Capgemini
RESEARCH INSTITUTE

WORLD WEALTH REPORT 2021



25 EDITION

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Preface

The *World Wealth Report* is turning 25. Since 1997, we have offered insight into high-net-worth-individual (HNWI) segments and wealth management trends through Capgemini's proprietary market-sizing model and extensive primary research. Now, we recap a quarter-century of rich insights through a retrospective lens examining wealth sector influencers – macroenvironmental changes, ecosystem expansion, shifting client profiles and expectations, new business and operating models, and the increasing roles of technology and data.

Our 2020 report briefly touched on the impact of COVID-19 with the hope that the topic would soon be relegated to history. But, instead, the world continues to navigate a distressing crisis and its humanitarian, social, and economic effects. COVID-19 is the third 21st–century global crisis. Our 25-year recap summarizes lessons learned from the 2002 tech-bubble collapse and the 2008 global financial crisis – and suggests current-day applications for wealth management firms. Our latest market data concluded that despite the black-swan volatility of the past 18 months, unprecedented stock market gains in 2020 led to a more than 6% spike in global HNWI population as HNWI wealth rose 7.6%. What's more, North America recaptured the top spot in total HNWI population and wealth after five years of APAC domination.

Looking forward, wealth management firms must push traditional boundaries and explore new capabilities and mindset frontiers to capture and retain customer mindshare. Certainly, expertise and experience will remain significant industry pillars, but firms must increasingly leverage data analytics to personalize client engagement and fine-tune investment strategies.

The pandemic and its life-altering consequences raised interest in Environmental, Social, and Corporate Governance (ESG) topics for high-net-worth individuals, institutional investors, and financial advisors. For many investors – such as youthful new-wealth HNWIs and various others – conviction about social justice and a low-carbon economy is as strong as concern about the fall-off in equity markets or the possibility of higher capital gains rates. Among numerous global initiatives, the European Green Deal and the pivotal United Nations Climate Change Conference (COP26) keep sustainability top of mind prompting HNWIs to consider sustainable investment a key portfolio component.

The world is changing at warp speed. Technological advancements, fluctuating social dynamics, and new ecosystem players are democratizing the investment landscape and creating new service gaps. It is critical for wealth management firms to understand the implications of increasingly popular special-purpose acquisition companies (SPACs), fractional trading, and novel digital assets such as non-fungible tokens (NFTs).

While wealth management will remain an exclusive, highly personalized service, tomorrow's most successful firms will expand to serve emerging segments and client needs and offer clients a clear view of how their money supports society. They will invest in their talent pool to match client profiles and prioritize digital tools, educational resources for staff and clients, new asset classes, and investment avenues that personally engage clients and effectively capture market opportunity.

Our World Wealth Report anniversary edition reflects history and megatrends as the future quickly takes shape. New, tech-driven wealth is following non-typical investment paths. Millennial entrepreneurs are re-investing payoffs into the real economy through startups or investment funds with other future-focused HNWIs. Capgemini will continue to track new wealth drivers, technology's enabling role, and the growing criticality of sustainable investing as the post-COVID-19 financial world bounces back.

Thank you for being a part of this incredible 25-year journey, and let's now set our sights on the next quarter-century – together.



Anirban Bose

Financial Services Strategic Business Unit CEO &
Group Executive Board Member, ***Capgemini***

Executive Steering Committee



Wealth management firms – Large, global financial institutions providing universal wealth management services
WealthTechs – StartUps or ScaleUps specializing in digital wealth management solutions
Technology Partners – Large, global organizations providing multiple technology solutions for the wealth management industry
Business Enablers – Industry thought leaders

Executive summary



Rising equity markets and government stimulus boosted North America to surpass Asia-Pacific and become the 2020 leader in both HNWI population and wealth

- Unprecedented stock market gains amid a volatile global economy drove a 6.3% global high-net-worth-individual (HNWI) population increase and a 7.6% jump in global HNWI wealth in 2020.
- After five years of Asian leadership, North America again overtook Asia-Pacific to lead the total HNWI population and wealth, with 10.7% and 11.9% growth in 2020.
- The ultra-HNWI segment leveraged a robust equity market to lead overall HNWI population and wealth growth at 9.6% and 9.1%, respectively.
- Financial markets continued to decouple from the real economy sparked by tech stocks' domination of indices and a liquidity boost from enthusiastic retail investor participation.

25 years in review | Future market opportunities hinge on wealth management firms' hybrid advice capabilities



- Over the years, HNWIs have become more involved in their investments and now make complex demands of their wealth managers to grow their "new," largely tech-driven, wealth.
- As the wealth management industry consolidates and welcomes new tech players, the business model has moved towards offering technology-enabled advice and hyper-personalization.
- Previous global economic upheavals – the 2002 tech bubble collapse and the 2008 global financial crisis – illustrate HNWIs' tendency to self-direct investments during a bull market but return to an advice-seeking approach post crisis.
- Building omnichannel capabilities across the self-service and human advisory spectrum will prepare WM firms for the two possible future scenarios: the end of the current bull market or its continuation.



Success within a shifting industry will be contingent upon the willingness to push traditional wealth management frontiers and embrace new-age competencies

- Seismic shifts – technological breakthroughs, changing social dynamics, new ecosystem players, democratization of investment management, and the rise of digital channels and assets – necessitate a competitive new game plan for WM firms.
- While strengthening and leveraging the value of their traditional identity, inventive wealth management firms will embrace new competencies around data and technology.
  - They will prioritize WOW-factor customer experience and upskill and recruit talent as industry paradigms transform.
  - Tomorrow's most successful firms will engage strategically with ecosystem partners and assign fluid product and channel definitions.
- Similarly, WM firms will challenge limiting legacy behaviors and recognize new cultural frontiers:
  - While the WM industry will continue to be expertise- and experience-driven, firms will also be increasingly data-driven in their client engagement and investment strategies.
  - WM remains an exclusive, highly personalized service – but firms will also become broad ranged to cater to the unique needs of emerging segments.
  - Investment performance continues to be critical but firms will also increasingly focus on delivering value and sustainability.
- Commitment to human-centered design, data and insights-driven culture, and sustainable investing expertise will be critical building blocks for the inventive wealth management firm.

Rising equity markets drive North America to surpass Asia-Pacific as HNWI market leader

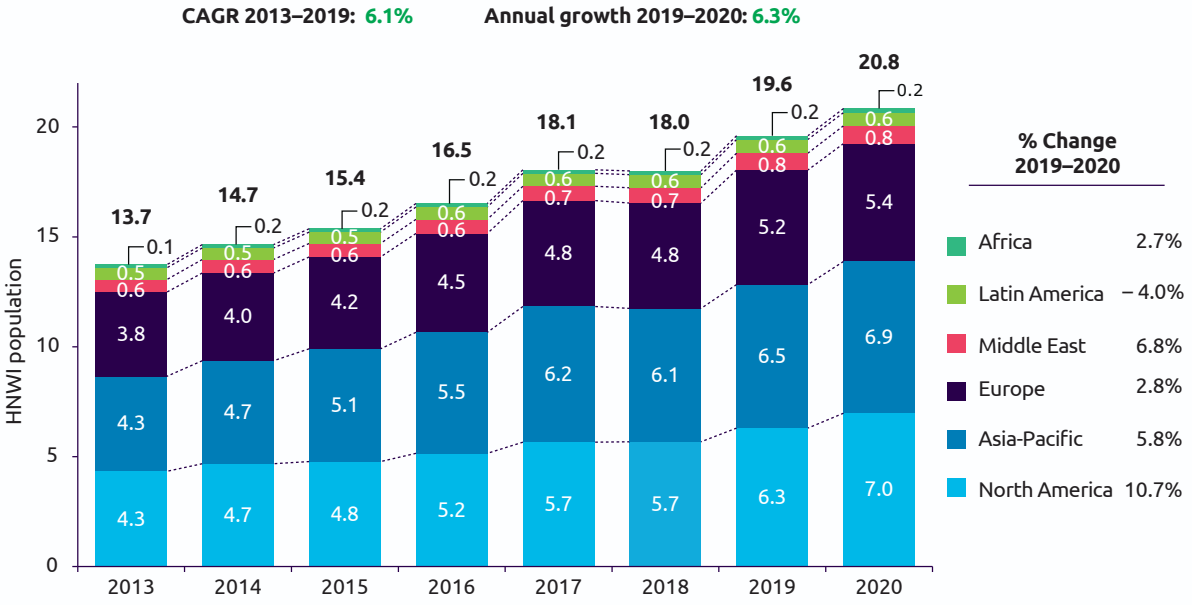
Despite the pandemic, investor bullishness boosted financial markets, global HNWI population and wealth growth

2020 was a year filled with the unexpected: a devastating global pandemic, the severe impact of lockdowns forcing economies to spiral downward, fear of emerging markets collapsing, unprecedented government stimulus packages to individuals and business, and despite all these – roaring global equity markets that defied the headwinds.

