GLOBAL WEALTH 2020—20TH EDITION

The Future of Wealth Management—A CEO Agenda



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BCG

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Preface

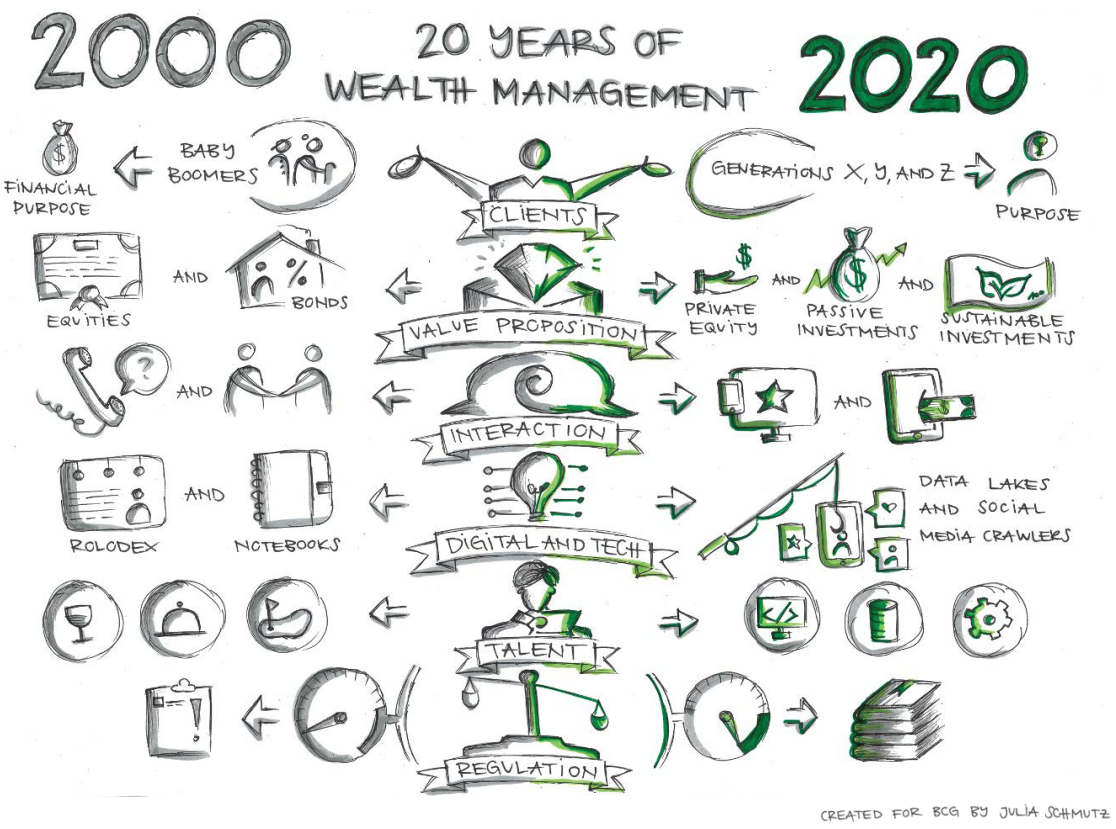
The wealth management industry is over 200 years old. Yet for most of that history, providers have operated according to the same general playbook. It took the massive digital and regulatory disruption of the past 20 years to begin shaking up industry business models, and evidence suggests that most providers have moved slowly, with many still adhering to traditional ways of private banking. (See the exhibit.)

Among the major obstacles to change are fear of losing key relationship managers (RMs) and clients, a belief that the high-touch model is crucial to success, and the ten-year bull market, which shielded players from having to make tough decisions sooner. Despite a significantly larger asset and client base, however, the industry's profit pool remains about the same as it was more than a decade ago, having reached just $135 billion in 2019 compared with $130 billion in 2007.

The COVID-19 pandemic—for all its devastating impacts—is a wakeup call. Wealth management providers should heed that call and recommit themselves to the improvement efforts they have long needed to make.

This is BCG's 20th year of producing our Global Wealth Report. Our 20-year vantage point—along with the data

20 Years of Wealth Management



Source: Insights drawn from BCG ideation sessions and expert interviews.

that we have amassed over that period—allows us to distill important patterns in the nature of wealth growth and provide an outlook on the years ahead.

One striking feature of wealth growth over the past two decades has been its extraordinary resilience. Despite multiple crises, wealth growth has proved to be stubbornly robust, springing back from even the most severe tests. Today there is more wealth in more hands, and the wealth gap separating mature markets and growth markets at the beginning of the century has narrowed dramatically. Over the past 20 years, personal financial wealth globally has nearly tripled, rising from $80 trillion in 1999 to $226 trillion at the end of 2019.

Nevertheless, effectively serving the world's wealthy is going to get far more complicated in the years ahead. As the demographics of wealth shift, so will the needs and expectations of wealth clients. In addition, the disruptive forces that emerged at the beginning of the century are accelerating. As digitization lowers barriers to entry to wealth management as a business, competition will intensify and offerings that once provided differentiation will face commoditization.

Fittingly for our 20th anniversary, this year's report takes a 20-20 view, looking back over the past two decades and ahead to 2040. Our review of global market sizing, which encompasses 97 markets, provides a detailed retrospective. In addition, we evaluate the potential long-term impact of the COVID-19 crisis and consider whether the resiliency of wealth growth will endure.

This year's report also includes a vision of the future of wealth management, based on ideation sessions and interviews held with clients, experts, next-generation individuals, and industry professionals. (Several artistic renderings from those sessions are featured in this report.) We examine how the industry's value proposition and offerings will change over the next two decades, how interaction models will evolve, and which successful business models will emerge. We close with a checklist outlining what leaders must do in the months and years ahead to prepare for that future. Our CEO agenda lists specific actions that will enable organizations to address the demands of the present environment and manage their profitability while transforming their businesses to thrive in the future.

As always with our annual global wealth reports, our goal is to present a clear and complete portrait of the business and to offer thought-provoking perspectives on issues that affect all types of players in their pursuit of innovation, growth, and profitability.



Anna Zakrzewski
Managing Director and Partner,
Global Leader, Wealth Management



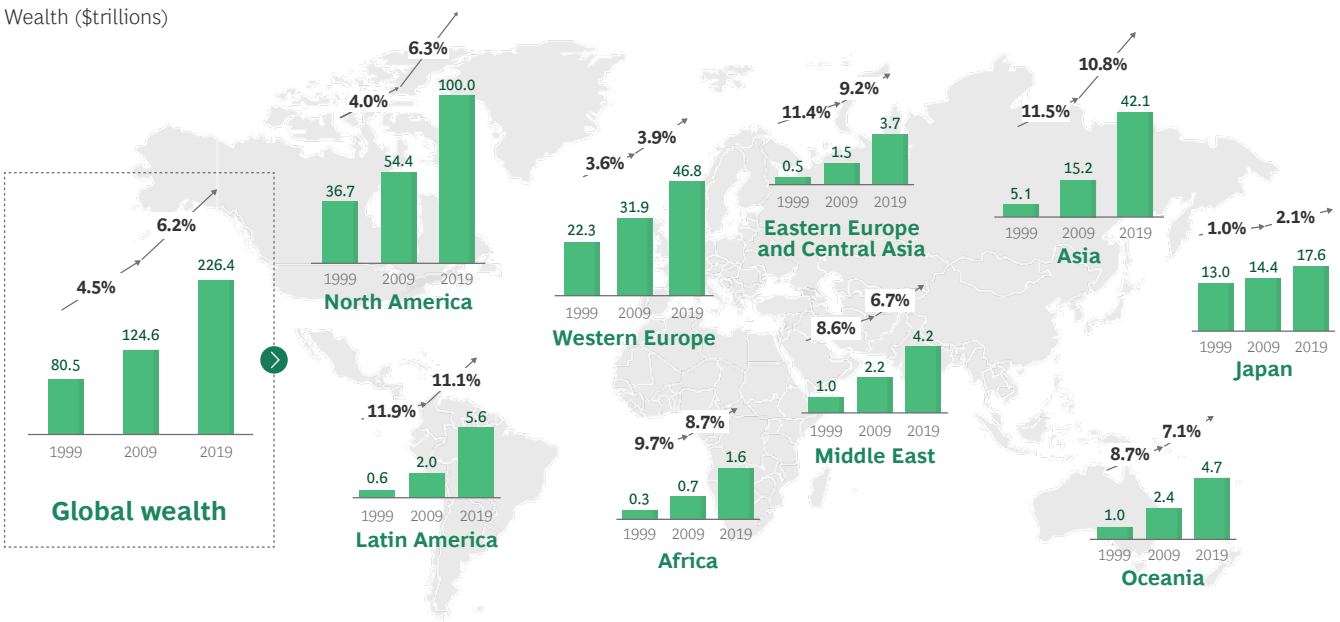
Looking Back Over 20 Years and Ahead to the Future

A lot can happen in 20 years. Online streaming, mobile banking, gene editing, and robotic-assisted surgeries are just a few of the remarkable innovations introduced since the start of the century. Digitization has put more of the world within reach, increasing economic productivity and allowing individuals to participate in an ever-more-global economy. All of this has been good for wealth.

Personal financial wealth has soared over the past two decades—nearly tripling on a global basis from $80.5 trillion at the end of 1999 to $226.4 trillion at the end of 2019.[1] (See Exhibit 1.) That trajectory is even more impressive in light of the many economic disruptions that have occurred during this period.

As we look back across the past two decades and ahead to the next two, we can identify several major findings.

Exhibit 1 - 20-Year Wealth Development by Region



Source: Global Wealth Report 2020—BCG Global Wealth Market Sizing Database.

Note: Wealth in local currency was converted to US dollars at the 2019 year-end exchange rate across all time periods. Financial assets are per the SNA 2008 reporting standard, in $trillions. Growth percentages for the period 1999–2009 and 2009–2019 represent the relevant compound annual growth rates over the period. Total private financial wealth consists of cash and deposits; bonds, equities and investment fund shares; life insurance and pensions; and other small asset classes.

1. Personal financial wealth was calculated using fixed end-of-year 2019 exchange rates over the period from 1999 to 2024. Currency effects and inflation were not taken into account.

Wealth Growth Has Proved Its Resilience in Weathering Crises

The new century may have begun with fireworks, but the dotcom bust and the horrors of the 9/11 tragedy put a quick end to the celebration. With major economies shaken, the early 2000s got off to a somber start. Stock market indices turned bearish and global sentiment soured. Reflecting that mood, the MSCI World Index fell by double digits for three straight years in 2000, 2001, and 2002. Yet, more surprising than the severity of the slump is how strongly equity markets rebounded.

By 2003, wealth growth regained its footing, soaring by 9.2%. In 2005, growth hit another record, climbing by 9.8%. Overall, the period from 2003 to 2005 recorded the strongest wealth growth in history.

