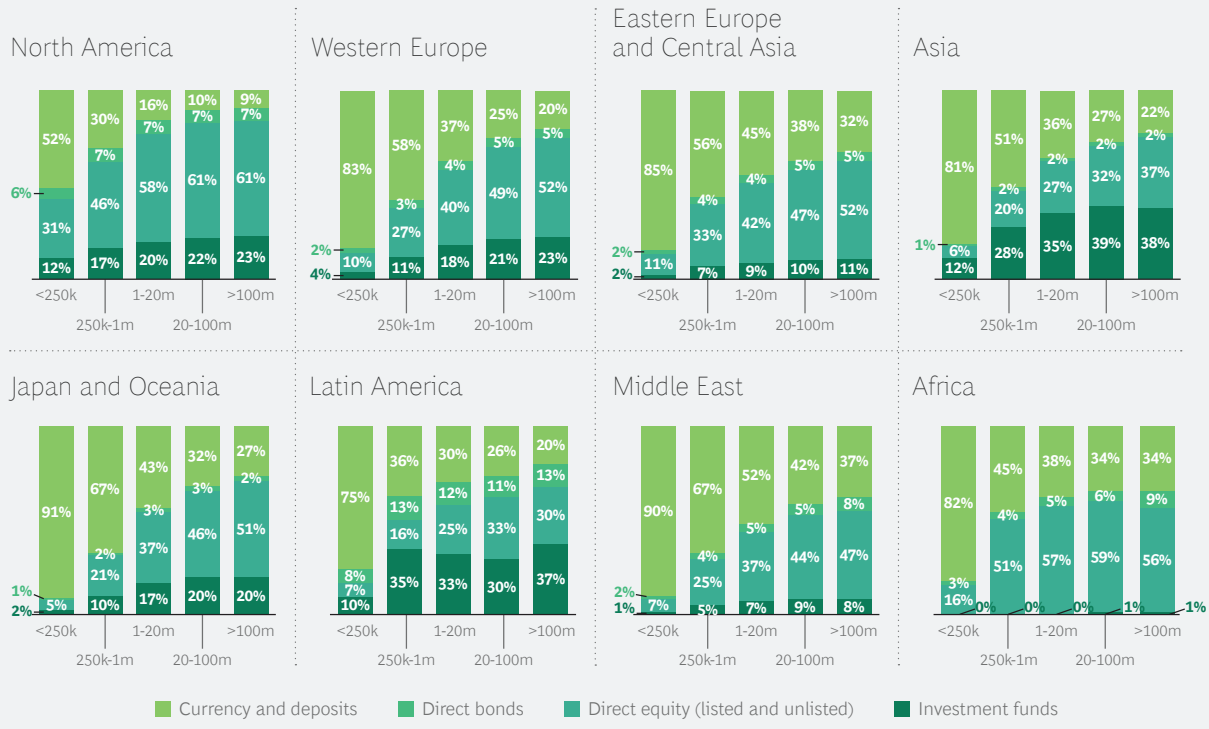
Pools of Opportunity

All wealth segments grew vigorously in 2017 in US dollar terms, but the uppermost segments tended to increase at a higher rate than all other segments. The share of global wealth held by millionaires increased to almost 50% in 2017, compared with just under 45% in 2012, driven mainly by higher-wealth individuals investing in higher-return assets. Overall, asset distribution by wealth segment varied widely across regions. (See Exhibit 3.)

Opportunities abound for wealth managers seeking to increase their focus on different client segments. For example, despite being far apart on the wealth spectrum, both the above-$20-million segment (upper HNW and UHNW) and the affluent segment are attractive because they represent very large wealth pools with high growth rates. In 2017, the upper HNW and UHNW segments held more than $26 trillion in investable wealth. US residents held over 30% of this wealth, making the US easily the largest country of origin. (See Exhibit 4.) Other economic areas with large pools of UHNW investable assets include developing markets such as China (in second place), Hong Kong, India, Russia, and Brazil, and developed markets such as Germany (in third place), France, and Italy. The share of wealth held by upper HNW and UHNW individuals varies widely among the top 15 countries, ranging from 47% in Hong Kong to 8% in Japan. Over the next five years, the upper HNW and UHNW segments' wealth is likely to post the highest growth across all regions. Financial institutions looking to acquire and serve these segments will need to bring a broad international skill set to the table.

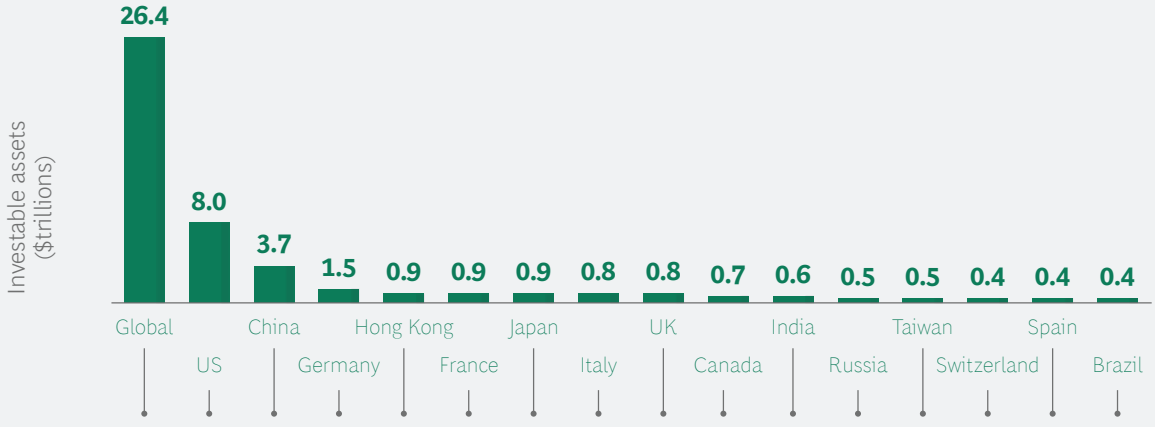
Affluent individuals, a segment whose population is burgeoning, hold a large and increasing amount of the world's personal wealth, at

EXHIBIT 3 | Asset Distribution by Wealth Segment Varied Widely Across Regions



Source: Global Wealth Report 2018—BCG Global Wealth Market Sizing Database.
Note: Each column represents one wealth segment, in $thousands (k) or $millions (m). Excludes offshore.

EXHIBIT 4 | The US Holds More Than 30% of the World's Upper High Net Worth and Ultra-High Net Worth Wealth



Share of investable assets	22%	18%	20%	33%	47%	27%	8%	25%	22%	24%	33%	42%	22%	30%	28%	36%
CAGR 2017–2022	11%	8%	22%	8%	7%	7%	12%	8%	5%	13%	15%	11%	6%	5%	6%	11%

Source: Global Wealth Report 2018—BCG Global Wealth Market Sizing Database.
Note: "Upper High Net Worth" and "Ultra-High Net Worth" refer, respectively, to individuals with investable assets of $20 million to $100 million and of more than $100 million, converted from local currency into US dollars using year-end exchange rates.

$17.3 trillion (14% of investable assets) in 2017. (See Exhibit 5.) This group, which is approximately 72 million people strong, represents the growing middle class, and many of its members will become the millionaires of tomorrow. We expect the wealth of this segment to post a CAGR of around 7% over the next five years, increasing its pool of wealth to nearly $25 trillion. To successfully tap into this segment, wealth managers must have at their disposal an efficient service model and significant skill in new and innovative digital technologies.

The entrepreneur segment represents another attractive opportunity for wealth managers to tap into money in motion and provide needed services. (See Exhibit 6.) We expect these individuals, who have equity in their own companies—recorded as unquoted equity (non-investable wealth)—to significantly increase their pool of investable assets, by liquidating some or all of their equity through sales and by earning new wealth through their entrepreneurial activities. The largest pools of entrepreneurial wealth are in the US, France, Italy, and Japan.

Highlights by Region

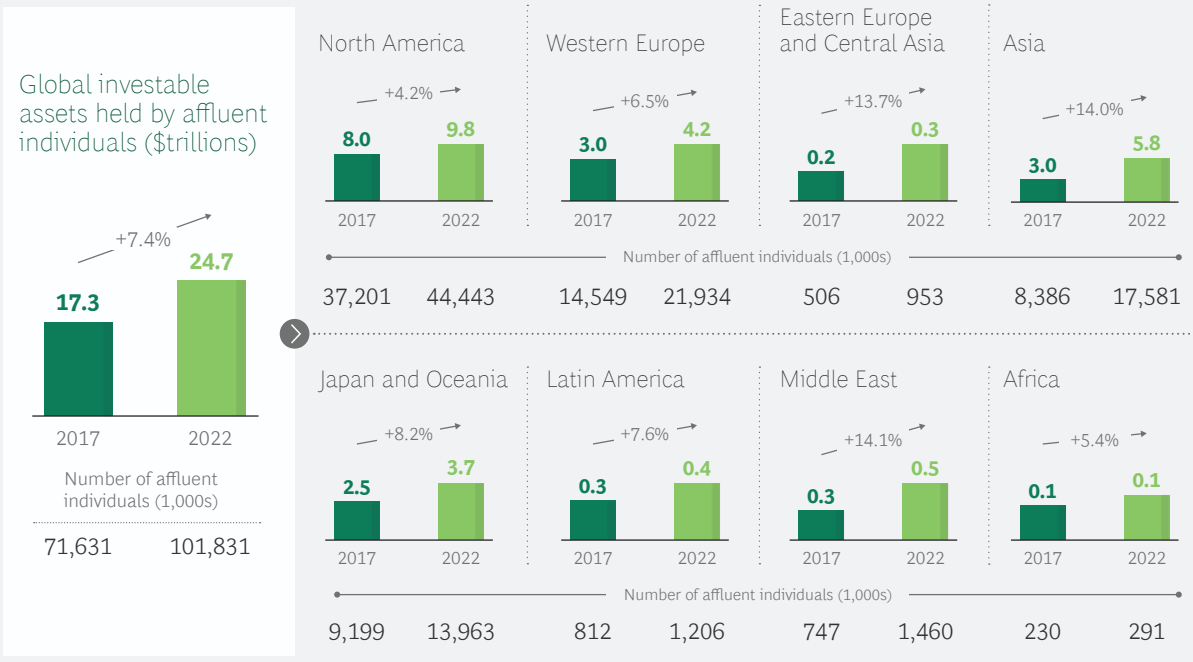
Residents of North America held nearly 43% of global personal wealth in 2017, followed by residents of Western Europe with 22%. The strongest-growing region in 2017 in terms of US dollar wealth was Asia, which posted a 19% increase. The level of investable assets varied widely among regions, with the largest markets being North America, Asia, and Western Europe. (See Exhibit 7.)