Amid this tumult, global high-net-worth-individual (HNWI) population and financial wealth increased by 6.3% and 7.6%, respectively. Unprecedented stock market gains in key markets drove robust HNWI wealth growth by the end of this volatile year.

To hedge against a potential economic armageddon, central banks and governments across global markets worked to sustain their economies with relief stimulus packages, which helped the S&P 500 surge after its March lows and close 2020 with a 16.3% gain.[1]

Figure 1. Number of HNWIs by region (millions), 2013–2020

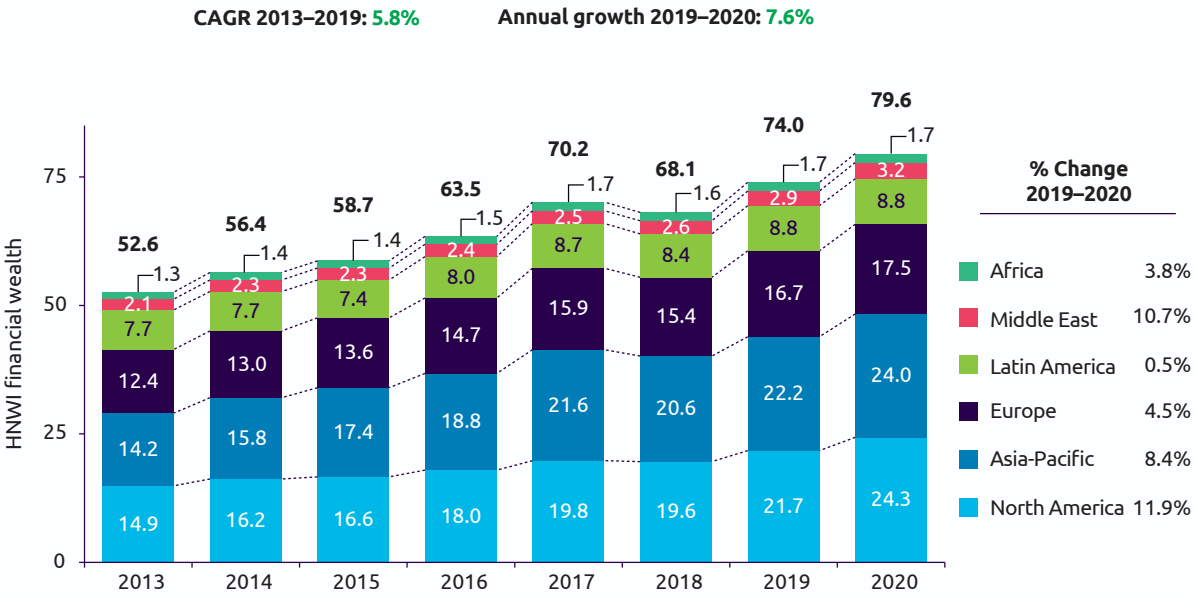


Note: Chart numbers and quoted percentages may not add up due to rounding.

Source: Capgemini Financial Services Analysis, 2021.

[1] CNBC, "Here are the top performing stocks in the S&P 500 for 2020," December 31, 2020.

Figure 2. HNWI financial wealth by region (USD trillions), 2013–2020



Note: Chart numbers and quoted percentages may not add up due to rounding.

Source: Capgemini Financial Services Analysis, 2021.

After five years, North America overtook Asia-Pacific in HNWI population and wealth

In 2015, fast-growing Asia-Pacific flew by North America to be the region with the world's highest HNWI population and wealth. However, in 2020, despite Asia-Pacific's demographic and economic momentum, North America recorded the highest total HNWI population and wealth – tallying gains of 10.7% (population) and 11.9% (wealth).

North American HNWI wealth was largely equity driven, an inference supported by our Q1 2021 global HNWI survey. For North American HNWIs, equities made up 38% of total asset-class investments versus 24% (Europe) and 22% (Asia-Pacific).

North America's contribution to overall HNWI population and wealth growth also increased significantly in 2020. It accounted for 55% of the more than 1.2 million new HNWIs added to the global pool in 2020 (compared with 39% of 2019's 1.6 million new HNWIs). And it contributed 46% of 2020's total HNWI wealth growth (USD5.6 trillion) compared with 37% of global HNWI wealth growth (USD5.9 trillion) in 2019.

- The United States continued to lead HNWI wealth growth with a 12.3% increase in 2020. The US equity market benefited from the USD2 trillion government stimulus package and the Federal Reserve's announcement of unlimited quantitative easing.[2]
- As our 2020 World Wealth Report noted, roaring tech stocks were a key 2019 wealth driver and grew even more steeply in 2020. Apple, Amazon, and Microsoft accounted for more than 53% of S&P 500 total returns in 2020.[3]
- Canada escalated more slowly, with HNWI population and wealth growing just 2.9% and 4.7%, respectively, compared with more than 8% growth in 2019. The S&P/TSX Composite took a 2020 roller-coaster ride by plunging 37% and then climbing back to finish the year with a net gain of 2.2%.[4]

[2] Schroders, "Quarterly markets review – Q1 2020," April 6, 2020.

[3] AppleWorld, "APPLE, AMAZON, MICROSOFT ACCOUNTED FOR 53% OF S&P 500 TOTAL GAINS IN 2020," January 7, 2021.

[4] BNN Bloomberg, "We're #33!: TSX ekes out gain in pandemic-ravaged 2020," December 31, 2020.

Robust performance from major Asia-Pacific markets helped the region expand 8.4% and perform better than the 7.6% global HNWI wealth growth rate. For the second consecutive year, Asia-Pacific failed to lead global HNWI growth with single-digit gains of 5.8% (population) and 8.4% (wealth).

- China (13.5%), Taiwan (9%), Hong Kong (12.1%), and South Korea (9.2%) performed better in terms of HNWI wealth growth than the global average.
- Taiwan witnessed remarkable market growth, as the economy grew by 3.1% in 2020 due to strong semiconductor exports.[5]
- South Korea also posted higher-than-average HNWI population and wealth growth of 7.4% and 9.2%, respectively, as the Kospi Index rallied 30.8% in 2020 with robust tech stock performance.[6]
- With a 5.9% HNWI population increase, India performed marginally better than Asia-Pacific's average population growth. Japan, the Philippines, and Singapore recorded below-average growth, while Indonesia declined by 4%.

Europe's HNWI wealth growth (4.5%) bested HNWI population growth (2.8%), but both fell behind global averages.

- Major European markets – Germany (4.7%), France (1.7%), and Russia (1.2%) – demonstrated slow HNWI population growth, while the UK declined by 3% due to its worst economic contraction since 1709, as GDP fell by 9.9%.[7]
- Despite Denmark, Luxembourg, Sweden, and Finland delivering better-than-average growth compared with global HNWI population and wealth figures, 2020 left key European equity markets experiencing loss. The Stoxx 600 index closed the year down 3.8%. While CAC 40 went down by 7.1%, the FTSE tumbled 14%, and Spain's IBEX tanked nearly 15% to close 2020 as Europe's most severely impacted market.[8]

The muted growth across the region was likely due to the more severe impact of the pandemic on key European markets and Europe's greater exposure to negatively impacted industries, such as fashion, tourism, and retail, versus positively affected sectors, such as technology. Despite strategic international allocations by European wealth managers, these negatively affected industries influence European HNWI wealth more than they do in North America, where tech is a significant HNWI wealth driver.

- In Q4 2020, the EU announced a EUR1.8-trillion budget package, including the EUR750-billion recovery fund to rescue the heavily pandemic-impacted region.[9]

COVID-19 affected Latin America more than most regions in 2020, resulting in a 4% HNWI population dip. HNWI wealth, on the other hand, grew marginally by 0.5%, with the weakening of the US dollar amplifying HNWI wealth gains in Q4 2020.[10]

In the Middle East, HNWI population and wealth grew 6.8% and 10.7%, respectively, primarily because of Iran's dramatic economic resurgence. Between March and July, the Tehran Stock Exchange's trade values increased by 625% compared with the same period a year earlier, and the TSE hit a record high in early August.

- The government pledged to invest 1% percent of its sovereign wealth fund (the National Development Fund) to expand the market further.[11] As a result, Iran saw its HNWI population and wealth increase by 21.6% and 24.3%, respectively.

Conversely, in other Middle Eastern markets, HNWI population and wealth growth were moderate – with Saudi Arabia up 3.3% and 5.4%, respectively, and the United Arab Emirates registering gains of 3.4% and 5.3%.