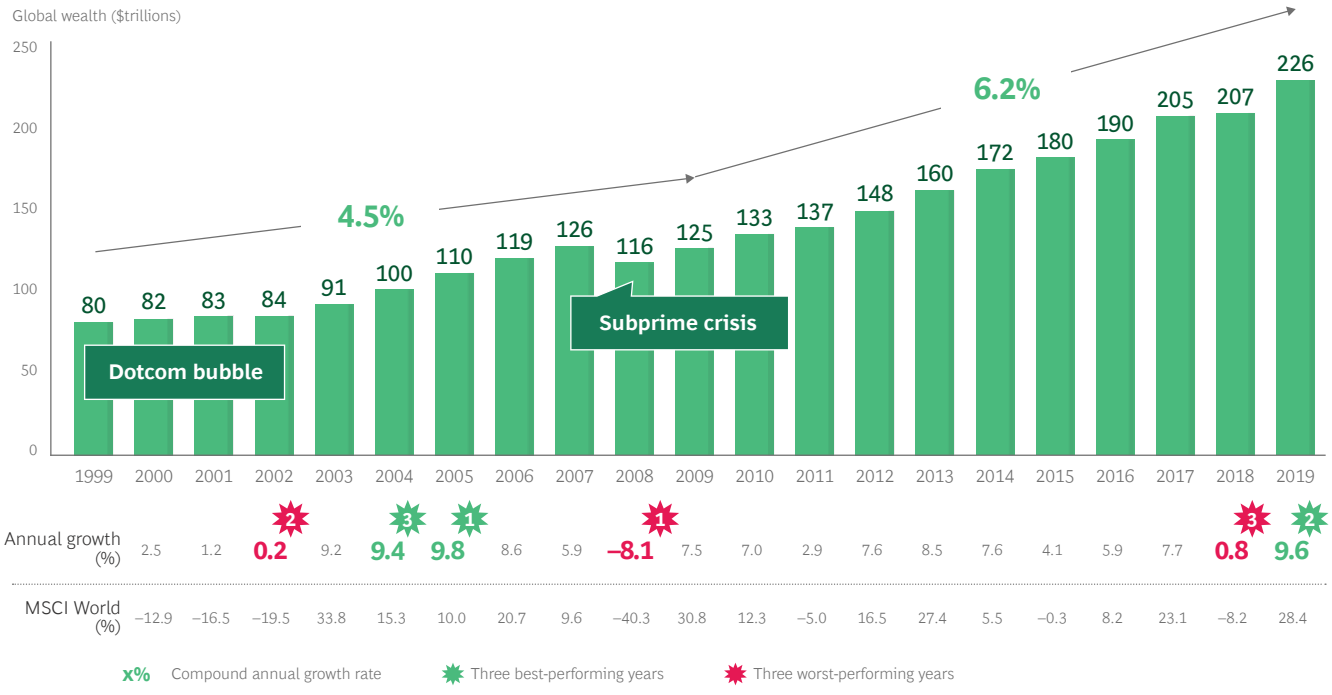
Although wealth managed to shrug off the first shocks of the century, it was put to the test again when the bottom fell out of the subprime lending market in 2008. With global liquidity strained, equity markets went into a tailspin, and asset values plummeted. By the end of 2008, the financial crisis had drained $10.2 trillion in private wealth globally.

The subprime crisis in 2008 prompted massive government bailouts and central bank interventions, but private financial wealth proved remarkably resilient. By 2010, wealth had fully rebounded, reaching a new all-time high of $133.3 trillion. Most of that growth occurred in cash and deposits and in life insurance and pensions, which together represented almost 60% of global wealth. In 2008, for example, cash and deposits grew by 7.8%—and continued to grow at a CAGR of 4.7% to 7.0% until 2019, blunting the effects of some equity losses.

The 2010s, however, introduced new stressors, including the European sovereign debt crisis and the painful austerity measures that followed during the first half of the decade. Ruptures in important trade relationships emerged in the second half of the decade, as hostility grew between the US and China and other trading partners. Still, GDP in the world's major markets continued to rise, unleashing the longest bull market in history.

In all, wealth growth over the past 20 years has been resoundingly strong—buoyed by global GDP performance, higher disposable incomes, and higher rates of savings. As Exhibit 2 shows, the wobbles at the beginning of the century and the drop in 2008 proved short-lived. Meanwhile, wealth inched determinedly upward, with record growth in the years between 2003 and 2005 and again in 2019.

Exhibit 2 - Global 20-Year Wealth Development



Source: Global Wealth Report 2020—BCG Global Wealth Market Sizing Database.

Note: Wealth in local currency was converted to US dollars at the 2019 year-end exchange rate across all time periods; MSCI World Index ($US, gross).


Despite multiple crises, wealth growth has proved to be stubbornly robust, springing back from even the most severe tests

Economic Growth Has Put More Wealth in More Hands

For most of modern history, mature markets accounted for the lion's share of wealth. But times are changing. The past 20 years saw the emergence of a two-speed world in which the "growth markets" of Asia, Eastern Europe, Latin America, and the Middle East and Africa enjoyed rapid expansion, propelled by strong GDP performance and higher rates of individual savings, while the economies of North America, Western Europe, Japan, and Oceania delivered more modest growth. In China, for example, households consistently saved more than 25% of their disposable income, on average, over the past two decades, compared with an average savings rate of less than 10% by households in Europe and the US.

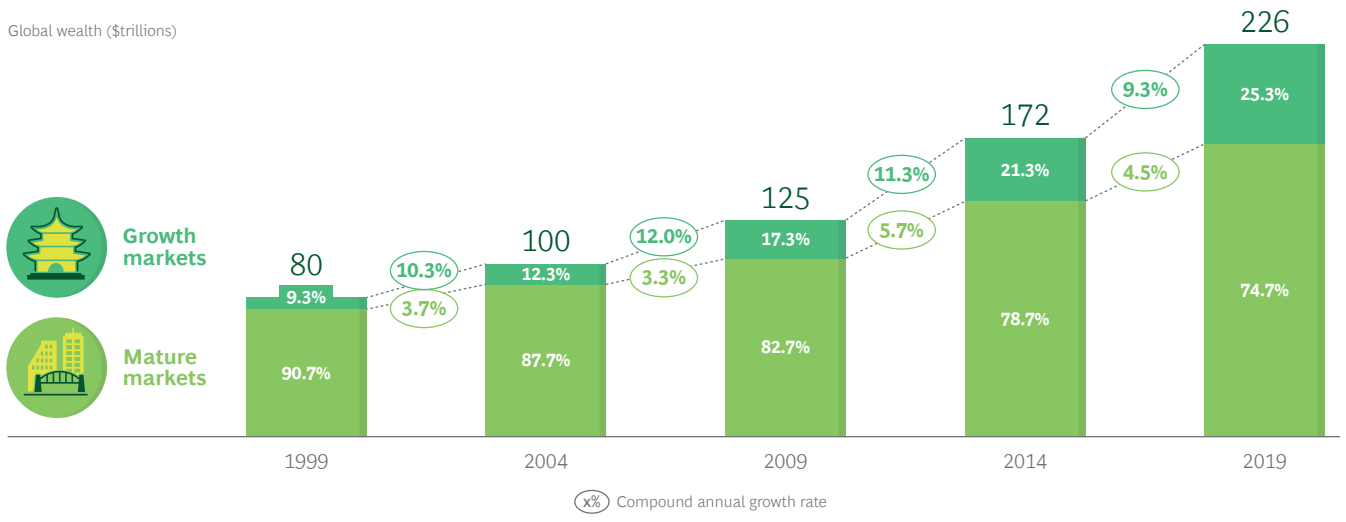
As a result of these two-speed dynamics, the share of wealth held by growth markets has steadily increased. In 1999, for example, Asia and other growth regions accounted for just 9.3% of global wealth. By 2009, that share had jumped to 17.3%; and by the end of 2019, it had grown to 25.3% of global wealth. (See Exhibit 3.)

Greater economic attainment has enlarged the ranks of the world's wealthy. The number of millionaires (in US dollars) globally has nearly tripled in the past 20 years, from 8.9 million in 1999 to more than 24 million by the end of 2019. Collectively, millionaires now hold more than 50% of total financial wealth globally (calculated on the basis of nominal growth rates and not taking into account inflation effects).

North America continues to have the largest number of millionaires (16.4 million)—more than half of whom (10.3 million) became millionaires during the 21st century. North America is also home to the greatest concentration of high-net-worth (HNW) individuals. This segment now accounts for 59% of the wealth in North America ($59 trillion).

Asset allocations contributed to different rates of wealth growth across segments over the past ten years. The HNW segment and the ultra HNW (UHNW) segment—individuals with a total financial wealth of more than $100 million—prospered the most. Because their portfolios comprised a much higher share of equities than other wealth bands (more than 50% are invested in equities and investment fund shares, on average), they were well positioned to reap the gains from the recent long bull market. By contrast, the retail segment—individuals with assets of less than $250,000—invested, on average, only about 9% of their assets in equities and investment funds, with more than 80% going instead into cash and deposits and life insurance and pensions. That low rate of investment translated into lower rates of wealth growth for this segment.

Exhibit 3 - Growth Markets Are Catching Up to the Mature Markets



Source: Global Wealth Report 2020—BCG Global Wealth Market Sizing Database.

Note: Mature markets consist of Japan, North America, Oceania, and Western Europe. Growth markets consist of Africa, Asia (excluding Japan), Latin America, Eastern Europe, and the Middle East.

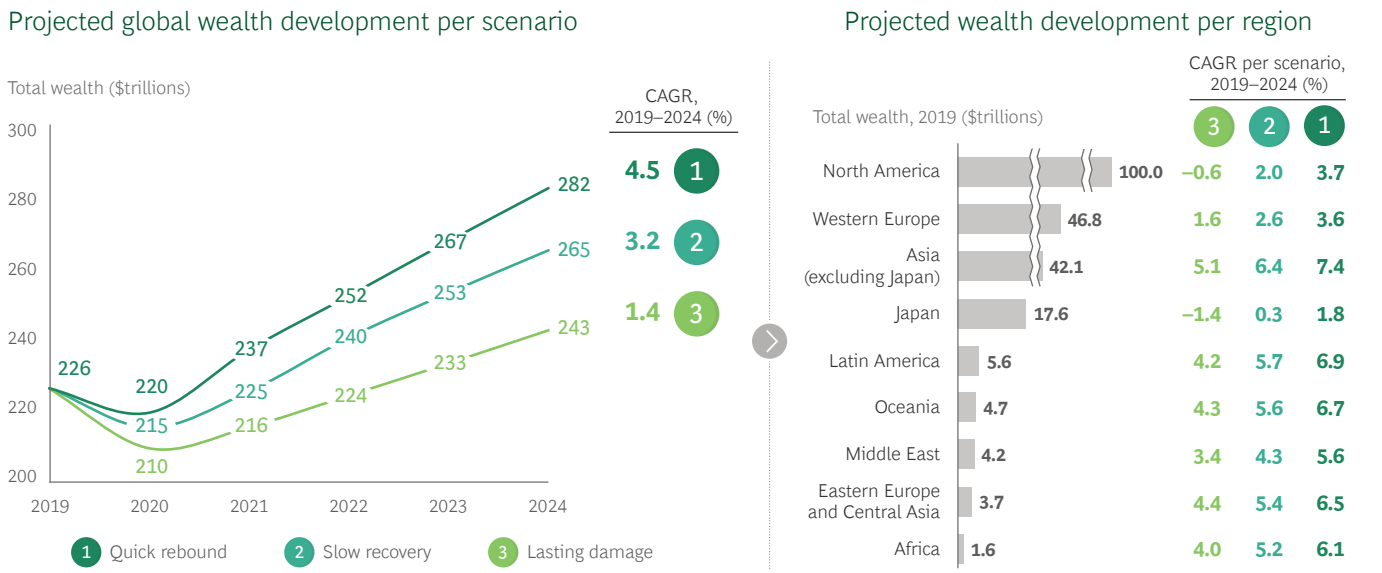
Recovery from COVID-19 Will Define Growth in the Years Ahead

As we enter the 2020s, the COVID-19 crisis may present global markets with one of their most severe tests. Businesses everywhere face immense disruption. Millions of individuals are newly unemployed, and most economies have tipped into recession. While the speed of the recovery depends to a large extent on the success of public health measures, as well as on interventions from governments and central banks, the pandemic will almost certainly cause wealth to contract in the near term.