North America[2]

North America remained the richest global region in 2017 in terms of personal wealth, which expanded by 8% to $86.1 trillion, and of per capita wealth ($312,000). (See Exhibit 8.) Individuals held roughly $47 trillion (55% of the total) in investable assets—$29.1 trillion of that total in equities and investment funds alone.

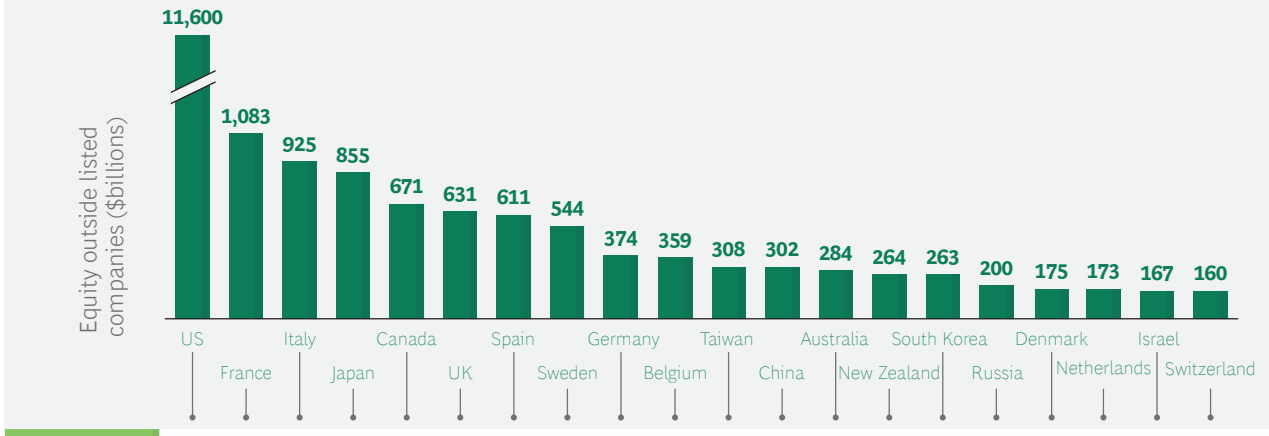
North American wealth was highly concentrated in the over-$5-million segment, which held 42% of investable wealth. The region's wealth should grow at a CAGR of around 5% over the next five years, assuming there are no significant market shocks. We expect the

EXHIBIT 5 | Affluent Individuals Hold a Large and Increasing Amount of Personal Wealth



Source: Global Wealth Report 2018—BCG Global Wealth Market Sizing Database.
Note: Financial assets are per the System of National Accounting 2008 reporting standard, in $trillions. "Affluent individuals" are defined as those with assets of $250,000 to $1 million, converted from local currency into US dollars using year-end exchange rates.

Exhibit 6 | Entrepreneurs Represent a Significant Opportunity for Wealth Managers



	US	France	Italy	Japan	Canada	UK	Spain	Sweden	Germany	Belgium	Taiwan	China	Australia	New Zealand	South Korea	Russia	Denmark	Netherlands	Israel	Switzerland
Share of country's wealth (%)	14	16	17	5	12	7	24	31	5	21	9	1	7	45	8	14	16	6	16	6
CAGR 2017–2022 (%)	4	8	2	12	8	6	7	16	6	4	6	28	5	0	13	11	14	–1	5	3

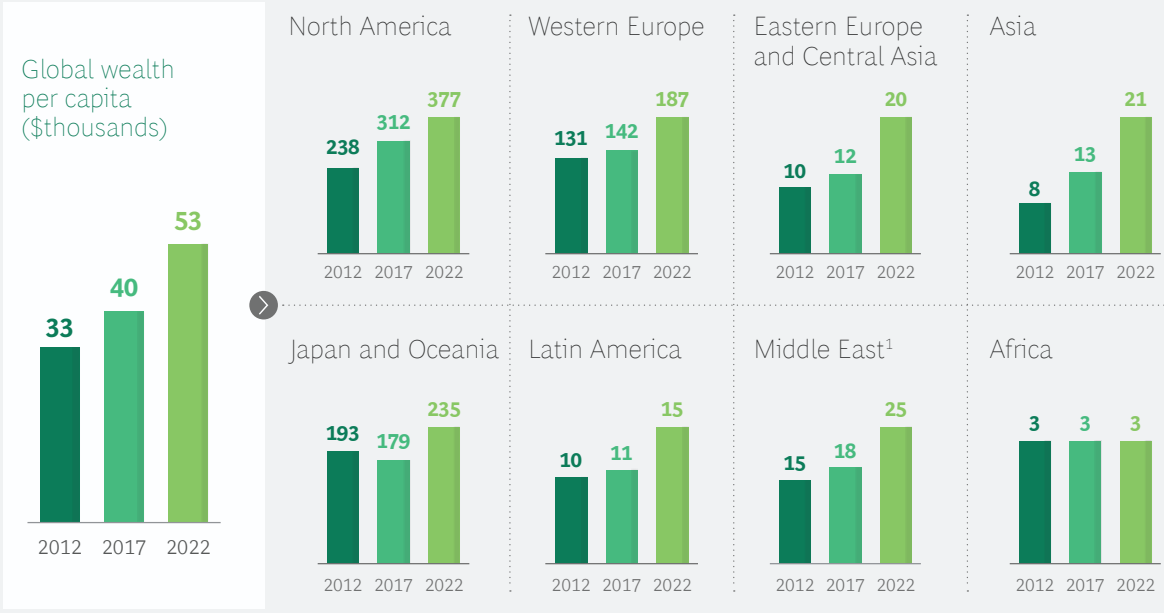
Source: Global Wealth Report 2018—BCG Global Wealth Market Sizing Database.
Note: Equity figures are in $billions.

Exhibit 7 | The Level of Investable Assets Varies Widely Among Regions



Source: Global Wealth Report 2018—BCG Global Wealth Market Sizing Database.
Note: Financial assets are per the System of National Accounting 2008 reporting standard, in $trillions. Investable assets include listed equity, bonds, investment funds, currency and deposits, and other smaller asset classes. KSA = Kingdom of Saudi Arabia.

EXHIBIT 8 | North America Is the Clear Leader in Wealth per Capita



Source: Global Wealth Report 2018—BCG Global Wealth Market Sizing Database.
Note: Wealth per capita (in $thousands) is based on financial assets per the System of National Accounting 2008 reporting standard, including both non-investable and investable assets and adult population.
[1]Data for Bahrain, Kuwait, Qatar, and United Arab Emirates, respectively, is limited to residents who were born in each country.

upper HNW segment to post the strongest growth, with projected wealth expansion of around 8% per year.

WESTERN EUROPE[3]

Personal wealth in Western Europe rose by 15% to $45.2 trillion in 2017, of which $22.6 trillion (50%) took the form of investable assets.

In contrast to North America, Western Europe concentrated on currency and deposits as investable assets (56%), with a much smaller share (24%) held in equities and investment funds. Given the rises of the euro (+14%) and the British pound (+10%) against the US dollar, the region's wealth growth was considerably higher in dollar terms than in local currency terms (15% compared to 3%).

The distribution of wealth in Western Europe was more balanced than in many other regions, with the $100,000-to-$250,000 segment holding a large portion (23%) of investable assets in 2017. Depending on the fate of Brexit and concurrent currency effects, regional wealth should grow at a CAGR of 5% in local currency terms over the next five years.

EASTERN EUROPE AND CENTRAL ASIA[4]

Personal wealth in Eastern Europe and Central Asia rose by 18% to $3.3 trillion in 2017. The Commonwealth of Independent States (CIS) accounted for $1.5 trillion of the region's wealth. The strengthening of local currencies against the dollar boosted the growth rate (which was 8% at constant currency). Per capita wealth remained comparatively low at $12,000. The region is notable for its unequally distributed wealth: in 2017, billionaires alone held nearly 23% of investable assets. We expect regional wealth to post a CAGR of around 11% over the next five years in local currency terms, with an increasing share allocated to equity and investment funds as these products continue to mature in Russia and other CIS countries.

ASIA[5]

Personal wealth in Asia grew by 19% to $36.5 trillion, with residents of China holding nearly 57% of that amount, and the region registered per capita wealth of $13,000. Although the asset allocation share of equities and investment funds has grown over the past five years (from 22% in 2012 to 31% in 2017), Asia remains a cash-and-deposits-heavy region,

with 44% of personal wealth held in this asset class. We project regional wealth to grow over the next five years at a CAGR of roughly 12%.

Japan

Personal wealth in Japan grew by 8% to $16.8 trillion in 2017, more than half of it in cash and deposits. Even so, the share of wealth held in equities and investment funds has increased significantly over the past five years—from 11% in 2012 to 17% in 2017. In yen terms, wealth growth was a more modest 4%. We anticipate that wealth expansion in Japan over the next five years will occur at a CAGR of 3% in yen terms.