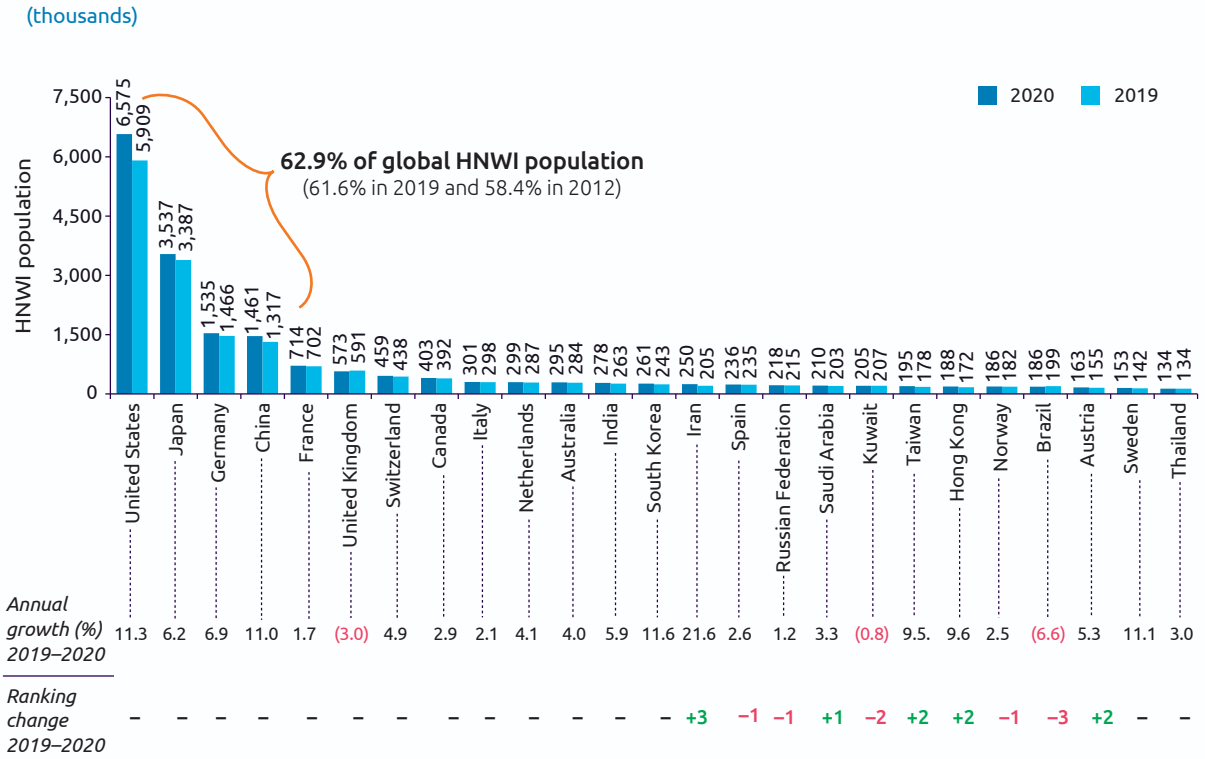
The United States, Japan, Germany, and China continued as the top four HNWI population leaders, with their contribution increasing (by 1.3 percentage points) over 2019. The top four markets (each constituting more than 1 million HNWIs) made up nearly 63% of the total global HNWI population in 2020 – and were responsible for almost 84% of global HNWI population growth.

Among the top 25 global markets with the most HNW individuals, Iran and Brazil saw the most significant change in rankings. Iran gained three places to rank 14, and Brazil fell by three spots to place at 22. Taiwan, Hong Kong, and Austria each gained two places on the back of strong equity market performance.

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[5] CNBC, "Asia's top-performing economy in 2020 could grow even faster this year," February 22, 2021.
[6] CNBC, "South Korean stocks had their best year in more than a decade in 2020. Here's what drove them higher," January 3, 2021.
[7] CNBC, "UK suffers worst annual economic slump since the Great Frost of 1709, a 9.9% decline," February 12, 2021.
[8] The Guardian, "FTSE 100 suffers worst year since 2008 financial crisis – as it happened," January 1, 2021.
[9] Schroders, "Quarterly markets review - Q4 2020," January 5, 2021.
[10] Ibid.
[11] MEI, "The Iranian government's risky stock market bet," September 14, 2020.

Figure 3. Top 25 markets by HNWI population, 2019–2020



Source: Capgemini Financial Services Analysis, 2021.

In line with previous trends, the ultra-HNWI segment led overall HNWI population and wealth growth during a positive year for financial markets

The ultra-HNWI segment led population and wealth growth at 9.6% and 9.1%, respectively. Millionaires Next Door and mid-tier millionaire wealth bands displayed relatively lower population and wealth growth in 2020, at around 8% and 6%.

The Middle East experienced the highest population (13.2%) and wealth growth (17.2%) increases in the ultra-HNWI band. Iran was a significant contributor to ultra-HNWI population and wealth advances, with 24.5% and 27.3% growth, respectively.

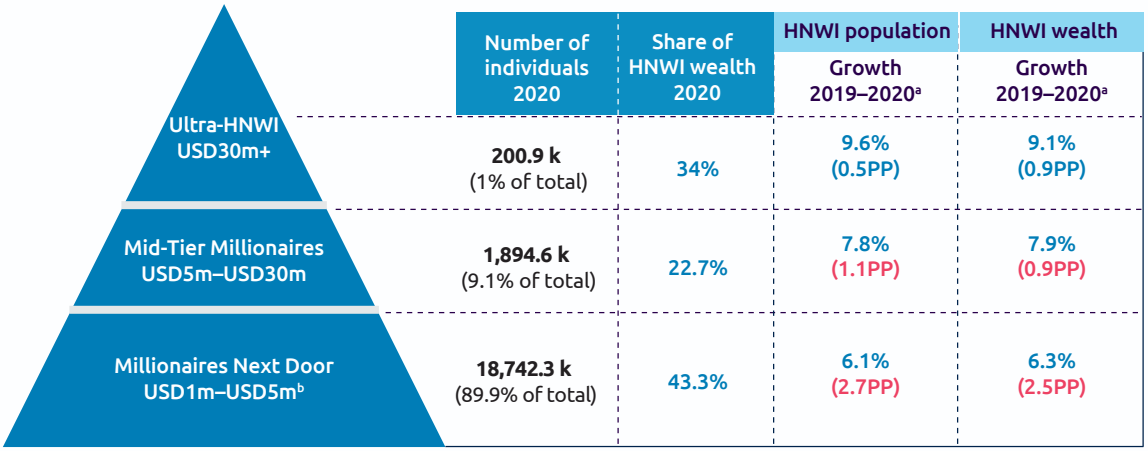
In addition to their greater exposure to equity markets, active exploration of other market opportunities also likely drove the relatively higher growth in ultra-HNWI population and wealth. Our survey in Q1 2021 found that ultra-HNWIs directed 17.7% of their portfolio to alternative investments, compared with 11.8% for Millionaires Next Door.[12]

Post the pandemic's initial hit in H1 2020, global total private equity transaction volumes had declined by 12.5%. However, the total transaction volume in 2020 eventually reached USD320 billion, an almost 30% year-on-year upswing. With nearly double year-on-year H2 2020 investment, Asia-Pacific was the top performer, while North America witnessed a 30% increase in deal value year on year.[13]

[12] Alternative investments are asset classes such as commodities, currencies, private equity, hedge funds, and structured products, etc.

[13] S&P Global, "2021 Global Private Equity Outlook," March 2, 2021.

Figure 4. Global number of individuals per wealth band (2020) and growth (2019–2020)



	Number of individuals 2020	Share of HNWI wealth 2020	HNWI population Growth 2019–2020[a]	HNWI wealth Growth 2019–2020[a]
Ultra-HNWI USD30m+	**200.9 k** (1% of total)	34%	9.6% (0.5PP)	9.1% (0.9PP)
Mid-Tier Millionaires USD5m–USD30m	**1,894.6 k** (9.1% of total)	22.7%	7.8% (1.1PP)	7.9% (0.9PP)
Millionaires Next Door USD1m–USD5m[b]	**18,742.3 k** (89.9% of total)	43.3%	6.1% (2.7PP)	6.3% (2.5PP)

a. PP in parentheses denotes the change in 2019–2020 over 2018–2019.

b. The wealth bands are based on HNWIs' investable assets, excluding primary residence, collectibles, consumables, and consumer durables.

Note: Chart numbers and quoted percentages may not add up due to rounding.

Source: Capgemini Financial Services Analysis, 2021.

Financial markets continue to decouple from the real economy

Our 2020 World Wealth Report discussed how real-time information and complex global interdependencies are de-linking financial markets from local economies. Recent events strongly corroborate this trend. The stock market quickly bounced back from its drastic March 2020 collapse. As the global economy dealt with and suffered from multiple COVID-19 waves, the market kept establishing new highs. While financial markets typically act as leading indicators of the real economy, our research uncovered other factors that may also have contributed to the financial markets' *parallel-economy* behavior.