Our analyses suggest three possible scenarios. (See Exhibit 4.) Our modeling incorporates macroeconomic indicators such as GDP growth, consumption, interest rate development, inflation, and capital market performance, which vary under each of the three scenarios (for details on key assumptions of the forecast scenarios, see "About Our Methodology"):

- **Quick Rebound.** Gross domestic product falls steeply with some displacement of output, but growth rebounds relatively quickly. Under this scenario, wealth would rise from $226 trillion in 2019 to $282 trillion in 2024, a CAGR of 4.5%. Wealth managers would likely endure a short-term profitability hit, but the pandemic would not have a lasting impact on the industry.
- **Slow Recovery.** Economic shocks persist—and although growth resumes in 2020, the bottom is deeper and the recovery flatter. Under this scenario, we project that wealth would fall to $215 trillion in 2020 and then grow to $265 trillion in 2024, a CAGR of 3.2%. Wealth managers would see their revenue margins contract, with subscale players and those with higher cost-income ratios (CIRs) experiencing the most acute impacts. Consolidation would likely increase within the industry as a result.
- **Lasting Damage.** Economic impacts are severe enough to cause long-term disruptions in labor and productivity. Under this scenario, wealth would decrease to $210 trillion in 2020 and then increase to $243 trillion by 2024, a CAGR of just 1.4%. Wealth managers would see their revenue margins and volumes deteriorate at an accelerated rate, with subscale players and those with high CIRs again feeling the worst effects. M&A activity would intensify and wealth managers would have to serve their clients in fundamentally different ways in order to lower their cost basis.

Exhibit 4 - Three Global Wealth Development Scenarios



Source: Global Wealth Report 2020—BCG Global Wealth Market Sizing Database.

Note: Wealth in local currency was converted to US dollars at the 2019 year-end exchange rate across all time periods. CAGR = compound annual growth rate.

Regardless of which scenario emerges, however, wealth management providers are likely to face more pressure, for several reasons. First, asset-based fees, which are more vulnerable to market declines, make up a higher percentage of wealth manager incomes than they did in the past (45% in 2018 compared with 30% in 2013, according to BCG's global wealth manager performance benchmarking database). Second, BCG's global wealth manager performance benchmarking database shows that many wealth managers are entering the crisis in a weaker financial position than they were in prior to the last financial crisis: 9% began 2020 in the red, compared with just 5% in 2007—and that figure could rise to 14% by 2021. And third, CIRs are higher, too (77% in 2018 compared with 60% in 2007).

Growth Markets Will Outpace Mature Markets

Looking ahead, macroeconomic data suggests that Asia, excluding Japan, will continue to see rapid rates of wealth growth. BCG modeling suggests that wealth across Asia, excluding Japan, will grow at between 5.1% and 7.4% annually over the next five years. Should that forecast hold, Asia will overtake Western Europe as the second wealthiest region in the world by 2022.

Wealth in North America, which is more heavily weighted toward equities, could grow at –0.6% to 3.7% annually from 2019 to 2024, depending on how severely the COVID-19 crisis damages the global economy. For Western Europe, we project a more stable range of approximately 1.6% to 3.6%, given the region's heavier weighting toward cash and deposits, which are less volatile than equities. Even so, because average GDP in the region over the next five years is expected to be lower than the average for the past 20 years, wealth growth in the region is unlikely to eclipse that of North America.

We predict that HNW and UHNW will remain the fastest-growing segments in North America and that the affluent band will be the fastest-growing segment in Asia, Western Europe, and the Middle East. In Asia, affluent individuals will see their wealth rise by a CAGR of 6.0% to 8.7% over the next five years (totaling from $5.7 trillion to $6.5 trillion by 2024).

Collectively, these trends mean that wealth management providers will have a larger pool of potential clients to serve over the next five years. Our segment forecasts project the following trends:

- The affluent segment globally (valued at $35.3 trillion) will grow at a CAGR of 1.7% to 4.6% from 2019 to 2024.
- The HNW segment (valued at $87.7 trillion) will grow at a CAGR of from 0.2% to 4.7% over the same period.
- The UHNW segment (valued at $27.3 trillion) will grow at a CAGR of from 1.4% to 5.8% until 2024.

Cross-Border Wealth Patterns Will Continue to Change

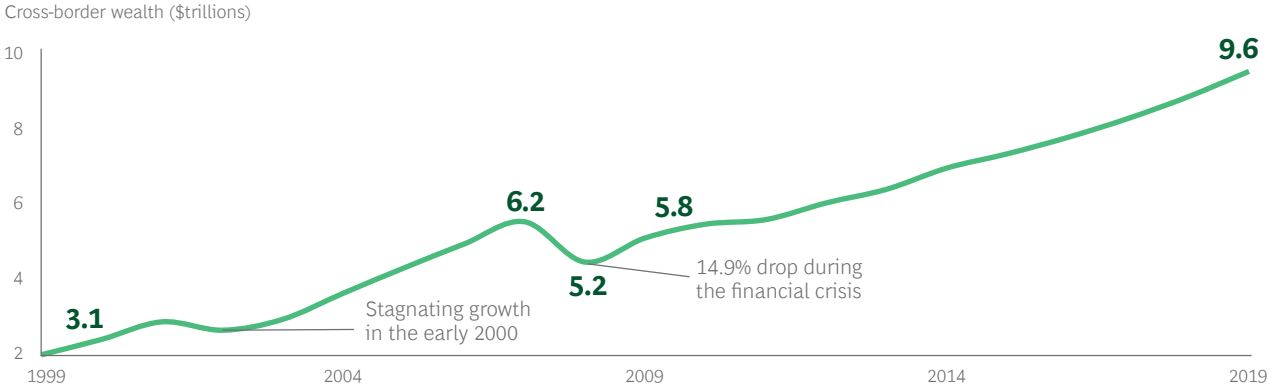
Cross-border wealth surged over the past 20 years, growing from $3.1 trillion in 1999 to $9.6 trillion in 2019. (See Exhibit 5.) Past crises have usually led to a short-term increase in cross-border capital flows. Whether the COVID-19 pandemic will lead to a similar shift depends on how severely the fallout impacts business liquidity, whether certain markets suffer economic and political instability, and whether governments enact stiffer tax measures to cover the costs of their crisis interventions.

In the short term, we believe, investors are likely to consider moving assets to perceived safe havens. Despite such inflows, cross-border wealth will decline by 5.4% to 10.2% in 2020, driven by the performance of the capital markets. Over the medium term (2021 to 2024), investors may look to repatriate assets to make it easier to access liquidity, especially if the economic downturn follows a lasting-damage scenario.

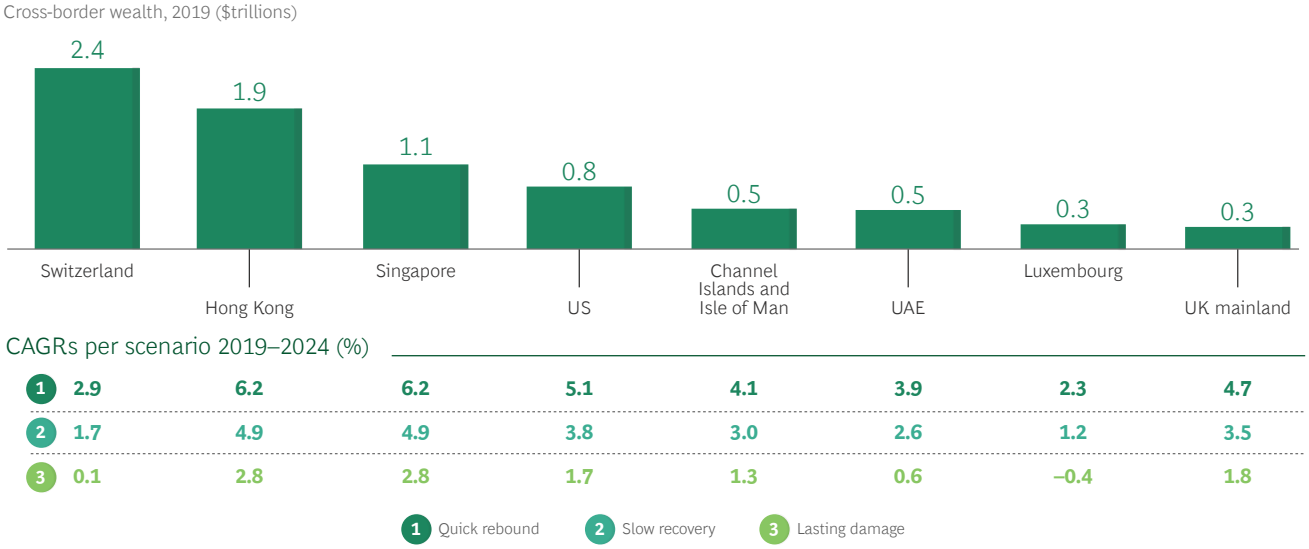
Regional cross-border wealth patterns are changing as well. In 1999, for example, Western Europe represented almost 50% of all cross-border wealth globally. As of 2019, that share had declined to 24% and will drop slightly below 20% by 2024. By contrast, Asia's share of cross-border wealth is set to reach 40% by 2024. The Middle East and Latin America are also expected to see their share of cross-border wealth grow slightly faster than the global average over the next five years.

Exhibit 5 - Past and Future Cross-Border Wealth Development

Cross-border wealth development over the past 20 years



Top cross-border centers: 2019 wealth and outlook



CAGRs per scenario 2019–2024 (%)

1	2.9	6.2	6.2	5.1	4.1	3.9	2.3	4.7
2	1.7	4.9	4.9	3.8	3.0	2.6	1.2	3.5
3	0.1	2.8	2.8	1.7	1.3	0.6	–0.4	1.8

1 Quick rebound 2 Slow recovery 3 Lasting damage

Source: Global Wealth Report 2020—BCG Global Wealth Market Sizing Database.

Note: UK mainland consists of England, Scotland, and Wales.