Oceania[6]

Personal wealth in Oceania grew at a rate of 11% in 2017 to reach $4.5 trillion. Residents of Australia owned the bulk of this wealth, at $3.9 trillion. Historic patterns indicate that future annual growth in the region should be in the range of 7% to 8%.

Latin America[7]

Personal wealth in Latin America rose by 11% to $4.1 trillion in 2017. Residents of Brazil ($1.6 trillion) and Mexico ($0.9 trillion) together held 61% of that amount. Per capita wealth, at $11,000, was slightly less than that in Eastern Europe and Central Asia. We project five-year growth at a CAGR of 9% to 10% at constant exchange rates.

Middle East[8]

Personal wealth in the Middle East rose by 11% to $3.8 trillion in 2017, a significant increase compared with the CAGR for the previous five years. Per capita wealth in the region increased to $18,000—allowing for significant variation by country, ranging from more than $400,000 in Qatar to less than $6,000 in Iran and Iraq—and should continue to grow appreciably.

Africa[9]

Wealth in Africa increased at a rate of 14% to reach $1.6 trillion in 2017, a huge leap over the CAGR posted from 2012 through 2016. Per capita wealth remained very low, at just $3,000, and varied significantly from country to country. In Ethiopia, Tanzania, and Mozambique, personal wealth was less than $1,000 per person.

We expect personal wealth in the combined regions of the Middle East and Africa to post a CAGR of 8% to 10% over the next five years.

The Offshore Perspective

The amount of global offshore wealth held in 2017 was around $8.2 trillion, 6% higher than in the previous year in US dollar terms. Nevertheless, that growth rate is much lower than the growth rate that onshore wealth posted.

Switzerland remained the largest offshore center, domiciling $2.3 trillion in personal wealth in the country. (See Exhibit 9.) The next-largest booking centers were Hong Kong ($1.1 trillion) and Singapore ($0.9 trillion), which have grown at yearly rates of 11% and 10%, respectively—more than three times the rate (3%) of Switzerland over the past five years.

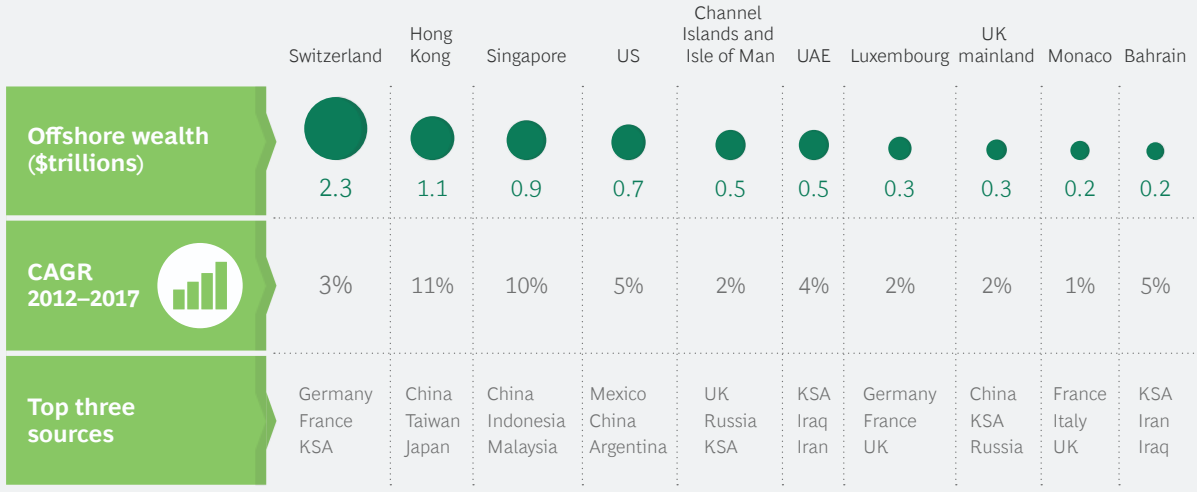
Proximity remains a key factor in determining where investors choose to seek offshore financial services.

Historically, many offshore centers have offered tax advantages; and as the regulatory climate has tightened over the past ten years, we have seen significant flows back onshore, generally from lower HNW individuals. But new inflows into offshore centers (mainly from UHNW individuals)—in particular from the developing world, but also, increasingly, from developed countries—have generally offset these outflows, as financial institutions offering offshore services have successfully redefined their value proposition to target clients from mature markets.

Proximity remains a key factor in determining where investors choose to seek offshore financial services. Historical and cultural ties also play a role.

Over the next five years, offshore wealth seems likely to continue growing at a CAGR of roughly 5% per year.

Exhibit 9 | Switzerland Remained the Largest Offshore Center



Source: Global Wealth Report 2018—BCG Global Wealth Market Sizing Database.
Note: Offshore wealth in $trillions. KSA = Kingdom of Saudi Arabia; UAE = United Arab Emirates.

Notes

1. The definition of personal financial wealth is based on the System of National Accounting's asset categorization and includes wealth of the total population held in cash and deposits, mutual funds, listed and unlisted equities, debt securities, life insurance, and pension entitlements, whether onshore or offshore and whether held directly or indirectly through managed investments. It excludes individuals' residences and luxury goods. Wealth figures and percentage changes are based on local totals that were converted to US dollars, using year-end actual exchange rates.
2. For the purposes of this report, North America comprises Canada and the United States.
3. For the purposes of this report, Western Europe comprises Austria, Belgium, Cyprus, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Liechtenstein, Luxembourg, Malta, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, and the United Kingdom.
4. For the purposes of this report, Eastern Europe and Central Asia comprises, Belarus, Bosnia & Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Georgia, Hungary, Kazakhstan, Latvia, Lithuania, Macedonia, Poland, Romania, Russia, Serbia, Slovakia, Slovenia, Ukraine, and Uzbekistan; and the Commonwealth of Independent States comprises Belarus, Kazakhstan, Russia, and Uzbekistan.
5. For the purposes of this report, Asia comprises, Bangladesh, China, Hong Kong, India, Indonesia, Malaysia, Myanmar, Pakistan, Philippines, Singapore, South Korea, Lanka, Taiwan, Thailand, and Vietnam.
6. For the purposes of this report, Oceania comprises Australia and New Zealand.
7. For the purposes of this report, Latin America comprises Argentina, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Guatemala, Mexico, Panama, Peru, and Uruguay.
8. For the purposes of this report, the Middle East comprises Bahrain, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia, Turkey, and the United Arab Emirates.
9. For the purposes of this report, Africa comprises Algeria, Angola, Egypt, Ethiopia, Kenya, Morocco, Mozambique, Nigeria, South Africa, Sudan, Tanzania, and Tunisia.

BRIDGING THE REVENUE GAP

WHY ARE SO MANY wealth managers struggling to maintain their top-line margins despite the strong growth of personal financial wealth and assets under management (AuM)? Often, institutions cite stricter regulation, increasingly demanding clients, and the effects of digital disruption as major contributors to the revenue and profit challenges they face. While a number of them realize the need for action and have taken steps in the right direction, too many players fail to recognize the urgency of the situation in today's competitive landscape.

Practical adjustments can help wealth managers grow revenue by from 8% to 12%.

The wealth management business is still in the very early stages of what we believe will ultimately be a complete transformation. This reality, coupled with the potential cooling of a nearly decade-long bull market, means that institutions that are not prepared to fight back against further deterioration of margins will face an uncertain future.

On the positive side, our benchmarking data, gathered from more than 150 wealth managers reveals that current market trends have hit some institutions much less directly than others. This raises two critical questions: What can all wealth managers learn from the top performers? And what can industry players do to tackle the current challenges head-on? We see four key lessons.

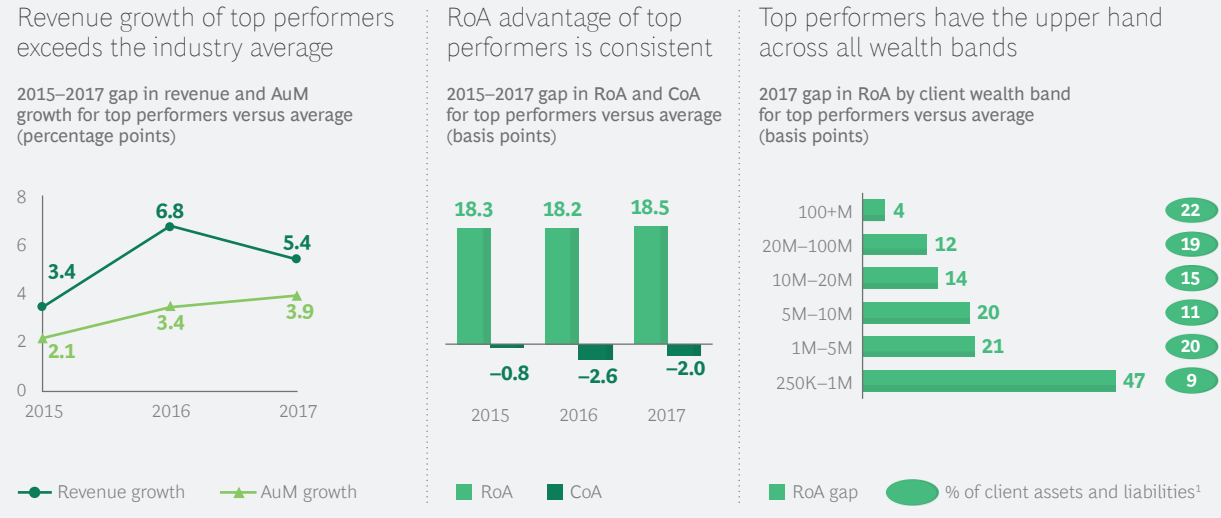
Winners Focus on Revenues, Not Costs

Top performers—which we define as consisting of the quartile of institutions that have the highest pretax profit margins—achieved a significant advantage over average performers in overall revenue growth and return on assets (RoA) over the past three years, along with significantly better price realization in every client wealth segment. Top performers also enjoyed a cost advantage, although it was much less pronounced than the RoA gap. This implies that the prime driver of higher profit margins resides on the revenue side. (See Exhibit 10.)