- **Tech stock dominance:** Technology stocks influence overall markets more substantially than traditional industries such as energy and utilities, which now make up less than 3% of the Dow and S&P 500.[14] Alphabet, Amazon, Apple, Facebook, and Microsoft value grew from 17.5% at the start of 2020 to 22% by mid-December 2020.[15]
- **Liquidity from retail investors:** With access to digital investing platforms, capital from government stimulus programs, and the inability to spend amid lockdowns, retail investors were significant contributors to overall market activity in 2020.[16] Especially as equity markets consistently prove to be an attractive asset class in a low interest-rate environment. Earlier this year, a Deutsche Bank survey found Americans aged 25–34 planning to invest 50% of their stimulus check on stocks – a potential US equity market infusion of USD170 billion.[17]

Does a market correction loom? Will equity continue to drive HNWI wealth? What steps can wealth management firms take today to prepare for either scenario? In the next section, we reflect on 25 years of World Wealth Report insights to draw lessons from previous global events, assess ways the wealth management industry has adapted and progressed, and frame innovative ways firms can prepare for a dynamic tomorrow.

> ***"The current crisis is profoundly different from the previous global financial crises which were characterized by a major financial shock that lasted a long time on the markets. In the present scenario, the financial markets are already making a recovery though there may be a more long-lasting impact on the real economy."***
>
> **– Mario Buquicchio**
> Head of Wealth Management,
> Credit Agricole Italia, Italy

[14] Mint, "Why did stock markets rebound from COVID in record time? Here are five reasons," September 16, 2020.

[15] The Economist, "What explains investors' enthusiasm for risky assets?" December 16, 2020.

[16] Forbes, "$1,400 Stimulus Checks Will Blow Up The Stock Market," January 21, 2021.

[17] CNBC, "Young retail investors plan to spend almost half of their stimulus checks on stocks, Deutsche survey claims," March 9, 2021.

Hybrid advisory capabilities hold the key to wealth management firm opportunities

As we celebrate the World Wealth Report's 25th edition, let's revisit a quarter-century of insights. Since 1996, we have been deep diving into how wealth strategies have evolved to reflect shifts in global economies and financial sectors. There is no such thing as a typical client profile today, and ever-younger high-net worth individuals (HNWIs) are more unpredictable and demanding. Throughout the life of Capgemini's World Wealth Report, ecosystems, businesses, and operating models have become more connected and dynamic.

Are there lessons to be learned?

In review: Macro-environment shapes wealth evolution

Over the years, Asia-Pacific progressed to outpace Europe and North America and become a significant driver of HNWI wealth growth

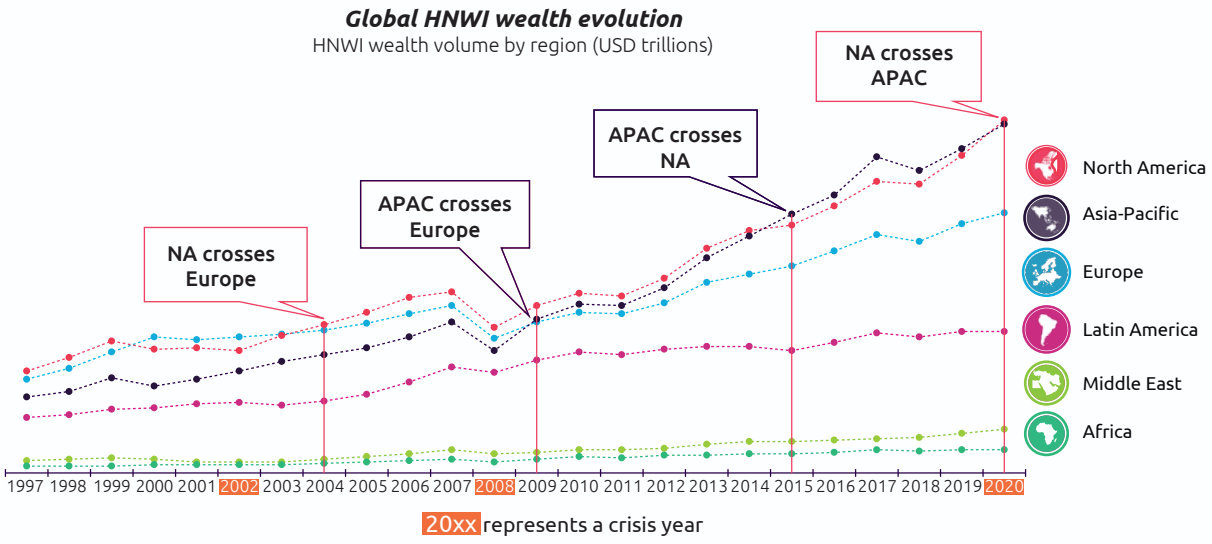
During the late 1990s, North America led the race for HNWI wealth volume and population, with Europe close on its heels and Asia-Pacific in a leisurely third place. The regions vied for the top spot throughout two and a half decades.

From 1999 through 2002, North America struggled with a volatile equity market while Europe and Asia-Pacific experienced limited exposure and remained relatively unscathed. Europe managed to overtake North America in HNWI wealth volume in late 1999. However, as critical EU markets – Germany, France, and Italy – struggled with unemployment in 2003, North America snatched back its top position after recovering from the tech bubble burst.

Meanwhile, HNWI portfolios progressively became more internationally diversified. Therefore, when global financial markets crashed in 2008, the top three regions suffered significant setbacks but maintained their relative positions. A drop in demand for goods also contributed to the worldwide contraction, as export-driven countries – especially in Asia-Pacific – were bashed. By the close of 2008, the world's HNWI population shrank 14.9% from the year before, as wealth volume dropped 19.5%.

Following the 2008 global recession, Europe suffered significant setbacks as the eurozone debt crisis emerged in 2009. Greece, Portugal, Ireland, Spain, and Cyprus received EU-IMF bailouts or rescue packages from 2010–2012 after failing to repay or refinance

Figure 5. Asia-Pacific slowly overtook Europe and North America during the 2010s to become the global HNWI wealth leader, but tech stocks reshuffled 2020 rankings



Sources: Capgemini Financial Services Analysis, 2021, World Wealth Report, 1997–2020.

government debt.[18] While Germany, Switzerland, and Russia performed well in subsequent years, the gap widened between European HNWI wealth and Asia-Pacific and North America as Europe conclusively fell out of the race to the top.

The World Wealth Report 2009 predicted that by 2013, Asia-Pacific would surpass North America in HNWI wealth volume. It was off only by two years, as Asia-Pacific surged ahead to become the frontrunner in 2015. Driven by high growth in emerging markets such as China and India, Asia-Pacific continued its hockey-stick upward trajectory until 2017.

In 2018, Asia-Pacific HNWI wealth volume declined 5% mainly due to market uncertainties in China, yet the region maintained its number one position for another two years. Then, bolstered by robust tech stock performance in 2020, North America surpassed Asia-Pacific's HNWI wealth volume. Will North America sustain its position at the top despite Asia-Pacific's structural advantages? Time will tell.

In review: Client profiles and behaviors – hands-off to hands-on

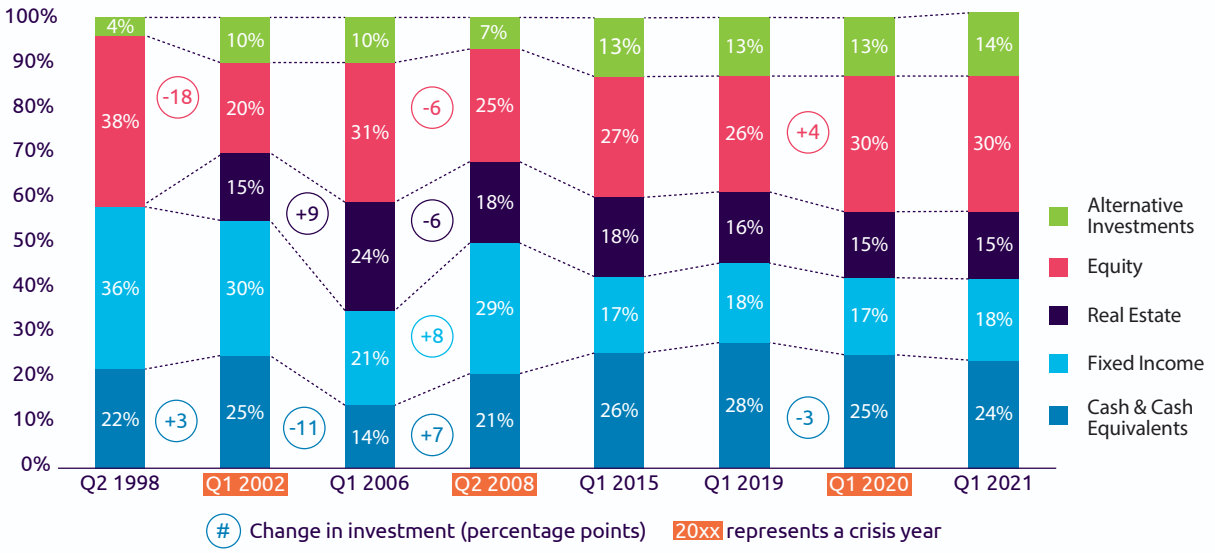
Today's HNWIs are more involved in their investments and demanding how to grow their new, largely tech-driven wealth

Throughout the World Wealth Report timeline, we have tracked a vital client investment parameter – asset allocation – and spotted an interesting trend.