From a booking center perspective, Switzerland remains the largest destination, accounting for approximately one-quarter of global cross border wealth. Hong Kong is catching up, however, as a result of rapid growth in assets from wealthy individuals in China and other parts of Asia. These individuals currently account for 17% of global cross-border wealth. Singapore is the third-largest hub for cross-border wealth, with total bookings in 2019 exceeding $1 trillion. Singapore is also likely to benefit from the continuing influx of Chinese wealth. While the protests in Hong Kong that began in 2019 have had no significant effect on cross-border assets so far, ongoing turbulence could encourage wealth flows to shift toward Singapore and other cross-border centers.



The Next 20 Years of Wealth Management

Futuristic forecasts commonly paint a world filled with robots, holograms, implantable devices, and other extraordinary gadgets and tools. Many of these technologies will become important elements in the fabric of our daily lives, but what wealth management clients will want most from their providers in the future is simpler and more accessible interactions. Strong performance will remain crucial, but delivering it will take more than healthy financial returns. Providers must earn their clients' trust and put wealth to work in a variety of interesting and productive ways.

By 2040, tens of billions of connected devices will likely churn out zettabytes of data and refresh those streams at dizzying speeds. Machines nested in our phones, homes, and workplaces will interpolate that data in ways that exceed human cognition. Clients will have more knowledge at their fingertips, but they will need insights more than ever. The paradox of an information-rich society will be the poverty of time available to make sense of all the information on hand.

As the pool of wealth clients grows larger, younger, more diverse, and more global, expectations of wealth management providers will change. To gain insights, we conducted ideation sessions across the US and Europe with experts and next-generation individuals (people from Generations X, Y, and Z) on global megatrends and the digital future, as well as with wealth management clients and industry professionals. We also interviewed more than 40 business leaders from the wealth management and technology sectors and from other industries engaged in advising and supporting wealthy individuals, and we polled almost 200 survey participants from the financial services community. (See the sidebar, "Imagining a Very Different Future.")

Their insights and our analyses suggest that the disruptive trends that have begun shaking up the wealth management landscape over the past 20 years will gather steam, fueled by rapid digitization, a more knowledgeable and empowered client base, and far greater choice. In many ways, however, the most disruptive force over the next 20 years will be the rate of change itself.

Tomorrow's Clients Will Want More from Wealth

In 20 years, Gen Xers will be entering retirement, Gen Yers will be in their prime earning years and Gen Zers will be climbing the career ladder. If the prototypical wealth management client of the past 100 years was white, male, in his fifties, and Western, tomorrow's will upend that stereotype in nearly every way. In the years ahead, as BCG reported in "Managing the Next Decade of Women's Wealth," women will grow their wealth faster than men. Growth markets will outstrip mature markets in their rate of wealth accumulation, and rising economic attainment will put more wealth in more hands globally.

Generations X, Y, and Z will also be more educated and economically empowered than prior generations. Members of these younger cohorts will live in a dynamic and fast-paced global environment with increased economic and geopolitical volatility. Theirs will be an always-on world characterized by increasing gray areas between information sharing and information privacy.

For these younger generations, wealth won't just be about money. It will also be about meaning, purpose, connection, and making a positive difference in the world. This orientation will create a very different future for wealth management providers.

Wealth Management Must Rise to the Challenge

Over the next 20 years, the wealth management provider model will expand and refocus, and divides between people and machines will fade. As client needs shift, services and interactions will evolve in multiple ways. (See Exhibit 6.)

From Digitizing Interactions to Humanizing Them

In the years ahead, automated systems, robots, and chatbots will do much of the heavy lifting involved in supporting routine needs and actions because they can provide clients with a faster, more predictable experience. But if the smart efficiency of robots and chatbots reduces the number of RMs in the years ahead, those that remain will see their role expand significantly—and new roles will emerge. Wealth managers will prove their value not solely by the breadth of services they offer or by their subject matter expertise, but by the depth of individualized attention and insight they bring to addressing their clients' most complex needs. Product and solution excellence will still matter, but the close nature of the relationship and the extensive information available on individual clients, their environment, and their context will be at least equally important.

The ability to derive client-specific insights and act on them swiftly will separate the best firms from the rest. Beyond excelling at collecting streams of information—on their own or from partners and other external providers—the winners will excel at interpreting data and turning insights into action at scale. Sophisticated processing capabilities will allow them to become experts in discerning second- and third-order insights and acting on them nimbly. A UK-based private banking head told us, "The clients of tomorrow will simply not accept working with a wealth management provider that does not have top digital capabilities to let them access what they need at any time they want."

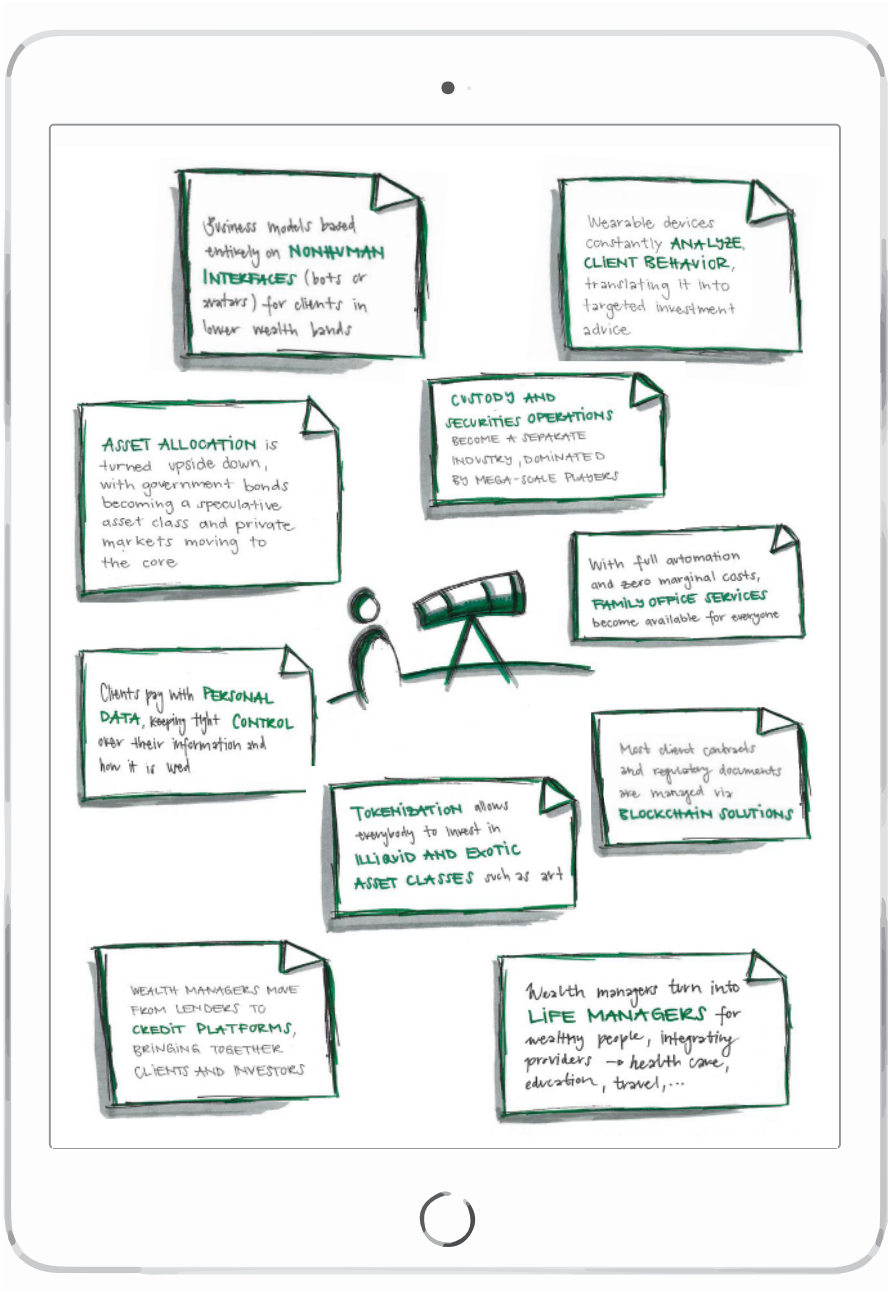
No matter how capable machines become, however, human interaction and trusted, personalized relationships will remain key—especially for clients in the upper wealth bands, who tend to have more complex needs. Human judgment, creativity, and empathy are essential to forging meaningful, trust-based relationships; and robots and AI cannot easily replicate these qualities. The head of digital strategy at a global wealth manager said, "Trust will remain essential. Platforms and digital solutions alone will not be sufficient to establish trust."

Imagining a Very Different Future

Our report describes what we consider the likeliest developments for wealth management between now and 2040. In our interviews and workshops, however, business leaders came up with several other far-reaching and creative ideas.

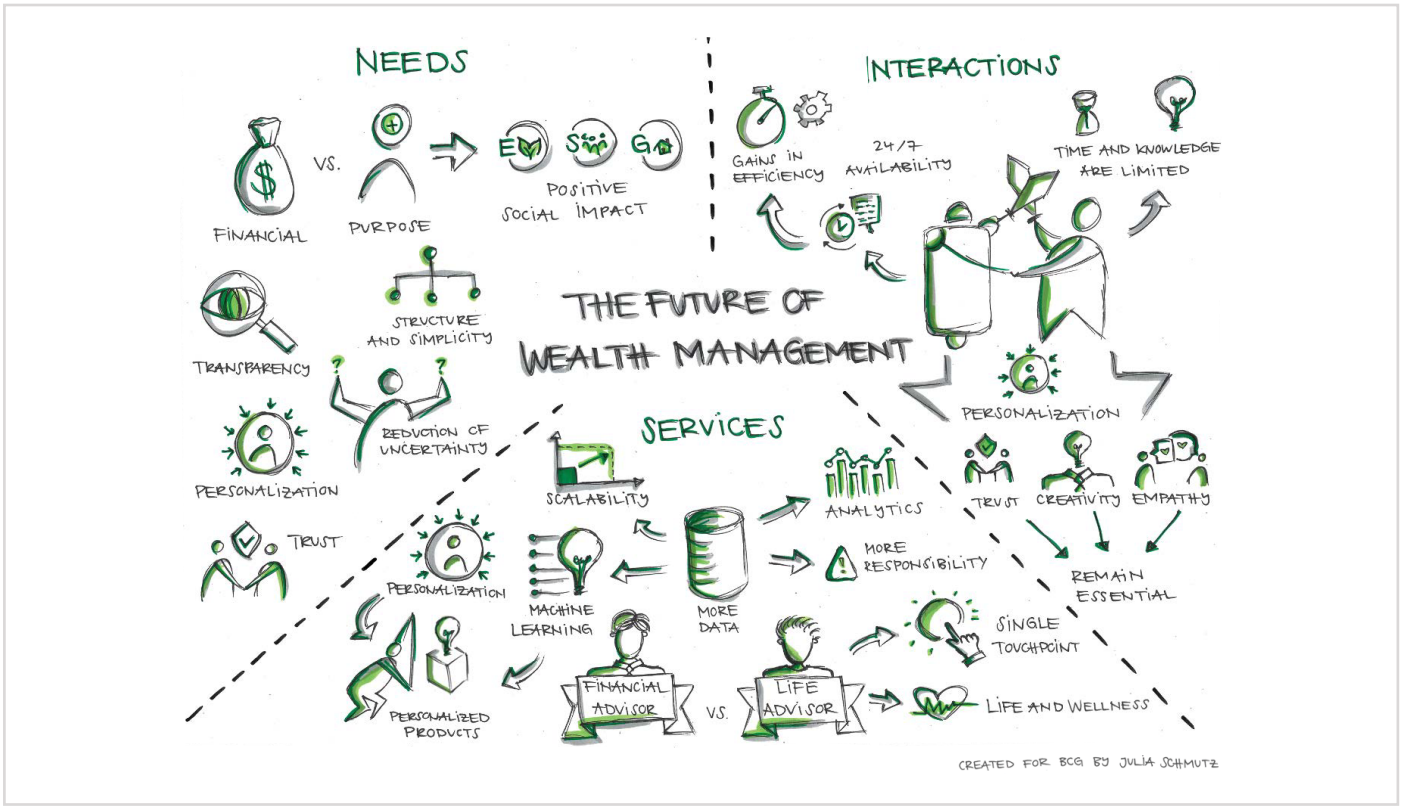
Although some may never be realized, many of these ideas have significant potential and could help inform the industry's strategic thinking. (See the exhibit.)