Smart Pricing Is a Key Driver of Revenue Uplift

Wealth managers can achieve a revenue uplift of from 8% to 12% by adjusting price levels, correcting unnecessary discounts, and simplifying overall pricing structures. Pricing measures are easy to quantify and require little investment. When blended with new data and analytics tools, they become truly powerful.

EXHIBIT 10 | Revenue Is the Prime Driver of Higher Profit Margins



Source: Global Wealth Manager Benchmarking 2016–2018.
Note: Ratios are calculated on full benchmark samples, using preliminary 2017 data. Return on assets (RoA) and cost over assets (CoA) are calculated, respectively, as operating revenues over average client assets and liabilities under management, and costs over average client assets and liabilities under management.
[1]Average percentage of client assets and liabilities by wealth band.

At the same time, wealth management clients are demanding greater transparency on real price levels, a demand that regulations in some regions (such as the latest European Markets in Financial Instruments Directive, MiFID II) reinforce. In response to these pressures, managers can optimize pricing opportunities in three key areas: price realization, price architecture, and product bundling. Each of these areas presents wealth managers with critical questions to answer and typical challenges to overcome.

Price Realization

Our experience shows that, on average, relationship managers (RMs) charge about one-third of their clients at rates below the target pricing level. We also see a significant gap (up to 40 basis points) between the top third and the bottom third of RMs.

Institutions should ask themselves some key questions about price realization:

- How large is the gap between actual and target revenue margins?
- Are RMs taking a value-based approach to pricing—applying discounts when appropriate and removing them when they are no longer necessary?
- Are prices consistent across similar types of clients?

Among the typical complications to address in this area are fee arrangements that give RMs the incentive to book business at the expense of revenue margins, weak guidelines and approval processes for granting initial discounts, infrequent review of existing discounts, and failure to apply fee increases to existing clients.

Price Architecture

With regard to the structural elements of pricing—such as defining relationship minimums, establishing pricing for different client segments and for advice versus products, and determining charges for ancillary services—several questions are paramount:

- Does the pricing structure reflect the value generated for and perceived by the client?
- Are the institution's price levels competitive in the local and regional markets?
- Is appropriate governance in place to enforce the pricing architecture?

The challenges to overcome in this area include complex and opaque pricing systems

that clients (and even most RMs) do not thoroughly understand, loose definitions for asset-based pricing components, and insufficient guidelines on what defines a client unit (which, if too loosely defined, can result in the extension of price benefits to a very large group).

Product and Service Bundling

Product and service bundling can help maximize revenue if properly linked to the overall pricing architecture and to the value proposition for each client segment. Key questions to ask on this topic include the following:

- Are prices and service levels sufficiently differentiated in terms of service level and price to give clients a true choice?
- Are all aspects of the offering communicated in a highly transparent, easy-to-understand manner, so the customer can easily identify the right option?
- Does the institution consider the client's full relationship with it across all business units when building bundles and setting price levels?

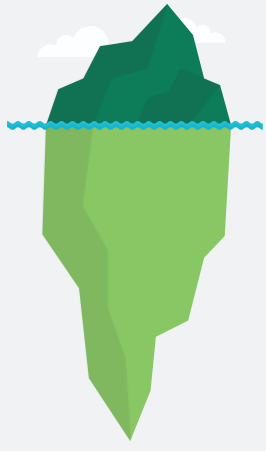
Relevant challenges in this area include overcoming the frequent assumption that higher-net-worth clients naturally gravitate toward more costly, premium service (leading wealth managers to charge them for services they don't want), ensuring that ancillary services are priced separately, and developing a comprehensive view of full client relationships across wealth management, personal banking, and corporate banking.

Implementing Smart Pricing

It might seem as though a new pricing program is complete as soon as the institution publishes a new price catalogue. But measures such as product bundles and adapted price lists are just the tip of the iceberg. (See Exhibit 11.) A successful pricing transformation must also cover multiple additional elements: adjustments to deal with pricing outliers (as opposed to simply introducing a comprehensive across-the-board increase); a smart pricing architecture; RM training and coaching (along with supporting materials such as scripts for client conversations); incentives for RMs that are in line with target pricing goals; and stringent policies for tracking and reporting price realization at client and RM levels.

Some wealth managers shy away from pricing measures owing to a misperceived risk of client attrition. In fact, by and large, wealth management clients are not especially price sensitive; they tend to have fairly low awareness of the fees that the wealth manager charges and the relative importance of those

Exhibit 11 | A True Pricing Transformation Requires Multiple Initiatives



- Building product bundles
- Adapting the price list
- Correcting price outliers
- Developing a smart pricing architecture
- Training and coaching RMs on price realization
- Providing the right incentives for RMs
- Supporting RMs with price and client value calculators
- Tracking and reporting price realization

Source: BCG project experience.

fees. According to our research, roughly 90% of wealth management clients are not fully aware of what they pay. Although they appreciate discounts as a gesture, they often do not remember details such as the specific amount in question. Ultimately, most clients focus far more on satisfaction with the overall experience they receive than on pricing.

Client Satisfaction Directly Drives Revenue

Banks need to think long and hard about what drives true client satisfaction. To be sure, contented clients display a series of behaviors that—although difficult to quantify—lead to higher, more stable revenues. Such clients, for example, typically increase the amount and proportion of assets they have with the institution, ideally developing a primary-provider relationship. They use more of the institution's services, including discretionary portfolio management and managed products, and they often refer friends and family members. Our experience shows that the building blocks of selection and retention are trust, personalized service, convenience, reassurance (when necessary), and investment performance at least in line with the market.

But how can wealth managers design an overall experience that delivers what most clients want? Above all, an RM must make the client feel truly valued and important through fully personalized communication, discussion, and continuous review of financial goals—all in the context of the client's life plan. Realistic expectations with regard to investment performance must also be part of the conversation.

In BCG project work, we have found three elements of engagement to be crucial:

- **Adequate Frequency of Client Interactions.** The key is to have planned contacts with agreed-upon touch points scheduled throughout the year to review asset allocation, investment performance, and short- and long-term goals. In addition, the RM should reach out to the client whenever a relevant event, such as a significant market shift, occurs. But the RM must also be highly reactive and generally available when a client calls—or at least must make it standard practice to follow up as soon as possible, without requiring the client to initiate contact a second time. In addition, the RM's support team must be enabled to handle basic issues, such as dealing with a lost credit card, in short order.

- **High-Impact Client Interactions.** The RM must be well prepared and resourceful in each interaction, so the client feels well served and confident about investment choices and plans for the future. The RM must also take ownership of current problems that the client raises and see them through to an acceptable resolution.

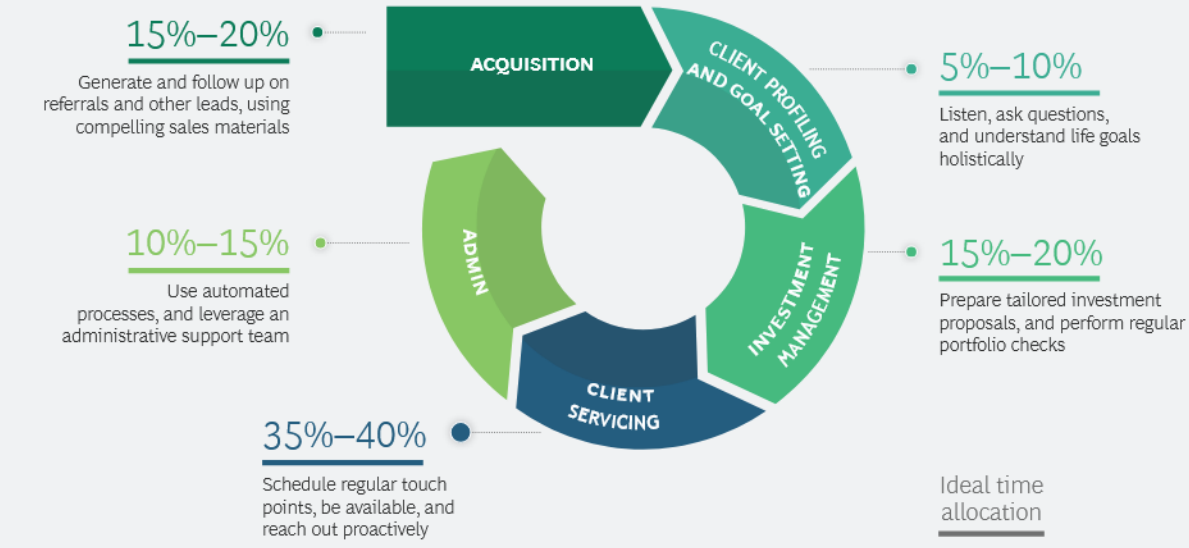
Trust, personalized service, convenience, reassurance, and investment performance determine client satisfaction.

- **Appropriate Allocation of RM Time.** The RM should allocate time and resources in proportion to the actual value of the client to the bank. This means spending more time with more valuable clients than with less valuable ones, even if the latter are more demanding. For help in determining their most valuable clients, RMs need up-to-date segmentation criteria that are simple, uniform across the institution, and easily accessible via the customer relationship management system. Overall, RMs must plan their time scrupulously so that they touch all necessary bases, ease the client journey, and sharpen the focus on the client. (See Exhibit 12.)

These three elements will look very different from client to client, based on each client's particular needs and behaviors.