- When faced with market volatility, high-net-worth individuals seek to preserve rather than grow their wealth, and therefore tend to allocate wealth to safer asset classes.

As seen during the 2002 tech bubble collapse and the 2008 global recession, HNWIs seek safer asset classes (e.g., fixed income and cash and cash equivalents) when financial markets are precarious. Even those who invest in equity in this environment prefer value stocks over growth stocks.[19]

Figure 6. Investors typically reduce equity allocation and opt for safer asset classes during crises, but the COVID-19 crisis was an exception



Note: "Real Estate" is included in "Alternative Investments" in 1998.
Sources: World Wealth Report, 1997–2020; Capgemini Global HNWI Insights Survey 2021, Feb–Mar 2021.

[18] Rabobank, "The eurozone (debt) crisis – causes and crisis response," December 18, 2015.

[19] ***Growth*** stocks are riskier stocks of companies that are expected to grow faster than the rest, but whose price might plummet if the company doesn't meet its growth expectations. Perceived as less risky, ***value*** stocks are those proven to generate profit. However, stock price appreciation is not guaranteed since investors may already have priced it properly. Fidelity, "2 schools of investing: growth vs value," 2016.

- However, in a curious deviation, equity markets quickly picked up in April 2020 during the COVID-19 crisis after an initial crash in March. The quick recovery may be explained by market expectation of the real economy to recover soon, given that the COVID-19 crisis is not primarily a financial crisis. Asset allocations were nearly static from Q1 2020 to Q1 2021.

From 1998–2002, real estate and investments other than stocks, bonds, and cash rose in popularity. In 2002, real estate made up a more substantial slice of the HNWI portfolio pie at 15% versus 10% for alternative investments. However, by 2005, alternative investments represented a hearty 20% slice, as real estate allocations remained largely static and represented 16% of assets.

Real estate surged in 2006 with global investments (including direct real estate and REITs) totaling USD900 billion — historically the strongest-ever performance by international real estate markets.[20]

- Real estate allocations made up 24% of global HNWI portfolios in 2006, as alternative investments fell to 10%.
- The subprime crisis began in 2007, and real estate allocation fell drastically to 14%. It inched up to 18% in 2008, perhaps in anticipation of a recovery. After that, it remained within a stable 18%–20% range until 2016, after which real estate fell slightly out of favor.

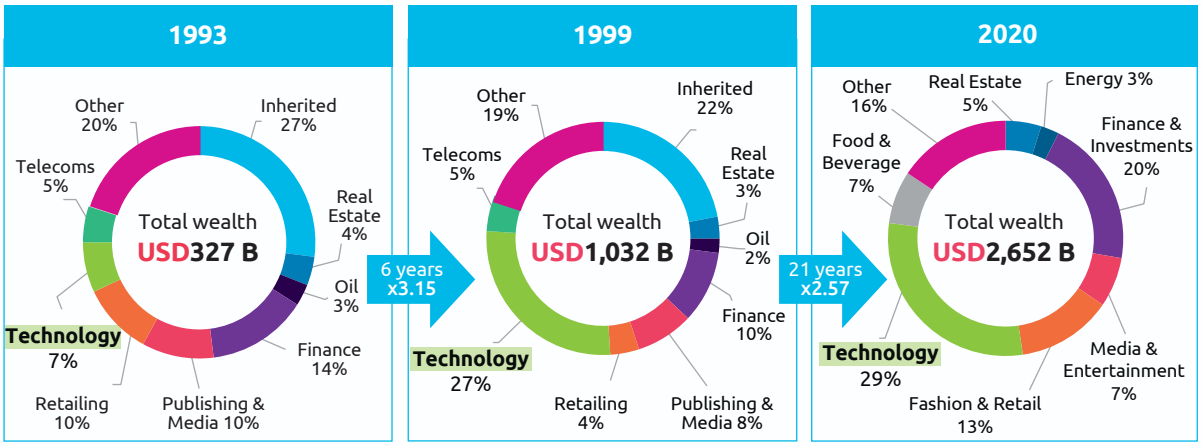
As the 20th century wound down, technology-driven wealth heated up dramatically. A comparison of wealth sources of the 400 most affluent individuals in the United States in 1993 indicates that only 7% of total wealth came from technology-related businesses. By 1998, that share had shot up to 27%. And by 2020, technology was the most significant of all wealth sources at 29%, followed by finance and investments.

In Europe, the fashion and retail industry was the clear wealth driver in 2020, while real estate and technology were tied in Asia-Pacific.[21]

As macroeconomic ecosystems and HNWI demographics and wealth sources evolve, so do the behaviors and expectations of high-net-worth clients. Within our World Wealth Report timeline, HNWI behavior has shifted from passive oversight of investments to active involvement and making complex demands of wealth managers.

The relatively stable economic climate of the late 1990s encouraged HNWIs to shed a hands-off approach and take on self-directed investments. They also became interested in maximizing tax product

Figure 7. In the US, *new,* tech-driven wealth exploded throughout the 1990s



a. Categories represent the individuals' primary source of earning.

b. The Finance & Investments category pertains to individuals whose primary source of income is derived from the FS industry (e.g., mutual fund and brokerage company founders, hedge fund managers, founders of FinTechs, etc.).

c. In the 1993 and 1999 graphs, the Technology category was derived by totaling the original Software, Computers, and Internet categories.

Sources: Capgemini, World Wealth Report 2000; Forbes Billionaires: The Richest in 2020, accessed March 2021.

[20] Capgemini, *World Wealth Report* 2007, June 27, 2007.

[21] Forbes Billionaires: The Richest in 2020, accessed March 2021.

benefits and leveraging derivatives to limit exposure to currency, interest, and market risks. As the world entered the internet age, clients demanded access to online information and transactional capabilities.

After the 2002 tech bubble collapse, shaken investors sought a manage-it-for-me approach. HNWI risk and investment objectives also changed as clients stepped up demands for risk management, consolidated reporting, access to specialists, and transparency in fees.

Wealth preservation may have been the goal in 2002, but it quickly shifted to wealth growth and accumulation. Increasingly, clients adopted an institution-like investment approach that followed a structured process, and they sought financial solutions rather than products to buy.

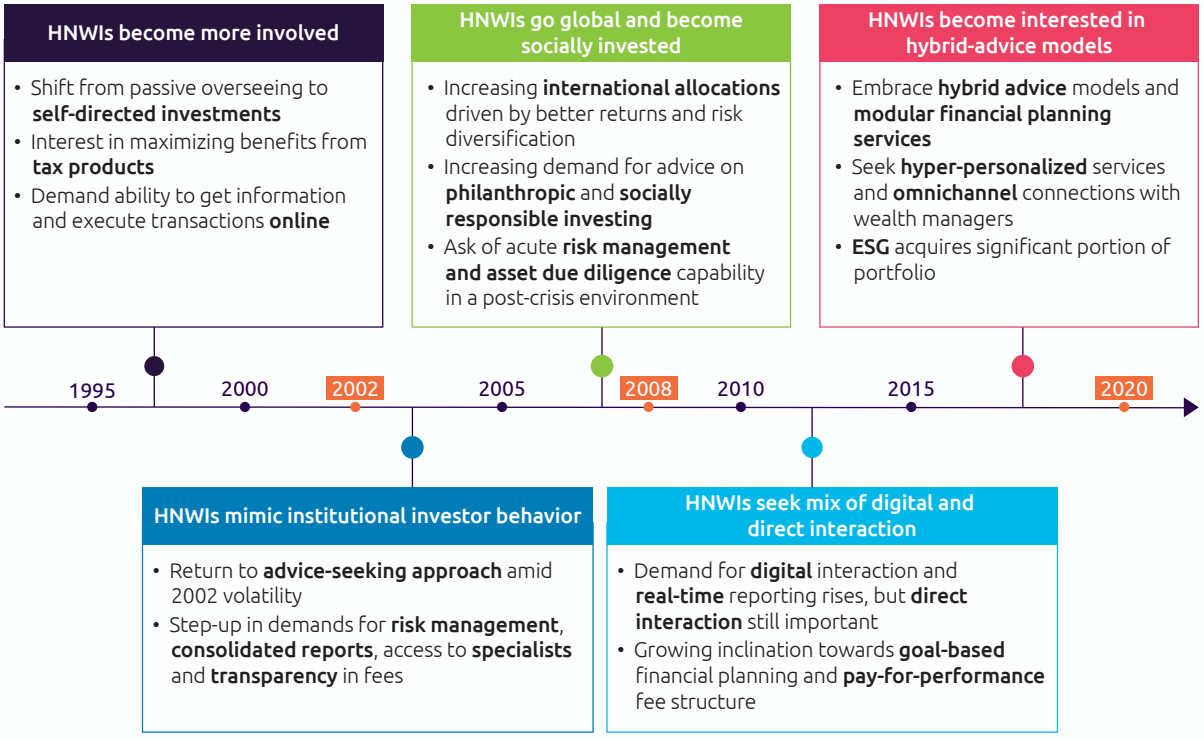
Corporate finance-like strategies took off, such as dynamic asset allocation, a portfolio management strategy that adjusts the mix of asset classes to suit market conditions.