Some Ideas That Go Beyond the Base Case



Source: Insights drawn from BCG ideation sessions and expert interviews.

Exhibit 6 - The Future of Wealth Management



Source: Insights drawn from BCG ideation sessions and expert interviews.

From Fixed Products to Bespoke Solutions

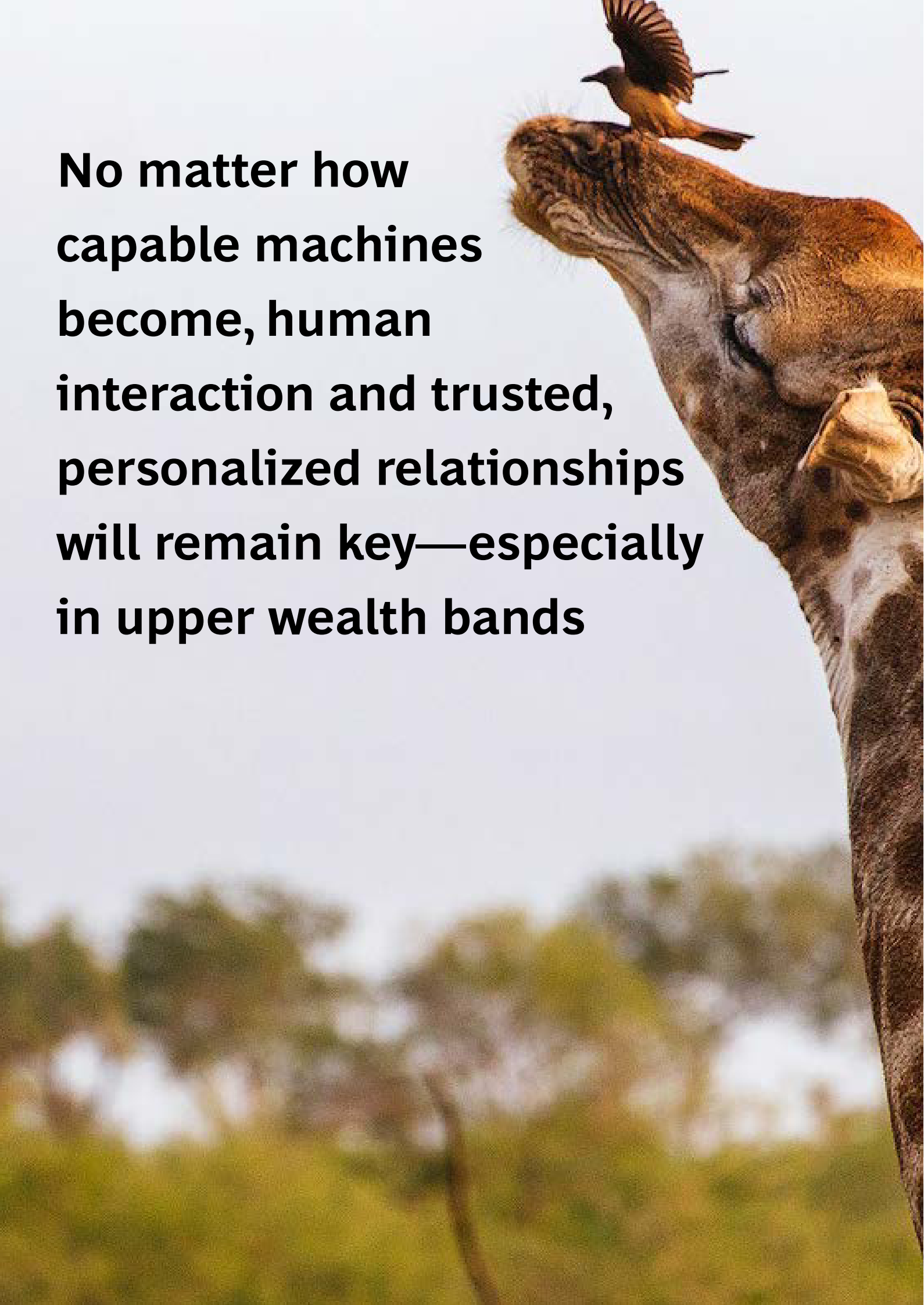
Over the next two decades, the most advanced wealth management providers will be able to think five hops out and see what types of solutions and support clients may need even before those needs present themselves. Next-generation machine-learning analytics will help providers make incisive connections that reveal potential client opportunities. Visualization tools built into the models will enable advisors to walk their clients through different financial and investment choices, giving them a more visceral feel for how different scenarios might play out. RMs can then apply filters to search for assets that fit the client's investment focus, and share a curated list with the client. Instead of providing a panoply of offerings, the wealth management provider will give clients a vetted, best-fit set of options from the start.

In the past, offering this level of customization would have been cost prohibitive. But advances in technology will allow wealth management providers to create highly tailored portfolios at a fraction of the current time and cost. With digitized product component libraries, for example, an RM can create a clean energy product, denominated in euros and with a 25% concentration in African markets, all within moments of pressing a button. The historical distinction between advisory and discretionary products will fade, as innovative mandates combine elements from both.

In addition to lowering the marginal costs of bespoke investments, digitization will permit wealth management providers to create smart metrics. Clients will be able to understand how companies' strategic decisions and financial performance underpinned their returns, or how their investments reduced greenhouse gases, improved educational outcomes for at-risk students, or drove better health outcomes. Greater transparency and measurable insights will give wealth clients more ownership of where and how they invest and a clearer line of sight into the value created.

From Dry and Staid to Purposeful and Fun

Many clients want their investments to have a bolder, purpose-driven narrative that creates engagement along with real-world outcomes. To serve them, wealth management providers will need to deliver both performance and emotional resonance. For example, clients might be



No matter how capable machines become, human interaction and trusted, personalized relationships will remain key—especially in upper wealth bands

interested in helping an individual fund a small business that is doing important, pioneering work, or adopting the role of a disruptor by acquiring a meaningful stake in driving the next life-changing advance or the next market-making innovation.

Although passive and smart beta investing will continue to grow, wealthy individuals will not view success as being exclusively about earning yield at arm's length. It will also be about actively shaping the future to enhance their own wealth and spur innovation in meaningful ways.

Plain-vanilla experiences won't suffice. Instead, wealth management providers must respond to their clients' expanded palate with a menu of thoughtful and innovative offerings. Private market investments will become an increasingly important area for meeting these needs. So, too, will novel or exclusive asset classes—such as access to the digital asset market.

Building communities is another way to establish strong emotional connections. Leading wealth management providers are already exploring ways to apply technology to forge peer-to-peer networking to share recommendations and create marketplaces for investors to buy and sell assets to one another. Regulatory considerations and risk notwithstanding, wealth management providers are likely to create many more such hubs and marketplaces in the years to come.

From Volume Based and Product Led to Relationship Driven

As digitization accelerates, the industry's economics will change. Revenue margins will continue to face enormous pressure. One source of that pressure will be fintechs and tech platform players that beat wealth management providers' prices in core areas such as transactions and custody services, and offer tailored advice and portfolio management at much lower rates. It will also come from asset managers that use data and analytics to move beyond the UHNW segment and target more clients directly, thus depriving wealth managers of distribution fees.

In addition, younger generations, accustomed to pricing transparency in other parts of their professional and personal lives, will insist on greater fee transparency from their wealth advisors. Online comparison tools will make it easy for them to search for the most competitive offerings.

Together, these pressures could cut margins on investment services by half, with the result that wealth management providers will have to meet clients' burgeoning demands and find new ways to drive value with just a fraction of today's resources. That's a tall order.

In response, wealth management providers will shift focus. Instead of emphasizing product, they will seek to own the client relationship and source investment management components that can help clients achieve their broader wealth goals. Rather than linking pricing to volume, many will shift to dynamic, value-based pricing with a customizable mix of asset-based fees, performance-based pricing, and fixed-fee models that are not necessarily linked to assets under management. Clients will be able to understand pricing arrangements with greater granularity. As the country CEO of one asset manager noted, "Wealth managers should consider moving away from asset-based fees. Why should clients pay ten times more for the same service just because they have ten times more assets? The time spent managing those assets will not grow commensurately. We observe such effort-based pricing structures in multifamily offices."