Wealth managers should maximize RM time by streamlining and automating processes to reduce administrative work. Conversely, they should minimize the amount of time RMs spend on low-value activities such as travel arrangements, expenses, file management, scheduling, and filling in forms. To create efficiencies, institutions should enable adminis-

EXHIBIT 12 | RMs Must Plan Their Time Scrupulously to Enhance Their Focus on the Client



Source: BCG project experience.

trative functions to support clients with simple requests. According to our benchmarking, best-practice RMs spend 55% to 60% of their time on client servicing and investment management, compared with 40% to 45% for average RMs. Leading RMs also spend 15% to 20% of their time on new client acquisition, compared with 5% to 10% for average RMs.

Besides freeing up RM time, banks must enable advisors to provide excellent service by coaching them on client planning, meeting preparation, and other actionable measures, and by sharing best practice materials, templates, and methodologies.

New Revenue Streams Are There for Banks Willing to Explore Them

Successful wealth managers continuously look for revenue opportunities outside their core client-servicing business. Adjacent opportunities exist in the B2B space and in the form of ecosystems built on partnerships that aim to enhance service to existing clients and attract new ones.

The B2B Space

Despite being part of a traditionally vertically integrated industry, wealth managers are showing greater readiness to consider outsourcing their capabilities. Developments in technology and more stringent regulation, such as MiFID II, are driving the trend. We expect to see increasingly diverse models from wealth managers regarding the elements of the value chain that they are prepared to produce in-house, outsource, or make available to their competitors.

One example of B2B services that wealth managers currently offer is the white labeling of competencies—such as in discretionary portfolio management—to smaller wealth managers, enabling such players to provide a fuller range of services to their clients. Other incumbent institutions are positioning themselves as technology vendors, such as by offering their robo-advisory engine to players who seek a faster time to market and lower investment costs. Some wealth managers are considering future outsourcing opportunities while still in the design phase of their solutions, such as by incorporating cloud technology and building interfaces that could latch onto third-party systems.

Ecosystems Built on Partnerships

To differentiate themselves from competitors and offer a truly enhanced client experience, wealth managers must think holistically about client needs, including those that stretch beyond the financial realm. One way to help achieve this goal is to build needs-

based ecosystems—interconnected groups of products and services clustered around the broader needs of wealth management clients. These needs are not directly related to a wealth manager's core business, but partnerships with specialized providers can address them, adding significant value to the client relationship and revenue for the institution.

Many incumbents already offer nonfinancial services, although these services often are not professionalized and monetized. Examples include health (access to a network of specialized doctors, coaches, and clinics), safety (home surveillance, personal security, and safeguarding of sensitive data), travel (access to exclusive and limited travel opportunities, smoother and easier airport transfers, and VIP lounge access), property management (valuations and relocation services), education (assessment of schools and universities, and career planning), and giving back to society (philanthropy services and impactful investment opportunities).

Of course, leveraging revenue opportunities in fields adjacent to the core business requires a host of skills and capabilities: leadership that embraces an open mindset and an innovation-friendly culture along the entire value chain; a highly professional organization that can manage contracts and fulfill service agreements; a propensity for agile development and teaming involving a close-to-the-customer, iterative approach to working among multidisciplinary teams; a willingness to find and hire talent from other industries; and avoidance of a go-it-alone mentality in favor of fruitful collaboration—for example, with fintechs that possess effective solutions but lack a broad customer base, with open platforms, or with partners in the consumer goods space. Always at the core of all such efforts is the desire to serve clients' aspirations and ambitions. As we detail in the next chapter, wealth managers can greatly facilitate their understanding of clients by leveraging data and advanced analytics.

UNLEASHING THE VALUE OF ADVANCED ANALYTICS

Wealth management is ultimately a client-service business. As client needs and expectations change, so must the firms that serve them. The key change that wealth managers must deliver today to stay competitive in the market is personalization—leveraging the full spectrum of available data and advanced analytics to create personalized experiences based on each client's needs, preferences, context, and behaviors.

The key change that wealth managers must deliver today to stay competitive in the market is personalization.

This represents a quantum leap forward from traditional approaches. Delivering standardized experiences to clients will no longer suffice, because the new normal will be for each client to receive customized attention. Sharp execution is challenging, however. Many banks have begun to invest in personalization but still struggle to effectively combine an enhanced client experience with the underlying management of data, processes, organization, skills, governance, and behavioral change. The one certainty is that firms that do not take the necessary steps in this area risk being left behind.

BCG research suggests that over 70% of wealth management clients see highly personalized service as a key factor in deciding whether to stay with their current provider or switch to another. Firms that can deliver smart, individualized products, services, and prices—digitally and through an RM or a financial advisor (FA)—will significantly bolster their top-line growth and will occupy a differentiated position in the market. This principle holds true for wealth managers in both developed and developing markets. (See the sidebar "Digital Is Driving China's Wealth Management Market.")

Seizing this opportunity will require the deployment of new, cutting-edge capabilities in advanced analytics—encompassing such elements as new technology platforms, fresh development capacities, next-generation tech and data architectures, updated data and digital organizational structures and skills, and improved access to internal and external data. Moreover, firms that can develop the needed capabilities stand to gain a double advantage because the same elements that will lift revenues will also help realize significant efficiency gains in the back office. By combining efforts in these two broad areas, we expect, leading firms will separate themselves from slower-moving ones over the next few years. This will occur as top institutions undertake programmatic change across their organizations to enable advanced analytics at scale

DIGITAL IS DRIVING CHINA'S WEALTH MANAGEMENT MARKET

Over the past five years, the internet finance boom in China has provided the foundation for the rise of digital wealth management in that country. The percentage of wealth management products sold online in China has reached 35%, a level similar to that in the US and significantly higher than that in some other mature markets. In addition, China has witnessed the emergence of large third-party online wealth-management platforms such as Lufax and Ant Financial. The combined AuM of these two platforms has topped $600 billion, rising at a CAGR of 50% over the past five years.

Inspired by the success of internet unicorns and by their own ambitions for exponential growth, internet finance players and investors in China are highly receptive to new technologies. And leading players in China are actively leveraging technology to reinvent wealth management front-to-back across the value chain, bringing higher efficiency and a client experience that is superior in some ways to what traditional wealth-management models offer.

For example, supported by Ping An Group's technology and data platforms, Lufax uses big data, machine learning, and other technologies to analyze investors' profiles and risk appetites, and then recommend products tailored to each investor's unique situation and preferences. Meanwhile, China Merchants Bank has launched Machine Gene Investment, a big-data-based mobile robo-advisory service that fuses human wealth-management practices and fund-research experience with machine-learning algorithms.

The Burgeoning Affluent Segment

A recent survey in China revealed that the affluent middle class has become the largest client segment for online wealth-management products. This pool of investors, whose income stems primarily from wages and salaries, and whose assets managed online typically account for 30% of their total investable assets, now represents more than half of online clients. As the wealth of this segment increases, China's online wealth-management market should expand further.

Online wealth-management clients in China seem to have a significantly higher demand for liquidity than offline clients, and they show a greater tolerance for risk. They have also demonstrated a strong demand for professional information and advice. This distinctive profile provides a solid foundation that will contribute to the growth of third-party digital wealth-management platforms—an alternative to the high-cost, high-people-touch model that many traditional players have embraced in advising high-net-worth clients.

Digital Will Help Bring China Farther into the Mainstream

Broadly speaking, China has been a late starter in the wealth management business. Indeed, some firms and the advisors they employ are still learning from best practices that more mature markets have long followed. For example, many of China's wealth managers still concentrate on a product-push model as opposed to focusing on individualized customer centricity.

More recently, regulators in China have been pushing for accelerated development of the wealth management industry, including measures to forbid implicit investment guarantees and to enforce fiduciary duty. This is a good outcome for the market and promises to transform the industry.

Along these lines, digital technologies and tools are poised to play a larger role in enabling wealth managers and investment advisors to offer clients significant and timely market insight, investment views, and allocation advice. Digital technology

DIGITAL IS DRIVING CHINA'S WEALTH MANAGEMENT MARKET
(continued)

will also push wealth management in China toward a higher level of transparency, prompting institutions to see things more from the client perspective and mandating them to deliver a better customer experience across the value chain. This, in turn, will increase the global sophistication of China's wealth management industry.

Of course, the digitalization of China's wealth management model is not just about the adoption of automated tools. It is also about finding ways to serve clients more efficiently and effectively from end to end. The key to success remains understanding client needs and offering suitable products and services, with technology providing powerful new ways to accomplish this. The emergence of internet finance specialists in China has also forced traditional institutions to react quickly and transform themselves accordingly.

As China's wealth management industry undergoes a deep transformation—driven by technology, regulatory change, the growth of the country as a global economic power, and a host of other forces—we see the market shifting toward a more advisor-driven model. In this environment, players with strong capabilities in digital and in overall investment intelligence will lead the pack. Finally, as financial markets in China become increasingly open to foreign investors and institutions, we believe that wealth managers will find significant new opportunities to gain and maintain competitive advantage.

with far more precision than before. The value will emerge as these changes lead to improvements across a range of specific use cases in areas such as increasing RM effectiveness, using targeted pricing, and strengthening operational efficiency. (See Exhibit 13.)

Indeed, because advanced analytics allow firms to unlock value by bringing a new approach to traditional business problems, the stakes for wealth managers can be enormous. Overall, a transformation along these lines can lead to top-line growth of 15% to 30% and can drive efficiency gains of 10% to 15%—collectively producing net margin increases of over 10 basis points on total AuM. For a typical wealth manager with roughly $250 billion in AuM, the bottom-line impact could exceed $300 million.