HNWIs were still smarting from the aftershocks of the global financial crisis in the early 2010s, but as markets stabilized, they began seeking better returns and risk diversification in international allocations. Interest in philanthropic investment and socially responsible investing started gaining momentum, as did allocations to passion-based investments.

The global financial crisis of 2008 sparked a brief dip in these investment categories, but as the market rebounded, allocations picked up. After the recession, clients reiterated their desire for transparency and reporting simplicity. Their confidence still shaken; they sought holistic risk management and due diligence around assets.

During the first half of the 2010s, clients preferred to work with a single wealth management firm and a dedicated point of contact. The World Wealth Report 2013 found that despite the breadth and variety of their holdings, HNWIs globally preferred to deal with a single trusted firm (41.4%) rather than diversify their assets across multiple firms (14.4%).

Figure 8. No longer passive, HNWIs now make complex wealth management demands



Source: Capgemini, World Wealth Report, 1997–2020.

Then, as digital channels became mainstream, HNWIs demanded digital interaction and real-time, 24/7 reporting. However, face-to-face interaction with wealth managers remained important, and expectations for an integrated omnichannel experience grew. Clients began to expect more from wealth managers – voicing interests in goal-based financial planning and pay-for-performance fee structures.

More recently (2015–2020), demand grew for hybrid advice models that put HNWIs in the driver's seat via modular, pay-as-you-go financial planning services. At the same time, clients wanted a stronger connection with their wealth manager and more personalized services, even indicating a willingness to pay more for value-added services.

> ***Over the years, there has been an increased shift towards goals-based investing, with clients looking to align investment goals with their life goals."***
>
> **– Stephen Meyer**
> Executive Vice President, Global Wealth Management Services, SEI Investments, US

> ***While the 2002 tech bubble burst drove clients to seek portfolio diversification, the 2008 global financial crisis raised deeper scrutiny around the structure of wealth management fees. In the last decade, the fee structure on alpha-generating products has come into question and clients demand more transparency and value added."***
>
> **– Luca Valaguzza**
> Founder & Chief Product Officer, Euclidea SIM, Italy

25th Edition — In review: The wealth management ecosystem makes room for new players

The highly fragmented 1990s wealth management market bears little resemblance to today's heavily regulated environment that has undergone considerable consolidation while making room for new tech players.

The wealth management ecosystem has significantly evolved since 1996 in response to shifts in the macro-environment, HNW client behaviors, and momentous financial crises. Let's unpack these changes within three categories: regulatory activity, consolidation, and the entry of agile WealthTechs and other players.

Regulatory environment: The barrage of guidance spurred by the financial crises may have had the most impact on the wealth management ecosystem. Each new regulation required a significant amount of time, effort, and resources for compliance.

- The UK's Retail Distribution Review (RDR) – launched in 2006 and implemented in 2012 – required wealth managers to unbundle the costs of products and advice and move from product commissions to a revenue model based on upfront disclosure of advisory fees.[22] It also imposed minimum standards for wealth managers offering clients independent advice. Therefore, to recapture revenues lost during the change, UK firms had to rethink how to articulate the value of advice.

After the tech bubble collapse, the Paris-based intergovernmental watchdog Financial Action Task Force published its third directive to combat money laundering. Other regulatory bodies also amended requirements.

- Basel II, an international business standard introduced in 2004, replaced Basel I and prioritized minimum capital requirements, supervisory mechanisms and transparency, and market discipline.[23]
- The EU's regulatory framework – Markets in Financial Instruments Directive (MiFID) – was implemented in 2007 to increase transparency in the operation of financial markets and standardize disclosure requirements for investment firms and banking corporations.[24]

[22] FCA, "Post-implementation review of the Retail Distribution Review," December 16, 2014.
[23] Bank for International Settlements (BIS), "History of the Basel Committee," accessed April 2020.
[24] European Commission, "Investment services and regulated markets – Markets in financial instruments directive (MiFID)," accessed April 2021.

The global financial crisis of 2008 exposed weaknesses within the international monetary system and instigated substantial regulatory response. In the United States, the most direct and notable regulations spawned by the crisis were the Dodd-Frank Act and the Foreign Account Tax Compliance Act (FATCA).

- Dodd-Frank sought to enhance financial stability and consumer protection by keeping tabs on financial services giants, improving accountability and transparency, and monitoring risky products, among other measures.[25]
- FATCA requires financial institutions to report to the Internal Revenue Service certain information about their US accounts, including foreign assets held by their US account holders.[26]

In Europe, MiFID – which initially focused on stocks – was replaced by MiFID II in 2018 with an expanded product scope, including over-the-counter (OTC) derivatives.[27]

Basel III regulations aim to strengthen the minimum capital requirements outlined in Basel I and II and introduce various capital, leverage, and liquidity ratio requirements. Basel III has undergone several delays, and implementation is now expected in 2023.

> ***"One of the key changes in the last 25 years has been the ever more complex regulatory environment, especially when looking at cross-border service delivery. This has driven banks to specialize more and build an ecosystem of experts on several fronts. The role of the private banker has therefore changed substantially over the last 25 years."***
>
> **– Luc Rodesch**
> Executive Committee Member PB, Banque de Luxembourg, Belgium

> ***"One of the biggest impact of the previous global financial crisis has been the number of regulatory changes, resulting in greater operational complexity especially for multi-national banks."***
>
> **– Stephane Jacquemin**
> COO, HSBC Private Banking Services (Suisse) SA, Switzerland

Consolidation: During the mid-nineties, three large Swiss banking groups – UBS, Credit Suisse, and Swiss Bank Corporation (SBC) – held the largest share of the HNWI market, while banks, trust companies, asset management firms, and insurance groups divvied up the rest. While there have been waves of wealth management consolidation over the years, the industry remains largely fragmented and ripe for more consolidation.

- 2020 proved to be a big year for consolidation with deals such as Morgan Stanley's acquisition of E*Trade and Charles Schwab acquiring TD Ameritrade.[28, 29]
- The value of US investment management M&A activity in 2020 was ≈ USD28 billion, the highest overall deal value in the sector since USD29 billion in 2000.[30]

New players: In the early 2000s, wealth management firms began outsourcing costly non-core operations, including IT, settlement, and custody, to third-party pure-play administrative specialists emerging at the time. Technology innovations drive wealth management partnerships today. WealthTechs specializing in any aspect of the customer lifecycle, from client onboarding and investment execution to reporting and regulation, have become desirable wealth management collaborators.

Some WealthTechs, such as robo-advisory platforms, came on the scene as potential competitors.

- The first robo-advisor, Betterment, was founded in 2008 and subsequently opened the door for wealth management firms to create or acquire virtual advisory platforms themselves.[31]

[25] The Balance, "What Is the Dodd-Frank Wall Street Reform Act?" updated October 30, 2020.
[26] IRS, "Foreign Account Tax Compliance Act," updated October 28, 2020.
[27] European Securities & Markets Authority, "MiFID II," accessed April 2021.
[28] Morgan Stanley, "Morgan Stanley closes acquisition of E*TRADE," October 2, 2020.
[29] Business Wire, "Schwab completes acquisition of TD Ameritrade," October 6, 2020.
[30] Business Insider India, "Taking stock of a remarkable year in asset and wealth management," December 28, 2020.
[31] Betterment, "The History of Betterment: Changing an Industry", July 20, 2016.