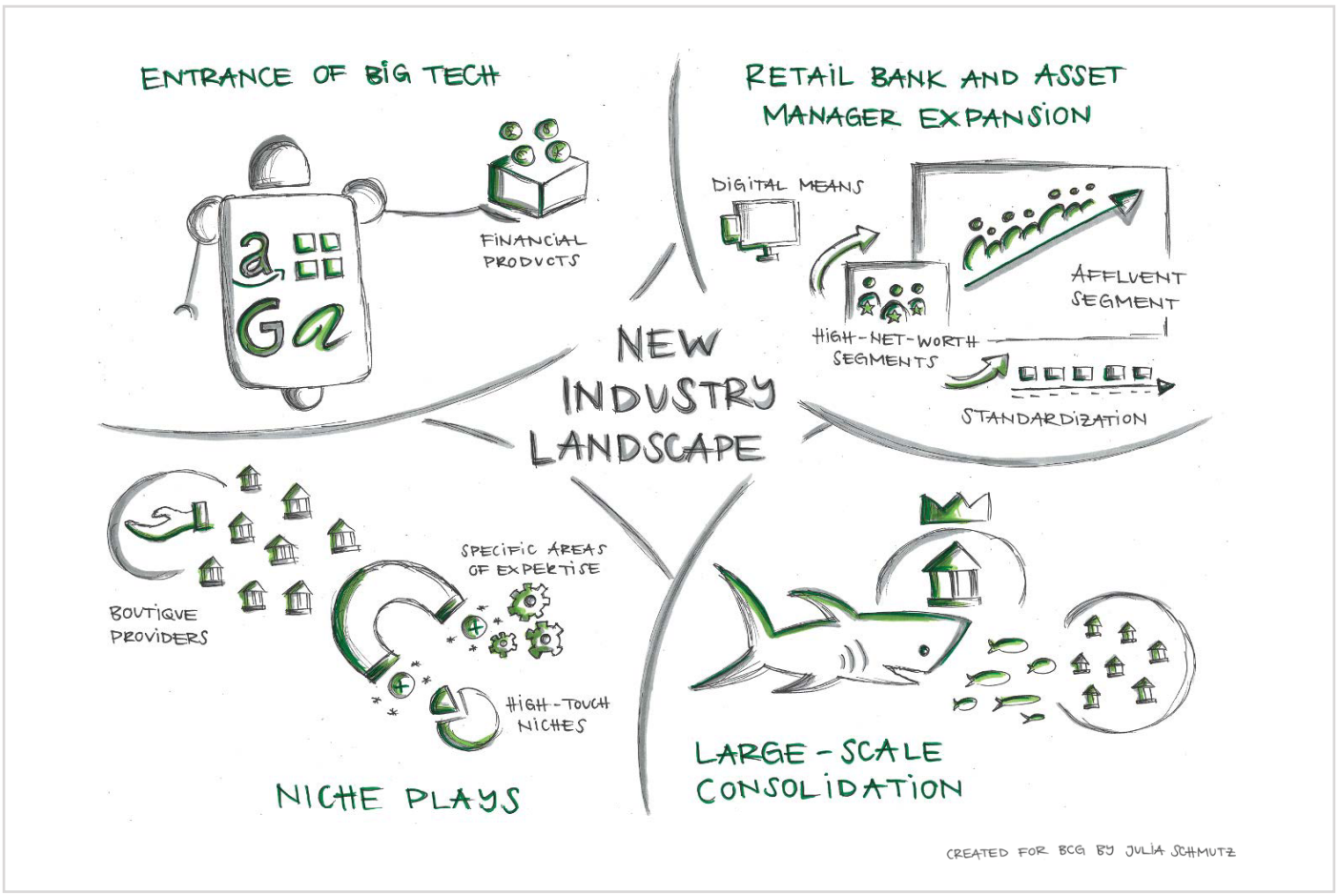
The Provider Landscape Will Remake Itself

As the wealth landscape changes, we're likely to see the provider landscape change in kind. The need for scale, specialization, and choice could push the industry to converge around the following four models (see Exhibit 7):

- **Large-Scale Consolidation.** The biggest wealth management providers may see their market share double over the next 20 years. Their scale advantage and balance sheet strength will allow them to service the whole value chain, cementing their role as a single gateway to meet even the most complex client needs. The head of private banking at one global institution said, "We'll see a separation between larger organizations that can deliver multijurisdictional, multicapability, multi-time-zone service, and niche players that can charge a premium for specialized expertise. The middle will get squeezed out."

- **Niche Plays.** Although there will be fewer boutique firms overall, a cadre of focused specialists will remain. These firms will serve clients whose needs are highly complex, such as upper HNW and UHNW subsegments that require unique types of support, ranging from providing aircraft and yacht management to setting up legacy trusts and educating family members on how to minimize intergenerational conflicts. Other surviving boutiques will offer sophisticated investment angles, such as exclusive access to unique deal flow, closed private market opportunities, or impact investing. These providers will embrace digitization, but their models will lean more heavily on intensive human interaction, superior relationship management skills, and specialized advice.

Exhibit 7 - Future Industry Landscape



Source: Insights drawn from BCG ideation sessions and expert interviews.

- **Retail Bank and Asset Manager Expansion.** With the large and growing affluent and HNW segments in mind, retail banks and asset managers will use technology and hybrid models to aggressively undercut traditional wealth management providers and offer simple but appealing investment solutions across their existing client base. These offerings will be especially attractive to clients in markets with few established wealth management providers. Asset managers will leverage their superior investment capabilities to win new clients through direct channels.

- **Entrance of Big Tech.** Large technology companies such as Amazon, Google, and Microsoft already build the infrastructure backbone and cloud environments for many wealth-tech players. Some, including Alibaba and Amazon, also offer a range of financial products. In time, their financial muscle and scale could allow them to move up the stack and provide wealth management services to affluent individuals and those in the lower HNW segment. These shifts are already happening in China, which has few incumbent wealth management players. We expect similar moves in the US, given the size of the market, the ubiquity of digital channels, and the more active investment clientele. In these markets, big tech players could make significant inroads over the next two decades and pose a serious threat to unsuccessful wealth management providers. In Europe, fragmented markets and the variety of languages, cultures, and regulations could slow big tech's moves into wealth management, but they are unlikely to stop it. As big tech players overcome learning-curve issues, they could become not just regional powerhouses, but global ones.

For younger generations, wealth won't just be about money—it will also be about meaning, purpose, connection, and making a positive difference in the world



Models Will Vary, But All Will Involve Ecosystems

Ecosystem models will be the norm in the future. Large and small providers will coexist, each serving as a single gateway for its clients, providing access to the broader platform and curating offerings to clients' specific needs.

Ecosystem models will allow wealth management providers to offer a more diverse set of services without having to build the required capabilities organically, thus satisfying clients' desire for an integrated experience without incurring the risk and expense of serving the full value chain on their own. Winning in an ecosystem, however, requires establishing trust.

With their longstanding client relationships, access to clients, and strong brands, established players are well situated to earn that trust. As they develop more robust data and analytics capabilities and more comprehensive client knowledge, they can act as valued stewards, guiding clients through an ecosystem of offerings tailored to meet their specific needs. By handling the complex requirements that can accompany financial and life decisions, wealth managers will allow clients to focus on living their lives and leave the more tedious aspects of planning to their advisors. The head of strategy and business development at a global wealth manager pointed out, "Wealth managers would handle the organizational complexities, giving clients a more frictionless and value-added experience. The key word for wealth managers in the future will be ***integration***." Similarly, the head of strategy for the onshore division of a global bank said, "There will be a shift in the role of human wealth managers. Relationship management will be increasingly important, with wealth managers becoming more like financial life advisors."

Ecosystem models will also make it easier for external providers, such as fintechs and insurers, to collaborate with wealth management providers. Rather than defending against niche providers, ecosystem players will simply integrate these businesses and offerings into the platform.



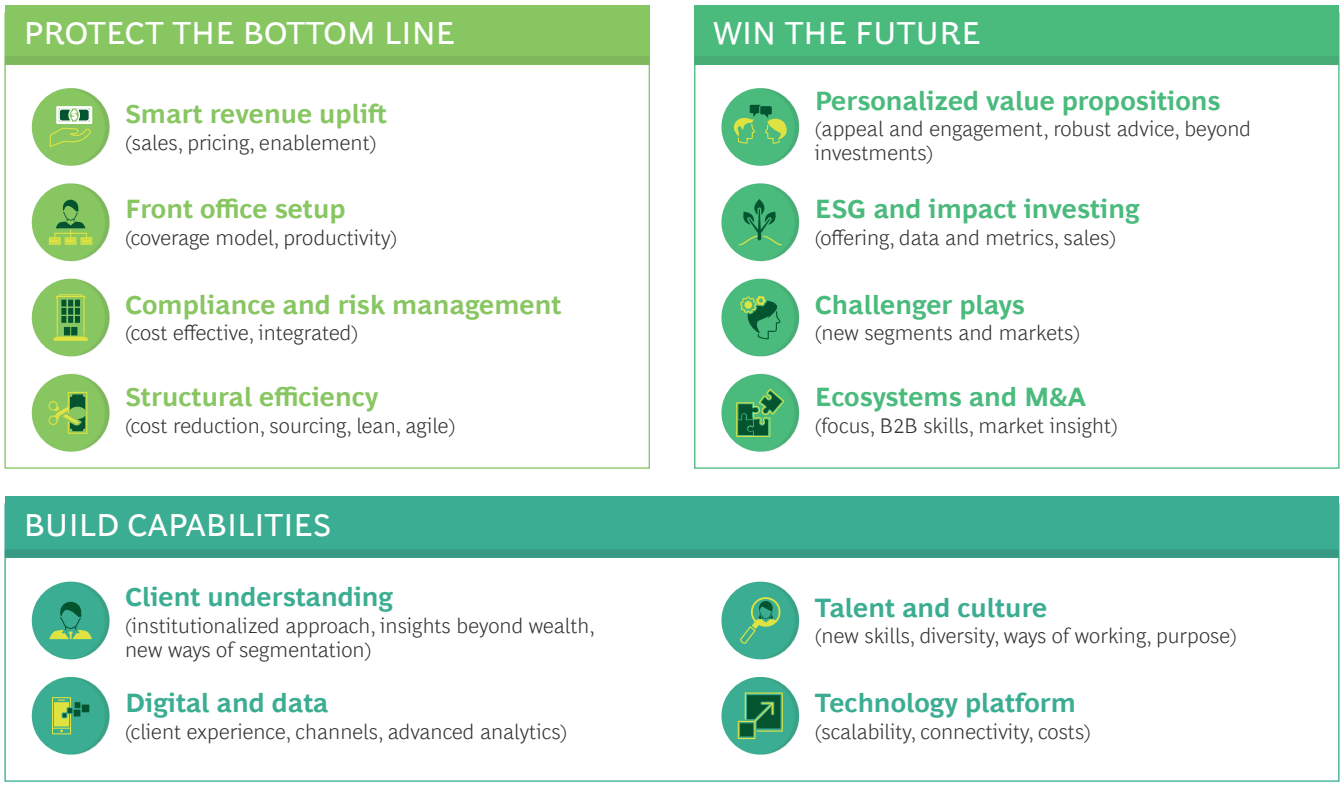
The Wealth Management CEO Agenda

Wealth management providers must treat 2020 as a turning point. A series of incremental improvements spread out over time will not deliver the performance lift needed in terms of client satisfaction, competitive differentiation, growth, and cost savings.

To help leaders navigate the complex choices available to them, BCG has developed an agenda for CEOs. We divide our recommendations into near-term actions that will allow organizations to address the immediate demands of the COVID-19 period and fund the journey that lies ahead, medium-term actions that will enable them to create sustained advantage in the future, and foundational capability building that will be critical to their success. (See Exhibit 8.)