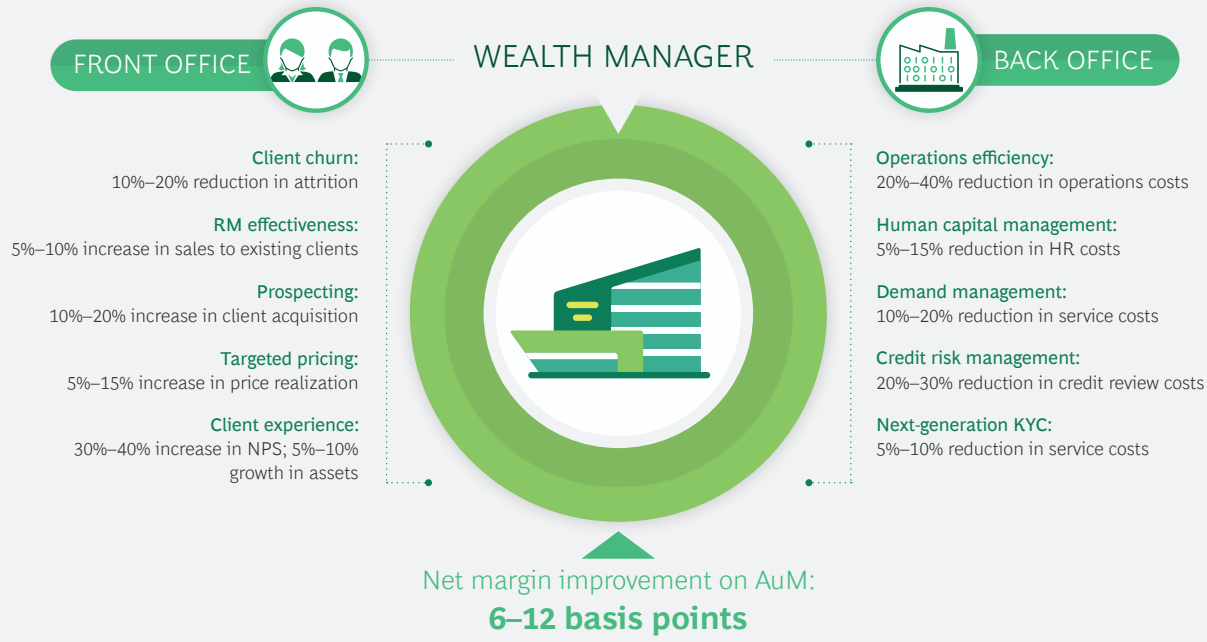
Many players have already undertaken efforts in these areas. Some wealth managers, for example, have built or expanded small analytics teams and invested in technology platforms, although these tend to be siloed efforts, not centered on a newly defined client experience. According to a recent survey, however, most institutions still allocate less than 10% of their digital spending to improving their data use through advanced analytics. And technology investments are just the start. Realizing the full opportunity will require fundamental changes across the entire enterprise. Why have so many wealth managers fallen behind in their efforts to maximize the impact of data and advanced analytics?

What Is Holding Wealth Managers Back?

Although advanced analytics have created massive value across many industries in recent years, the advantages they can bring to wealth management remain a largely untapped opportunity. In our view, four crucial factors for success have been especially challenging for an industry entrenched in very traditional ways of operating:

- **Embrace new ways of working.** Achieving outsize value from advanced analytics requires working in an agile fashion, orchestrating cross-functional teams to drive technology change alongside

EXHIBIT 13 | The Value of Advanced Analytics Is Real for Wealth Managers



Source: BCG analysis and project experience.
Note: KYC = Know your customer.

operating model changes, and developing a systematic, iterative approach to continuous improvement. This means building minimum viable products, testing and learning, and failing fast.

- **Commit to change-management leadership.** Benefiting from analytics depends on treating the initiative not merely as a data-science experiment but as a top priority for the entire firm—one for which members of the executive suite must win the hearts and minds of everyone in the organization (especially the RMs) in order to bring about the needed behavioral changes.

- **Collect, manage, and mine meaningful data—and make the most of it.** Client data tends to be highly fragmented, and in our experience wealth managers meaningfully use only about 35% of available data. Moreover, they rarely leverage the data that they do use to maximum effect. Client and product data, in particular, creates challenges owing to the data's heterogeneity and disparate sources. Best-practice players pull together the key information and use it to the fullest extent across engagement with RMs, client service, back-office functions, and elsewhere.

- **Know how to manage scale and complexity.** Wealth managers sometimes handle massive, standardized data sets stemming from transactions (for example). But they must also understand how to apply the latest analytics techniques to unlock value for much smaller populations of perhaps hundreds or thousands of clients. The art is to link various types of data in a way that can step-change insight, both at scale and at the level of individual clients.

In order to move toward a true transformation, wealth managers must improve in all of these areas.

Real transformation, of course, involves many diverse and related initiatives. We have quantified the opportunity for some of the most common use cases on the basis of a model bank resembling a large North American or European onshore wealth manager that has basic digital readiness and a client mix representative of the market—but as yet has seen little impact from advanced analytics.

Accelerating Top-Line Growth

Use cases in which analytics and data can support and accelerate top-line growth include, but are not limited to, the following:

- **Reduce client churn.** Leveraging advanced analytics and data can help wealth managers identify early signs of potential attrition and proactively address the risk with low-cost interventions, reducing attrition by 10% to 20%.

- **Improve RM effectiveness with existing clients.** By generating timely, personalized suggestions for existing clients, analytics can help RMs raise fresh topics to discuss and efficiently maintain and deepen relationships. This, in turn, can lead to a revenue increase of 5% to 10% for the firm as a whole, through up-selling, cross-selling, and proposing new products that are relevant to the client's specific situation. Succeeding in this arena, however, requires focused change-management leadership to help integrate recommendations into RM workflows and scheduling processes.

Leveraging advanced analytics and data can reduce client attrition by 10% to 20%.

- **Maximize RM effectiveness with new clients.** Advanced analytics can lead to firm-wide increases in new client acquisition of between 10% and 20%. They make these gains possible by giving RMs incisive, actionable recommendations—based on lead scoring (enriched through complementary data capture) and smart rules driven by advanced analytics—that enable RMs to leverage a set of proven tactics aimed at connecting with new prospects (for example, by attending relevant events). Again, success depends on focused change management to gain understanding and buy-in from RMs, ultimately by proving that analytics are a better predictor than either pure experience or gut feeling.

- **Sharpen targeted pricing.** Using advanced analytics to increase pricing sophistication—especially dynamic pricing based on the client's individual situation and long-term value—and to identify opportunities to reduce unnecessary discounting by RMs can generate a 5% to 15% increase in price realization across the firm. This initiative, taking client-specific price sensitivity into account, may include using targeted opportunities to reduce pricing for certain clients in tandem with models that predict the likelihood of client churn.

- **Improve the client experience.** Of course, analytics can promote the overarching goal of increasing client loyalty by offering a superior, more personalized experience. Such analytics can generate curated communication content and find the optimal frequency and format to use in order to ensure the highest relevance. Such analytics can also flag ways to reduce unwanted contact, identify the most suitable client touch points for up-selling and cross-selling, and steer clients toward research and investment ideas based on their own individual profiles. Higher service levels with a truly consistent and more personalized multichannel approach for each client will drive both loyalty and referrals, potentially yielding as much as a 30% to 40% increase in Net Promoter Score and a 5% to 10% increase in share of assets. Obviously, the need to ensure value and trust through unstinting respect for privacy and confidentiality is paramount.

Building Efficiency That Drives Margin Expansion

There are also many use cases for leveraging advanced data and analytics to foster efficiency improvements that lead directly to higher margins. Five key levers in this area are the following:

- **Upgrade operational efficiency.** By applying intelligent triage and eliminating manual work from the review of exceptions and errors during back-office processing—in such areas as trades, account transfers, and fraud prevention—

predictive analytics can yield a reduction of from 20% to 40% in operating costs. Although many of the addressable issues concern just a small share of total back-office activities, advanced analytics can provide early warning signals in a highly focused way and help avoid a significant amount of unnecessary effort (while also increasing accuracy and auditability).

- **Lower human-resources costs.** Such analytics can also reduce HR costs. Indeed, although the role of the RM or FA is central to wealth management, and players tend to invest heavily in recruiting and training, many institutions still see high rates of both voluntary and involuntary attrition. By incorporating novel data sets and applying advanced analytics (before and after hiring), wealth managers can significantly increase their efficiency in managing their talent pipelines and can lower their HR costs by 5% to 15%.

- **Sharpen demand management.** Service requests and inquiries are a significant cost driver for many wealth managers. By applying data and analytics to anticipate and head off these requests before they happen—for example, by identifying clients for whom proactive outreach to provide accurate and relevant information on a pending transaction will preempt an inbound phone call—wealth managers can shrink related service costs by 10% to 20%.

- **Improve credit risk management.** Players can use advanced analytics and additional data sources to better predict credit risk from private banking loans. This initiative typically includes accelerating the speed of loan approval, reducing the cost of manual risk review, and increasing loan performance by identifying and taking action against risks before defaults occur. Using this approach to credit-risk management can slash institutions' risk-review costs by 20% to 30% and cut loan losses by 5% to 10%. Such processes also have a positive effect on loan loss provisions and—depending on the applied regulatory regime and approach—can improve their risk-weighted asset efficiency.

- **Target next-generation know-your-customer programs and more effectively managing operational risk.** By using advanced analytics (for example, leveraging data on client behaviors) to meet regulatory requirements, firms can reduce the need for paperwork, lower the burden of initial client onboarding, and reduce related service costs by 5% to 10%.

Success depends on having or developing a foundation of key management capabilities.

In all efforts to leverage advanced data and analytics, wealth managers must maintain a vigilant focus on the client experience, understanding all touch points and how clients will react to the dynamics of change. Similarly, the roles of the RM and FA must evolve to take on new and different responsibilities, although these individuals will still be at the center of the client relationship. (See the sidebar "The New Dynamics of Client Engagement.")