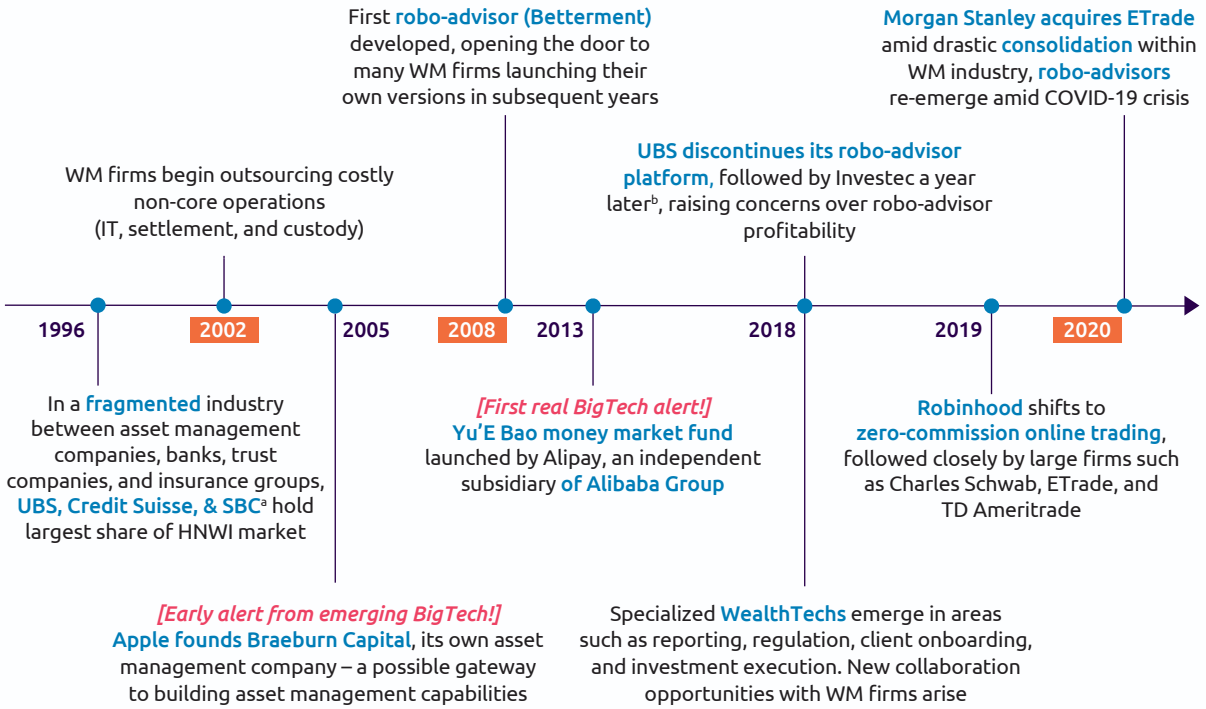
The future of robo-advisory models seemed concerning in 2018–19 as UBS and Investec discontinued their robo-advisor platforms.[32] However, the model re-emerged in 2020 as investors embraced digital platforms during the pandemic. Account sign-ups increased by 68% for California-based automated investment service Wealthfront. Online broker TD Ameritrade also saw Y-o-Y demand for its automated investing platform grow 150%, according to a Q2 2020 report by BackendBenchmarking.[33]

No tech giant has made a blatant move "yet" into the wealth management sector, although entry seems likely. Apple has not made overt industry advances but created US-based subsidiary Braeburn Capital – a financial and advisory services provider – to manage a significant portion of its massive cash reserves. Meanwhile, Asian BigTechs Tencent and Alibaba appear eager to dip their toes in money market waters.

- Tencent invested USD360 million in leading Chinese investment bank China International Capital Corporation in 2017. Additionally, Tencent's Teng An fund distribution unit began offering investment advice to retail clients in 2020 through its Yi Qi Tou service.[34]
- In 2013, Alipay launched the Yu'E Bao money market fund, an independent subsidiary of Alibaba Group. It became the largest money market fund by assets under management (AUM) in 2017 and retained that position until 2020.[35]

> ***"As the wealth management industry became more established, competition from new sources intensified, leading to a greater drive for product innovation and more options for clients."***
>
> **– Charles Boulton**
> CEO, Private Banking, HSBC UK, UK

Figure 9. The wealth management ecosystem has consolidated and added specialized players



a. Swiss Bank Corporation and Union Bank of Switzerland merged into UBS AG in 1998.
b. Finextra, "Investec withdraws from over hyped robo-advisory market," May 17, 2019.
Source: World Wealth Report, 1997–2020; text line searches.

[32] Finextra, "Investec withdraws from over-hyped robo-advisory market," May 17, 2019.
[33] Investment News, "Robo-adviser accounts surge during pandemic: Report," August 10, 2020.
[34] Today, "China's Tencent starts fund advisory services to tap asset management," August 12, 2020.
[35] Quartz, "China no longer runs the world's largest money market fund," January 28, 2020.

In review: Business and operating models evolve towards open architecture

Wealth firms have grown from a traditional private-banking model to offer technology-enabled and hyper-personalized advice

With once exclusive access to the wealthy, traditional private banks found themselves under competitive stress in the 1990s as asset managers, insurers, stockbrokers, retail and investment banks, wealth management institutions, and universal banks encroached upon their domain. The most well-positioned of these were universal banks armed with diverse distribution channels to attract a global client base, a pool of new and soon-to-be HNWIs, and a wide product range.

The *family office* designed to serve ultra-HNWIs and their families also gained appeal in the late 1990s. In the United States, the number of households joining or forming family offices grew from an estimated 1,600 in 1996 to +3,000 by 1998.[36]

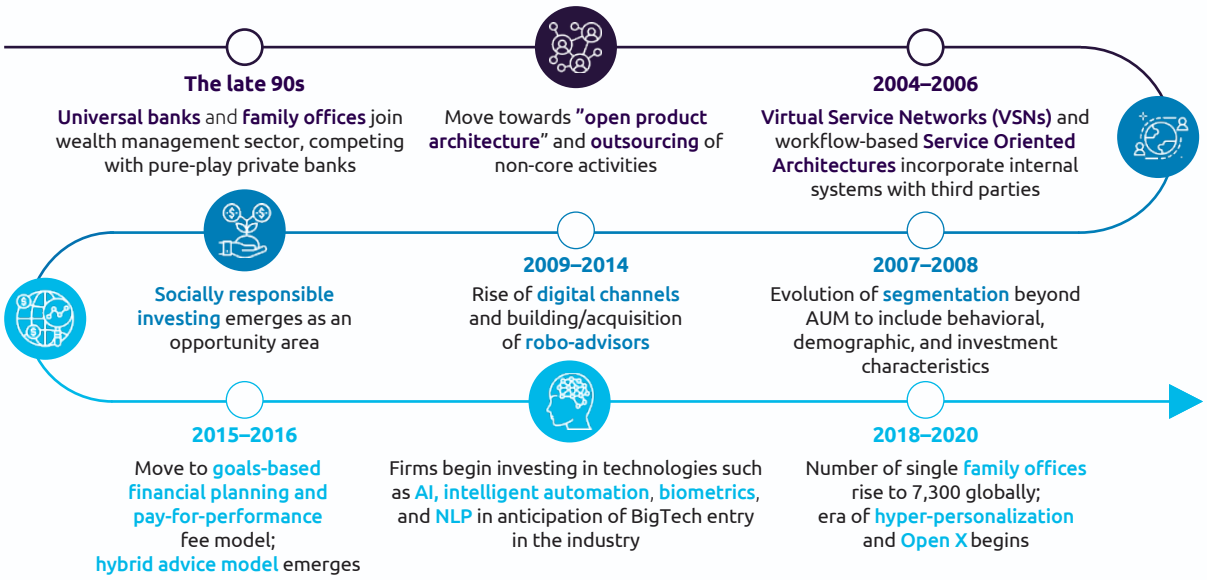
At the same time, the move began to open architecture, through which wealth management firms broadened product offerings to include third-party products.

Virtual Service Networks (VSNs) that enabled multiple, geographically dispersed service providers to collaborate came on the scene in the early 2000s. Now, wealth advisors could set up a VSN website so service providers could work together. Workflow-based VSNs gradually evolved into Service Oriented Architectures – business and technology architectures designed around the concept of services.

Around 2005, wealth management firms began to move beyond AUM and offer clients more individualized products and services. Segmentation evolved to focus on clients' behavioral, demographic, and investment characteristics. Firms adopted a dynamic, needs-based approach to boost client satisfaction.

Digital channel adoption gained ground in the 2010s as HNWIs sought to gather asset information and make transactions independently. Robo advisors came into play, and many large wealth management firms either built or acquired virtual advisory platforms themselves. Socially responsible investing emerged as an opportunity area for wealth management firms to serve their clients' social impact needs and continues to be a key area today.

Figure 10. The traditional private banking model has evolved to a technology-enabled provider of hyper-personalized service



Sources: Capgemini, World Wealth Report, 1997–2020; Campden FB, "Global family office growth soars, manages $5.9 trillion", July 18, 2019.

[36] Capgemini, World Wealth Report 1999.

The steady growth of ultra HNWIs and increasing sophistication of family offices sparked robust 21st–century family office growth.

- The number of single-family offices had increased to more than 7,300 by 2019, with an estimated AUM of USD5.9 trillion. North America (42%) and Europe (32%) were the home base to most family offices, followed by Asia-Pacific (18%) and the emerging markets of South America, Africa, and the Middle East (8%).[37]
- From 2017 to 2019, the number of family offices in Asia grew 44% as the ultra-HNWI population rose. Generation wealth transfer was another influence.[38]

In addition to managing dynastic wealth confidentially, family offices support succession planning and next-generation prepping, organizing philanthropic initiatives, family counseling, concierge services, and trust/estate planning.