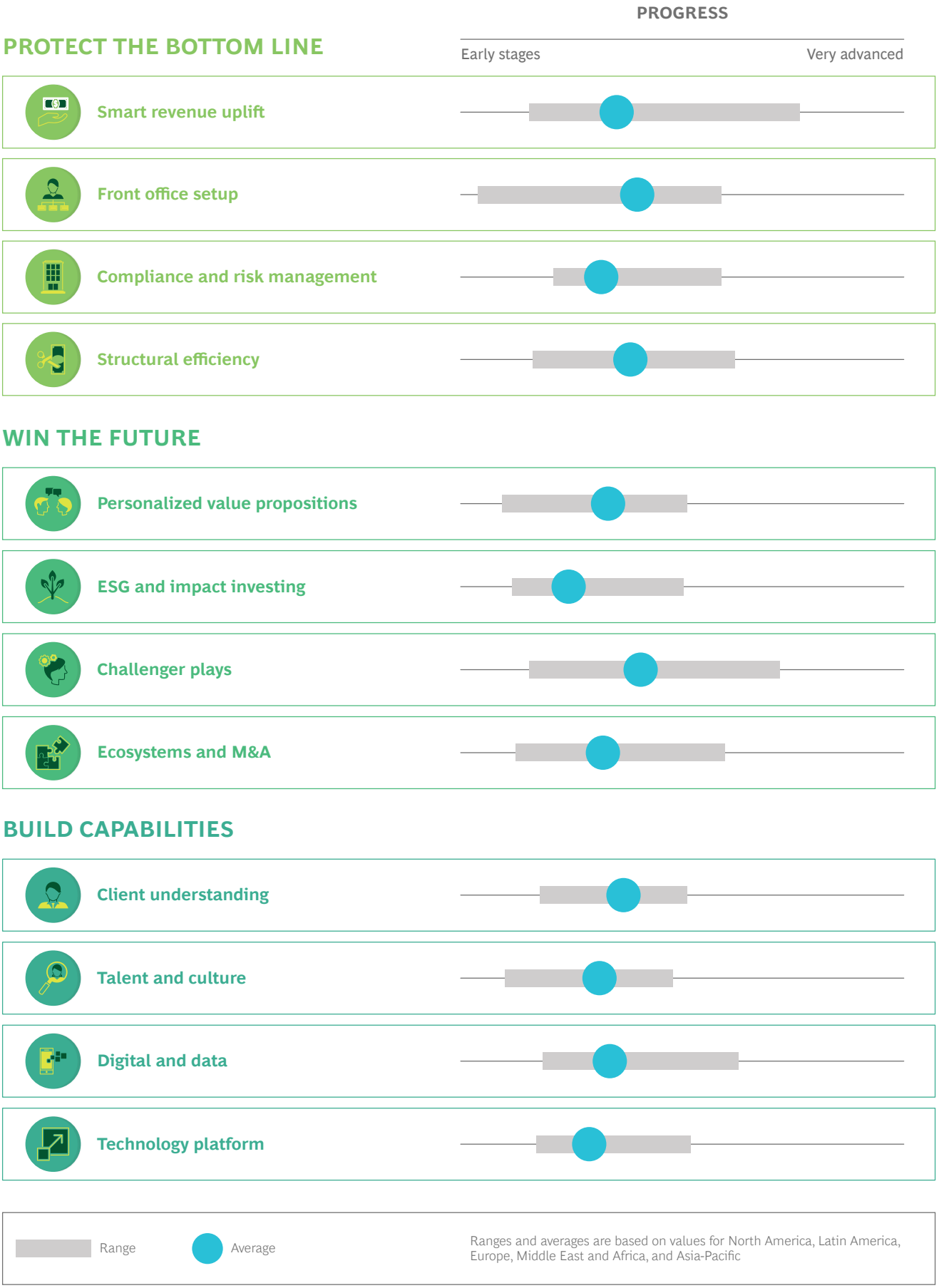
Several of these priorities have been around for some time. But while some wealth management providers have made slow advances, nearly all still have significant work to do. (See Exhibit 9.) In many firms, for example, sales practices remain arbitrary. Talent management continues to be rooted in old-fashioned practices, and digital and data programs are still generally viewed as "bells and whistles" rather than as a fundamental source of client value. With disruption accelerating on many fronts, it's time for wealth management providers to commit to needed changes and act boldly.

Exhibit 8 - Wealth Management CEO Agenda



Source: BCG Global Wealth 2020

Exhibit 9 - Assessment of Progress on CEO Agenda



Source: BCG Global Wealth 2020

Protect the Bottom Line

To protect their organization's bottom line and to generate the funds needed to complete its transformation, leaders should take decisive action in the following areas:

- **Smart Revenue Uplift.** The vast majority of wealth management providers leave money on the table by approaching sales and pricing unsystematically. These firms must take action to stop top-line margin deterioration. They need to introduce new ways of working to improve prospecting, onboarding, cross-selling and retention. Intuitive digital tools are essential to achieve consistently strong performance, as are systematic use of data and alignment with the wealth management provider's value proposition and culture. In particular, firms should focus on pricing, setting client-specific target prices that consider the entire relationship and the client's price sensitivity. Leaders must treat pricing as a capability rather than as a one-time positioning exercise. Success also depends on deep analytical supports and a robust approach to managing change. New sales and pricing practices work best when created together with sales people and when embedded in a comprehensive framework of coaching, reporting, incentives, and leadership role modeling. The potential is significant: our experience shows that such action can increase revenues on existing books by 10% to 15% over a two-year period.

- **Front-Office Setup.** Although wealth management providers have made changes over the past decade to improve efficiency, many RM workloads continue to be poorly aligned with client needs, value, and service intensity. Deployment of specialists remains somewhat arbitrary, and staffing arrangements have unneeded slack. To improve productivity, wealth management providers must optimize client books per RM, following a thorough analysis of client service preferences, revenue opportunities, complexity, and cost to serve. Specialists should be an integral part of sales planning and should be empowered to focus on the most valuable opportunities. Firms must review advisory propositions to determine the level of service required, and they must mandate the use of productivity tools. In an increasingly bionic world, the role and skill set of RMs will change. Wealth management providers that take these steps can cover existing clients with fewer resources and free up capacity for growth.

- **Compliance and Risk Management.** Over the past decade, wealth management providers have faced an unprecedented surge in regulatory requirements and scrutiny. But rather than design an integrated operating model to address these issues, most fell back on ad hoc responses that generated isolated processes, teams, and tools. The result has been a massive spike in costs and a huge administrative burden that has slowed response times, contributed to mounting client frustration, and heightened the risk of error. Remedying these problems starts with mapping out core processes and identifying where tasks can be streamlined, standardized, and eventually automated. Firms should perform this exercise in a transverse manner, involving not only the compliance and risk functions, but also the sales teams, the back office, the product units, and other support functions. Firms should then redesign core processes to take advantage of workflow tools, rules engines, scoring models, predictive analysis, and other leading technologies. Wealth management providers that make these changes can achieve significant cost savings and improve customer satisfaction, organizational resilience, and growth.

- **Structural Efficiency.** The efficiency drives and one-off cost reductions implemented in the wake of the 2008 financial crisis have largely evaporated. In 2019, the industry's average CIR of 73% was 13 percentage points higher in total than it was before the financial crisis, despite 11 years of an almost uninterrupted bull market. To improve structural efficiency and withstand a more severe downturn, wealth management providers must make serious changes across their organization, including embedding agile working practices beyond IT (as some retail banks have started doing), optimizing processes end to end with the aid of lean management and continuous improvement principles, and streamlining management layers and matrix structures. Wealth management providers should also reassess their sourcing strategy, not only with respect to their middle and back offices, but also in investment management. And leaders should review their investment budgets to determine whether they are striking the right balance between hiring RMs and building digital capabilities.

Several of the CEO agenda's priorities have been around for some time—but while some wealth management providers have made slow advances, nearly all still have significant work to do



Win the Future

In addition to securing profits, wealth management providers must prepare for the changes that the next two decades will bring. Given the sweeping nature of those changes, leaders should commit to improving the following areas in order to secure their footing in an increasingly crowded field and deliver differentiating client value:

- **Personalized Value Propositions.** COVID-19 may offer wealth management providers a useful stress test. Did advisory meet client needs? Were clients prepared for what happened to their portfolio, or could advisors have been more proactive? The ability to answer yes to such questions, even during periods of volatility, will be critical in the years ahead. Personalization will be key to success. Winners will be able to reach each client at the right time with the right offer or advice. They will know how frequently a client wishes to be informed, what length and format to use for specific interactions, and what emotional tone or style is most suitable. They will derive these insights from a keen understanding of the client's personality and preferences. Using them, they can deliver curated investment themes, peer-to-peer networks, interactive simulations, and exclusive offerings that foster fun and engagement. Personalizing consistently and at scale in these ways will require a 360-degree understanding of the client, superior data analytics, and the ability to move easily between personal and digital channels.

- **ESG and Impact Investing.** Wealth management providers should not let near-term challenges such as the lack of scoring models or data prevent them from developing a thoughtful ESG portfolio. They need to offer investments that generate measurable social or environmental benefits alongside strong financial returns, backed by solid compliance measures. Firms should encourage RMs to discuss values and sustainable development goals in detail with their clients, and should give them the right training and incentives to do so. Those conversations should also look outward. For instance, RMs could ask wealth clients how their individual or family values might play into long-term generational planning. Committing to ESG also requires an internal reckoning. To excel in ESG standards, wealth management providers need to reflect those standards in their internal agenda and practice what they preach.

- **Challenger Plays.** Digital technologies and ecosystems offer wealth management providers the opportunity to access new revenue pools at lower cost. To tap into this value—and train their muscles for the heightened digital competition to come—firms should begin designing challenger plays. Opportunities might include setting up a global family office platform or making UHNW-style offerings accessible in digital form to other segments. Creating a play for the affluent segment could be particularly promising, given that segment's size, potential for growth, and history of being underserved. Affluent individuals are likely to be open to digitally led or digital-only solutions, as long as the firm provides appropriate personalization. And because the needs of affluent individuals are generally less complex than those of the UHNW segment, wealth management providers can scale service and outreach faster. By refining proof of concept with the affluent segment, wealth management providers can use the skills and solutions they develop to extend relevant digital offerings to the HNW segment.

- **Ecosystems and M&A.** To thrive in an ecosystem world, wealth management providers must refine their business-to-business (B2B) partnering capabilities and be able to work on intercompany solutions and navigate diverse cultures. These capabilities cannot be built overnight. Wealth management providers need to start cultivating them now in order to reduce risk and capture the most attractive opportunities. M&A will play an important role in enabling ecosystem partnerships and adding scale. Over the next few years, new opportunities for consolidation will arise, and acquisition prices might come down. Because many deals in wealth management depend on building trust with current owners over time, however, success requires a proactive and sustained strategy—one that seeks to grow certain assets and exit others at the most opportune times.