Unlocking the Value of Data

The value creation opportunities listed above touch all parts of the wealth management business, but success also depends on having or developing a foundation of key capabilities. Combining them effectively and managing their complexity efficiently will require unflagging leadership. We have identified five crucial capabilities:

- **Cutting-Edge Technology Architecture.** There is no single answer to the question, What is the right tech stack to support this initiative? Indeed, the correct response will vary by player and by market. That said, a key element for success across institutions is to have a "single source of truth" for analytical models to rely on—such as a common client identifier with insights derived from structured and unstructured data from a data lake. Also crucial are open APIs to capture and exchange data, intelligent workflow solutions steered by advanced analytics, and the ability to

THE NEW DYNAMICS OF CLIENT ENGAGEMENT

Jane is a high-net-worth client who has had a wealth management account for many years. Although she has been an active investor historically, she has not recently initiated any trades. Her longtime RM, Paul, retired a year ago, but before departing provided a friendly introduction to the new RM, Sharon, over lunch.

Jane liked Sharon initially and was quite impressed with her knowledge of both the global investment landscape and Jane's own portfolio. But in recent months, Jane has been feeling dissatisfied with the infrequency of their interactions and with the bank in general. Her close friends, all of whom are also wealth management clients, seem to receive better, more individualized service at their own banks, and Jane is now seriously considering switching providers.

On the basis of Jane's lack of trading suggestions or activity, and other behavioral indicators (such as web activity picked up by cookies), an analytical model identified Jane as being "at risk" of leaving the bank—and notified Sharon of the danger. Sharon, who has a large portfolio of clients to tend to, had not realized how long it had been since her last interaction with Jane. Drawing on a broad array of data sources (including the typical activity and interests of clients whose profiles resemble Jane's), the model proposed a personalized action plan that included both in-person and digital interactions to strengthen the bank's ties to Jane.

The first action was to send Jane a few carefully curated messages via both email (timed on her likelihood to engage) and physical mail to share selected service offerings that she had not previously taken advantage of. A digital assistant then scheduled a lunch with Sharon, who came prepared with fresh conversation topics relevant to Jane's life and portfolio. During the lunch, Jane discovered that she and Sharon had similar professional backgrounds. Jane also became reacquainted with Sharon's keen insights into the investment landscape.

Later that afternoon, following their lunch, Sharon reviewed, edited, and sent to Jane an auto-populated follow-up note regarding a product that they had discussed. Appreciative of the personalized service, and having had her eyes reopened to the value of her relationships with Sharon and the bank, Jane reaffirmed her loyalty by initiating several new trades.

In this process, the bank integrated insights from the analytics model with data from Jane's specific history and current needs as well as with real-time market changes and an awareness of Jane's past interactions with Sharon. It later used these elements to orchestrate and dynamically refresh a unique set of touch points and messages for Jane, who has remained a contented client.

Scenarios such as the one with Jane and Sharon represent just the tip of the iceberg. Truly advanced institutions will find ways to continually surprise and delight customers like Jane, providing them with relevant insights and interactions that deepen their relationship with the bank. At the same time, these players will take steps to apply analytics to their back offices in ways that promote seamless, convenient service along the way—for example, in opening a new account or instantly confirming customer identity.

include fit-for-purpose software-as-a-service applications to address critical use cases.

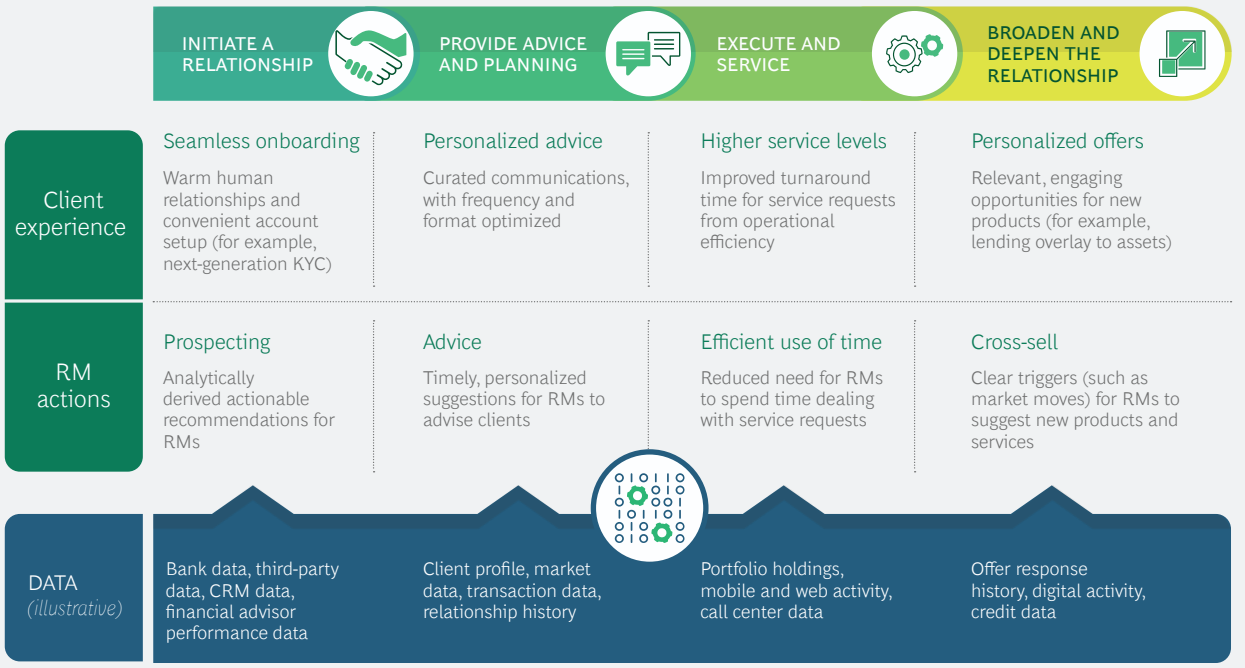
- **Sharp Data Capture and Governance.** A perennial challenge in wealth management and private banking involves capturing and structuring information that already exists "in our heads." Specific information about the history of a client relationship, a given client's particular needs, or even just the winning moves of experienced RMs are often passed along

casually and anecdotally—if at all. Yet structuring this information, as well as integrating it with transactional and commercial information, can create new sources of valuable data. And this is only the beginning. The overall objective is systematic management and strict governance of harmonized, clearly defined data. Success in this area requires significant change-management efforts—in particular, working with RMs and FAs to ensure careful and complete documentation of client interactions.

- **Innovative Analytics Capabilities.** Many wealth managers try to tackle the problem of behind-the-curve data and analytics by investing heavily in new systems or data sets. In our view, however, most of the value lies in improving the analysis of existing data. Knowing how to apply the right analytical method to the right business problem requires a different type of investment from the harder elements of systems and data. In particular, there is an important people dimension. True excellence requires specialized skill sets—talents that tech giants and startups alike are also eager to find. The competition for such talent may require wealth managers to update their approach to recruitment in order to present an environment and a brand that attract the best and brightest. Retraining in-house analysts, in our experience, is unlikely to fully deliver on the opportunity in the short term, although a long-term program to reskill the organization can bring great benefits in conjunction with recruiting top outside talent. Overall, wealth managers must recognize that advanced analytics drive changes throughout the client life cycle—changes that enhance long-term loyalty and value. (See Exhibit 14.)

- **Adaptability to New Ways of Working and Teaming.** At a minimum, successful change in the data and analytics space requires a new spirit of collaboration across teams that in the past often operated in silos—such as the front office, back office, IT, and legacy analytics functions. Most important, fully realizing the analytics opportunity requires the adoption of an agile approach in which dedicated resources with different skill

EXHIBIT 14 | Advanced Analytics Drive Changes Along the Client Life Cycle



Source: BCG analysis and project experience.

sets work iteratively in sprints to deliver changes to the client experience and realize efficiency opportunities. This comes through embracing the concepts of "test and learn" and "fail fast"—two keys to driving rapid impact.

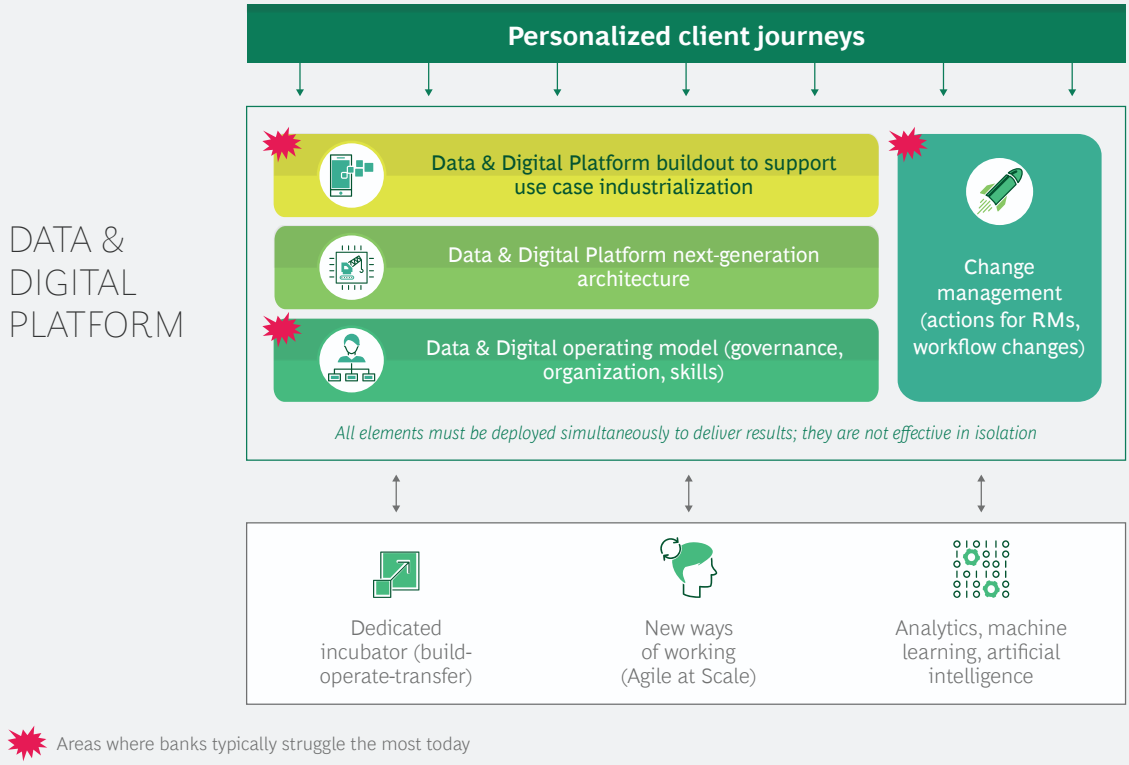
- **Strong Senior Leadership and Change-Management Skills.** The most impactful uses of advanced analytics will require measurable changes to the day-to-day operating model. Inevitably, this sort of evolution will generate pushback from people more familiar and comfortable with the status quo—for example, RMs and FAs who are accustomed to making intuitive judgments rather than accepting guidance from an algorithm. To overcome resistance to change and to achieve a comprehensive transformation, senior leadership must provide sustained drive and commitment—often including an increase in the number of tech- and data-savvy leaders in executive positions, and engagement with the broader tech ecosystem and with standard-setting bodies. CEOs must understand that systematic use of data is critical to step-changing one-to-one client interactions and the wealth management offering. (See Exhibit 15.)

How to Get Started

If you're a wealth management CEO, you may be wondering which first steps in a data and analytics transformation are most important. In our experience, firms tend to take one of two approaches:

- Build the foundation by constructing a detailed roadmap. Then invest in the required capabilities, and then create the organizational constructs to enable success.
- Learn by doing, rapidly creating and prioritizing a long list and a short list of use cases specific to the organization. Then pick one or two priorities, assemble a dedicated team, and start building. Use existing data and tools, supplemented

EXHIBIT 15 | The Systematic Use of Data Is Critical to the Entire Wealth Manager Offering



Source: BCG analysis and project experience.

with outside resources as necessary, to prove or disprove the opportunity. When the first use cases are proved, transfer the knowledge to the business, and begin building the next round of opportunities.

We believe that the second of these two paths offers the higher probability of success for most players. By adopting this approach, an organization can create value more rapidly, and can learn and reprioritize along the way.

FOR FURTHER READING

The Boston Consulting Group has published other reports and articles that may be of interest to senior financial executives. Recent examples include those listed here.

Global Retail Banking 2018: The Power of Personalization
A report by The Boston Consulting Group, June 2018

Global Capital Markets 2018: Embracing the Digital Migration
A report by The Boston Consulting Group, May 2018

Global Corporate Banking 2018: Unlocking Success Through Digital
A report by The Boston Consulting Group, March 2018

Global Risk 2018: Future-Proofing the Bank Risk Agenda
A report by The Boston Consulting Group, February 2018

How Pricing Can Solve European Banking's Earnings Crisis
An article by The Boston Consulting Group, February 2018

How Banks Can Thrive as Digital Payments Grow
An article by The Boston Consulting Group, December 2017

The Power of Digital in Commercial Banking
An article by The Boston Consulting Group, December 2017

Why Aren't Banks Getting More from Digital?
A Focus by The Boston Consulting Group, December 2017

Global Payments 2017: Deepening the Customer Relationship
A report by The Boston Consulting Group, October 2017

Getting Bank Automation Beyond the Pilot Phase
An article by The Boston Consulting Group, August 2017

The Seven Rules of Cost Excellence in Banking
An article by The Boston Consulting Group, August 2017

Global Asset Management 2017: The Innovator's Advantage
A report by The Boston Consulting Group, July 2017

Global Retail Banking 2017: Accelerating Bionic Transformation
A report by The Boston Consulting Group, July 2017

How Banks Can Close the Back Door on Attrition
An article by The Boston Consulting Group, July 2017

NOTE TO THE READER

About the Authors

Anna Zakrzewski is a partner and managing director in the Zurich office of The Boston Consulting Group and the global leader of the Financial Institutions practice's wealth management segment. **Brent Beardsley** is a senior partner and managing director in the firm's New York office. **Daniel Kessler** is the managing partner of BCG Switzerland and a topic expert for wealth management. **Martin Mende** is a partner and managing director in the firm's Zurich office and the leader of the Financial Institutions practice in Switzerland. **Federico Muxi** is a partner and managing director in BCG's Buenos Aires office and the leader of the wealth management segment in Latin America. **Matthias Naumann** is a senior partner and managing director in the firm's Zurich office. **Jürgen Rogg** is a partner and managing director in BCG's Zurich office and the global leader of digital and technology in banking and wealth management. **Tjun Tang** is a senior partner and managing director in the firm's Hong Kong office. **Tyler Woulfe** is a principal in BCG's San Francisco office. **André Xavier** is a senior partner and managing director in the firm's São Paulo office and the leader of the Financial Institutions practice in Brazil.

Acknowledgments

Asia-Pacific and Japan: Federico Burgoni, Yashraj Erande, Ashish Garg, Mariam Jaafar, Varun Kejriwal, Tammy Tan, and Yasuhiro Yamai.

Western Europe: Peter Adams, Carlos Barradas, Carsten Baumgärtner, Eelco Bouma, Thorsten Brackert, Gennaro Casale, Jorge Colado, Anita Coronel, Tijsbert Creemers-Chaturvedi, Guido Crespi, Stefan Dab, Oliver Dany, Christian Diez Girona, Jean Dobbeni, Dean Frankle, Gustav Gotteberg, Daniel Kessler, Henrik Ljungberg, Benoît Macé, Isa Marthinsen, Edoardo Palmisani, Pierre Paoli, Pedro Pereira, Stuart Quickenden, Matteo Radice, Pierre Roussel, Holger Sachse, Olivier Sampieri, Christian Schmid, Ole Christian Sveen, Roope Talasmaa, Vincenzo Tortorici, Pablo Tramazaygues, Alvaro Vaca, and Ian Wachters.

Eastern Europe and Central Asia: Daniel Csepregi, Norbert Dworzynski, Natalia Gerashchenko, Max Hauser, Krisztian Horvath, Sergey Ishkov, Ilya Ivaninsky, Laszlo Juhasz, Marcin Kotlarek, Anastasia Ksenofontova, Ilya Privin, and Lukasz Rey.

Middle East and Africa: Reinhold Leichtfuss, Markus Massi, Godfrey Sullivan, and Burak Tansan.

Americas: Killian Berz, Nan DasGupta, Deepak Goyal, Joel Muniz, Neil Pardasani, Benjamin Sheridan, Juan Solana, Ricardo Tiezzi, and Jody Visser.

Advanced Analytics Team: Laurent Desmangles and Jürg Erlebach (Gamma).

Core Project Team: Marc Braun, Freya Jenkins (market sizing lead) and Matthias Probst, as well as the Global Wealth analyst team of Bruno Bacchetti, Sukrita Bhatia, Joshua Cova, Amit Kamra, Annette Pazur (benchmarking lead), Blaine Slack, Katarzyna Teter, and Allison Xu.

We also thank the team from the BCG subsidiary Expand Research—Raza Hussain and the Expand North American Wealth Management Team—for their contributions.

Finally, this publication would not have been possible without Philip Crawford's editorial direction, as well as the contributions of other members of the editorial and production team, including Katherine Andrews, Gary Callahan, Kim Friedman, Abby Garland, Steven Gray, Sean Hourihan, and Sara Strassenreiter.

For Further Contact

If you would like to discuss with The Boston Consulting Group the challenges and opportunities facing your company, please contact one of the authors of this report.

Anna Zakrzewski
Partner and Managing Director
BCG Zurich
+41 44 388 86 66
zakrzewski.anna@bcg.com

Brent Beardsley
Senior Partner and Managing Director
BCG New York
+1 212 446 2800
beardsley.brent@bcg.com

Daniel Kessler
Partner and Managing Director
BCG Zurich
+41 44 388 86 66
kessler.daniel@bcg.com

Martin Mende
Partner and Managing Director
BCG Zurich
+41 44 388 86 66
mende.martin@bcg.com

Federico Muxi
Partner and Managing Director
BCG Buenos Aires
+54 11 4317 5900
muxi.federico@bcg.com

Matthias Naumann
Senior Partner and Managing Director
BCG Zurich
+41 44 388 86 66
naumann.matthias@bcg.com

Jürgen Rogg
Partner and Managing Director
BCG Zurich
+41 44 388 86 66
rogg.juergen@bcg.com

Tjun Tang
Senior Partner and Managing Director
BCG Hong Kong
+852 2506 2111
tang.tjun@bcg.com

Tyler Woulfe
Principal
BCG San Francisco
+1 415 732 8000
woulfe.tyler@bcg.com

André Xavier
Senior Partner and Managing Director
BCG São Paulo
+55 11 3046 3533
xavier.andre@bcg.com

© The Boston Consulting Group, Inc. 2018. All rights reserved.

For information or permission to reprint, please contact BCG at:
E-mail: bcg-info@bcg.com
Fax: +1 617 850 3901, attention BCG/Permissions
Mail: BCG/Permissions
The Boston Consulting Group, Inc.
One Beacon Street
Boston, MA 02108
USA

To find the latest BCG content and register to receive e-alerts on this topic or others, please visit bcg.com.

Follow The Boston Consulting Group on Facebook and Twitter.

6/18



BCG

THE BOSTON CONSULTING GROUP

bcg.com