Build Capabilities

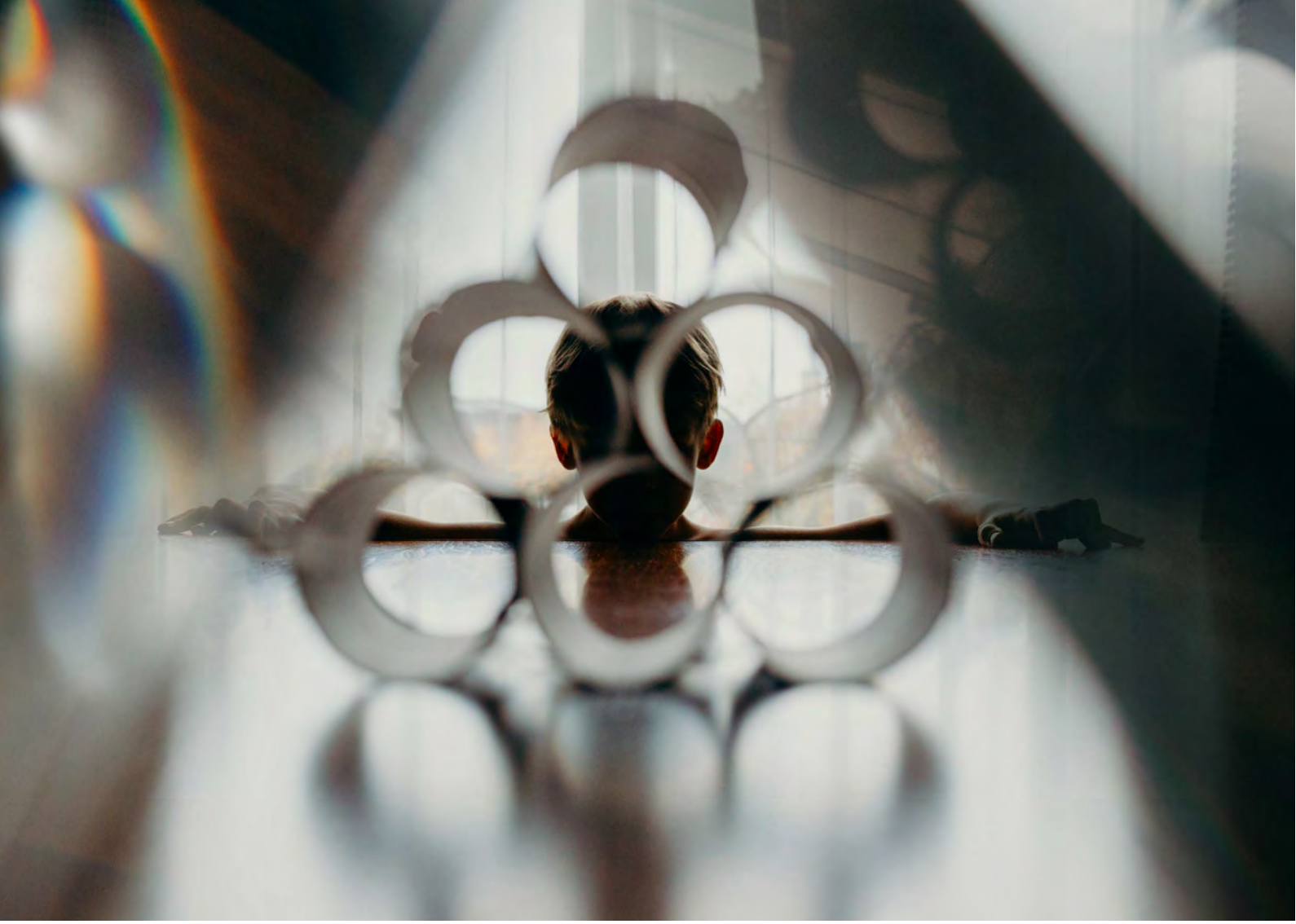
To execute the preceding agenda, wealth management providers must reinforce a number of foundational capabilities. Of these, we believe the following will be the most critical to long-term success:

- **Client Understanding.** Despite operating in an industry that focuses on addressing fundamental client needs, many wealth management providers lack institutionalized understanding of their clients. Individual RMs may have a comprehensive picture of their larger customers, but much of this information is unavailable to others in the firm, and knowledge of smaller clients is often scant. To address those gaps, wealth management providers need to adopt a direct and systematic approach to gathering and analyzing client feedback. This includes running frequent, comprehensive client surveys and engaging with clients—through focus groups or ethnographic research, for example—when designing or refining value propositions. It also includes developing mechanisms to capture information across the client life cycle, be it from product use, transaction data, risk profiles, meeting reports, or notes about personal circumstances. This information must be accessible in a format suitable for decision support. If the risks are manageable, firms should augment such information with data from publicly available sources, including social media. Wealth management providers need to employ advanced analytics to look for links and patterns, and to provide clients with incentives to disclose such information—for instance, as part of onboarding or through offers to engage with the firm or peers around specific topics.

- **Talent and Culture.** Many wealth managers continue to focus their talent strategies on traditional sales and product skills. To succeed in a more digital, client-focused business, however, they must attract a broader array of profiles, including advisors and analysts with expertise in digital offerings, data science, and behavioral economics. Tweaking existing human resource models will not be enough. Firms will need to reconceive their working practices to provide greater flexibility, and they will need to redesign collaboration tools to meet the needs of a hybrid workforce. They must also realign compensation and incentives to encourage desired behaviors and outcomes. Gen X, Y, and Z workers will be looking for a purpose beyond their bonus, and they will want to work for employers whose culture and practices align with their own values. Given the extent of these changes, wealth management providers should begin acting now to identify the talent pools that will support their strategic plays and the sourcing approach that will help secure in-demand resources.

- **Digital and Data.** Although many wealth management providers have invested in digital technologies and advanced analytics, few have seen desired returns. Too often, initiatives are technology led, focusing on creating monolithic solutions and neglecting the need to drive change systematically. In addition, many initiatives continue to be positioned as experimental and optional. To be competitive in the years ahead, wealth management providers must fully integrate digital technologies and data into their business and operating models. Doing so means acquiring digital fluency across functions, investing in dedicated teams that have deep expertise, and letting business and client needs dictate the tools and practices they pursue. Digital mastery will necessitate approaching solutions with an agile mindset to allow for iteration and refinement, along with a clear roadmap to anchor the overall infrastructure. A strong focus on internal adoption and clear and consistent communication from senior leadership must support these measures at every step.

- **Technology Platform.** Wealth management providers must assess how client needs, business, and operating models will evolve in the future, and they must determine where to play and how to position themselves in light of those shifts. Providers can then derive the key technology requirements and platform capabilities needed to deliver on that strategy. Design teams need to define a target platform setup and architecture, develop an implementation roadmap, and confirm that all elements align with the provider's strategic and business requirements. Any technology investment involves tradeoffs. As part of their planning, leaders should consider different make-versus-buy options, as well as different provider model and hosting mixes, assessing them on the basis of their feasibility, complexity, cost, and efficiency.



About Our Methodology

In preparing this report, we used a traditional segment nomenclature familiar to most wealth management institutions. The segments include retail, affluent, lower high net worth (HNW), upper high net worth, and ultra high net worth (UHNW). Although wealth bands can vary from player to player, we based segments on the following measures of personal wealth:

- Retail: less than $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: more than $100 million

To assess the evolution of global personal wealth accurately, we continually refine our market-sizing methodology, incorporating newly available data on countries, segments, and asset classes. For purposes of this report, global personal financial wealth represents that of the total resident population, collected from central banks or equivalent institutions, on the basis of the global System of National Accounts. For countries that do not publish consolidated statistics on financial assets, we generated bottom-up analyses using country-specific proxies, in line with the System of National Accounts, with data sourced from the central bank or equivalent institution.

We derived distribution of wealth statistics on the basis of resident adult populations, by market, using econometric analysis to combine various sources of publicly available wealth distribution data. Past and projected growth rates of wealth segments account for shifts of individuals in and out of segments over time.

To forecast personal financial wealth at the individual level, we used a fixed-panel, multiple-regression analysis of past wealth-driving indicators and applied forecasted indicator values to those patterns. We calculated cross-border wealth, which we include as part of total wealth, from data published by financial centers and by the Bank of International Settlements, as well as from data generated by BCG project experience.

Our three post-COVID-19 growth scenarios considered multiple variables and made the following assumptions:

- **Quick Rebound Scenario.** GDP falls in 2020 but recovers rapidly in 2021, with GDP growth returning to pre-crisis levels beginning in 2022. Capital markets also fall in 2020 but recover to near-pre-crisis levels in 2021, with returns during the period from 2022 to 2024 comparable to historic growth patterns. Inflation remains at the pre-crisis level.
- **Slow Recovery Scenario.** GDP decreases sharply in 2020, followed by a slow recovery in 2021. In 2022, GDP returns to pre-crisis levels, with stable growth in the years following. Capital markets see a significant drop in 2020 and little to no rebound in 2021. Capital market returns then stabilize during the period from 2022 to 2024 and grow at a rate comparable to historic returns. Inflation is lower than under the quick rebound scenario.
- **Lasting Damage Scenario.** GDP decreases sharply in 2020 and remains flat throughout 2021. The earliest recovery for GDP is in 2022, with more stable growth following in 2023 and 2024. Capital markets suffer a huge drop in 2020 followed by another, smaller drop in 2021, with a slower rate of recovery in the years following. Inflation rates are lower than in either of the other scenarios.

BCG's revenue pools methodology calculates market-specific results for the largest 18 markets (covering 80% of total global wealth). Results for the remaining markets are based on regional averages. All growth rates are nominal, with fixed exchange rates. We used this approach to estimate banking market sizes and potential total banking revenue.

For Further Reading

Global Asset Management 2020: Protect, Adapt, and Innovate
A report by Boston Consulting Group, May 2020

How Should Financial Institutions Navigate the COVID-19 Crisis? Part 3: Data Science as a GPS
An article by Boston Consulting Group, May 2020

Get Ready for the Future of Money
An article by Boston Consulting Group, May 2020

Unlock Value in Banking with E2E Process Transformation
An article by Boston Consulting Group, May 2020

Global Risk 2020: It's Time for Banks to Self-Disrupt
A report by Boston Consulting Group, April 2020

Managing the Next Decade of Women's Wealth
A Focus by Boston Consulting Group, April 2020

How Should Financial Institutions Navigate the COVID-19 Crisis? Part 2: A Three-Stage Battle
An article by Boston Consulting Group, April 2020

How Should Financial Institutions Navigate the COVID-19 Crisis?
An article by Boston Consulting Group, March 2020

Reinventing Corporate and Investment Banks
A Focus by Boston Consulting Group, March 2020

For Wealth Managers, COVID-19 is a Wake-up Call
A white paper by Boston Consulting Group, March 2020

For Banks, a Long Way to Excellence in Digital Sales
An article by Boston Consulting Group, February 2020

Alfa-Bank's Michael Tuch on Transforming Customer Journeys
A video interview by Boston Consulting Group, February 2020

Outperform—Beat the Average: Key Levers for Top Performers in Wealth Management
A white paper by Boston Consulting Group, January 2020

RBC's Dave McKay on a Future-Focused Culture
A video interview by Boston Consulting Group, December 2019

How Global Asset Managers Can Step In as China Opens Up
A Focus by Boston Consulting Group, December 2019

Decoding the Human: Truly Understanding Clients in Wealth Management
A white paper by Boston Consulting Group, November 2019

The New Reality for Wholesale Banks
A Focus by Boston Consulting Group, November 2019

Global Retail Banking 2019: The Race for Relevance and Scale
A report by Boston Consulting Group, October 2019

Retail Banking Distribution 2025: Up Close and Personal
A Focus by Boston Consulting Group, September 2019

Global Payments 2019: Tapping into Pockets of Growth
A report by Boston Consulting Group, September 2019

Solving the Pricing Puzzle in Wealth Management
A Focus by Boston Consulting Group, September 2019

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