- Expect the family office space to continue global growth and sophistication over the years ahead.

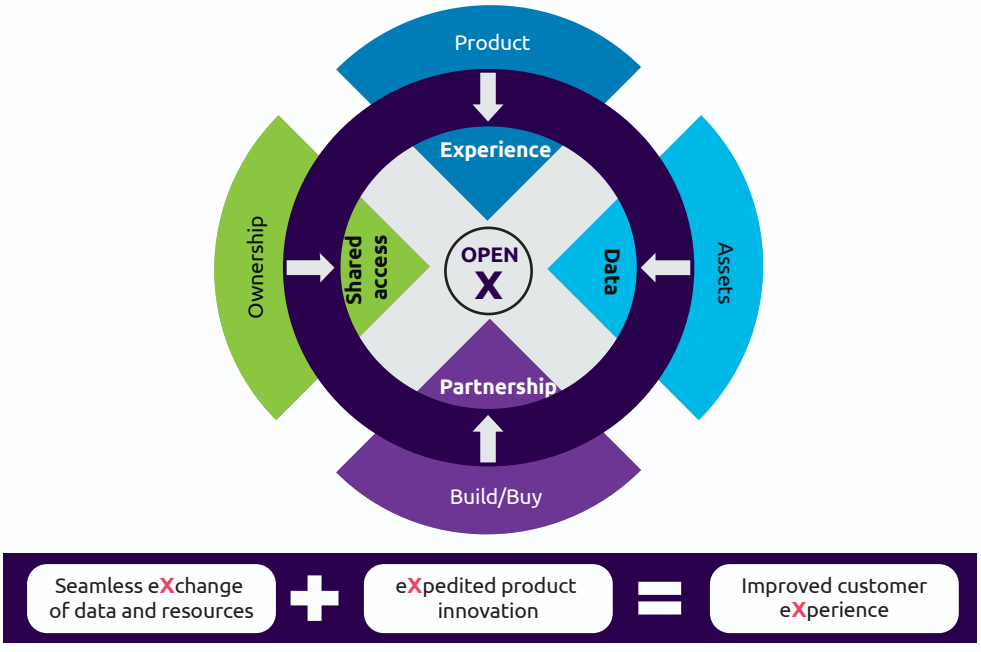
In the latter half of the 2010s, clients increasingly sought hybrid advice models that combined self-service and wealth manager assistance, pushing wealth management firms to develop hybrid advice offerings.

In anticipation of possible BigTech entry, firms also started investing in artificial intelligence (AI), intelligent automation, biometrics, and natural language processing (NLP).

As wealth clients increasingly expect individualized advice, hyper-personalized offerings help firms raise the client experience bar and capture future growth segments. Embracing the **Open X** mindset – that supports collaboration between FS and non-FS players in an open environment – has become a critical step for firms to emphasize their capabilities while relying on ecosystem partners to shore up product and experience gaps quickly and cost-effectively.

> ***In the last 25 years, the wealth management industry has grown to be more digitized to enable faster and more convenient transactions. The industry has witnessed the rise of models such as robo-advisory and family offices, amid increasing complexity of products and new client expectations."***
>
> **– Uwe Adamla**
> Head of Asset and Wealth Management,
> LBBW Asset and Wealth Management, Germany

Figure 11. Both client experience and operational efficiency improve as firms embrace Open X



Source: Capgemini, World Wealth Report 2020.

[37] Campden FB, "Global family office growth soars, manages $5.9 trillion," July 18, 2019.
[38] Ibid.

In review: Lessons from the global crises of 2002 and 2008

Evolution to hybrid advisory is inevitable

As we reviewed two and a half decades of wealth management through World Wealth Report insights, key learnings became clear.

Our takeaways from the 2002 tech bubble collapse and 2008 global financial crisis
Wealth management was and continues to be a relationship-based business. While engagement channels may evolve, the core value proposition of firms will remain HNW client and wealth manager interaction.
HNWIs lean to self-directed investments during good times and return to advice-seeking behavior and strategic asset allocation amid crisis and market volatility.
HNWIs' desire for risk management and due diligence capabilities expand during a crisis.
Typically, lower wealth bands feel the most impact from a market downturn due to high equity exposure as a proportion of their overall portfolio and less sophisticated risk-hedging. However, lower wealth bands remain underserved.

How can we apply these observations to the future? We envision two potential scenarios.

Scenario 1: Market bull run ends … time to safeguard wealth

- Again, lower wealth bands will be the most negatively affected.
- As technology enables profitable engagement at scale, this time, firms can tap the opportunity to offer lower wealth bands more sophisticated advisory support as the need increases.
- Wealth management firms are poised for a significant opportunity as they upsell valuable advisory support to lower wealth bands and the mass-affluent segment. Considering the challenges of replicating a complete wealth management experience at scale, firms can explore a middle path that incrementally increases advisory support.

Scenario 2: Market bull run continues … time to grow wealth

- In similar circumstances, HNWIs previously shifted to more self-directed investing. Therefore, they will likely expect digital tools that give them more control over their investments in the future.
- Wealth management firms without digital platform capabilities may lose HNWIs to new digital players.

In either scenario, to meet HNWI expectations – now and into the future – wealth management firms must augment omnichannel capabilities across the self-service and human advisory spectrum.

HNWIs are already showing a greater inclination to manage basic transactions and access information independently.

- 71% of HNWIs in Asia-Pacific (excl. Japan), 63% of HNWIs in Europe, and 53% of North American HNWIs say they prefer to independently conduct transactions and access information versus depending on human assistance.

At the same time, wealth managers continue to play a critical role for HNWIs in more complex areas such as building and managing portfolios. Globally, 60% of HNWIs still consider research and investment advice from their wealth management firm, while 17% delegate all their investment decisions to their firm.

The World Wealth Report 2018 called out a significant demand for hybrid advice, especially in emerging markets.

- >50% of respondents to our 2018 global HNWI insights survey said they valued a combination of personal and automated/digital self-service channels for interaction.
- Regionally, hybrid advice was considered most important by 76% of HNWIs in Latin America, 68% in Asia-Pacific (excluding Japan), and 55% in North America.

COVID-19 drove even the most traditional client segments to adopt digital platforms while turning new client segments on to investment management. Therefore, it seems logical that evolution to a modular, personalized, and hybrid advisory approach is inevitable.

Successful implementation across a diverse customer base will require wealth management firms to push the frontiers of innovation and transformation.

We believe more in a hybrid model. Combining the human touch, which is essential, and digital, which is clearly an enabler to facilitate the relationship between the client and the bank to further nurture all the expertise we provide. Digital can also help us to reduce the cost to serve in this industry as in any other industry."

– **Vincent Lecomte**
CEO, BNP Paribas Wealth Management, France

The amount of information our clients seek online gives us the opportunity to offer them "hybrid-advice." In addition to talking to their advisor, wealth management clients can use a wide selection of online services and make investments online. They can do business whenever and wherever they choose via the device of their choice. On the other hand, companies can benefit from shifting basic processes and services towards an online or mobile channel and thereby save costs."

– **Arno Walter**
Head of Wealth Management & Small-Business Customers, Commerzbank AG, Germany

Nordic wealth firm develops hybrid offering to enhance client engagement

Founded in 2000, Oslo-based Formuesforvaltning (Formue) is a privately owned wealth management firm serving high-net-worth individuals, institutions, and corporations across Norway and Sweden – with an AUM of NOK100 billion (+USD11.7-billion).[39]

Background: Today's client expectations are changing, and Formuesforvaltning executives sought to pivot and deliver Financial Life Management and superior customer experience through greater flexibility, new communication interfaces, and an enhanced real-time advisory model.

Innovative solution: The firm partnered with Salesforce to deliver a hybrid offering featuring traditional human advice and an automated digital platform. The result was a dedicated mobile app built on the Salesforce Financial Services cloud that offers a range of wealth management services. The app serves the complete wealth management journey integrating advisors, experts, and clients. Functionality includes wealth planning and portfolio reporting, with various lenses to drill down to granular data such as by carbon footprint, ESG score, sector, and geography. In addition, the app dashboard reminds clients about tasks and offers on-the-go information such as podcasts and news articles.

Benefits: The Formue app simplifies wealth management for both its advisors and clients. It enables cross-channel engagement and makes client services more easily accessible as investors track portfolio performance and changes from day to day and year to year. As a result, clients review and actively own their portfolios with real-time information and insights in their pocket.

Source: World Wealth Report 2021 Executive Interviews, 2021.

[39] PitchBook, "IK, ICG to back wealth manager Formuesforvaltning," February 23, 2021.

Pushing the frontiers to adopt new-age tech skills will power wealth management metamorphosis

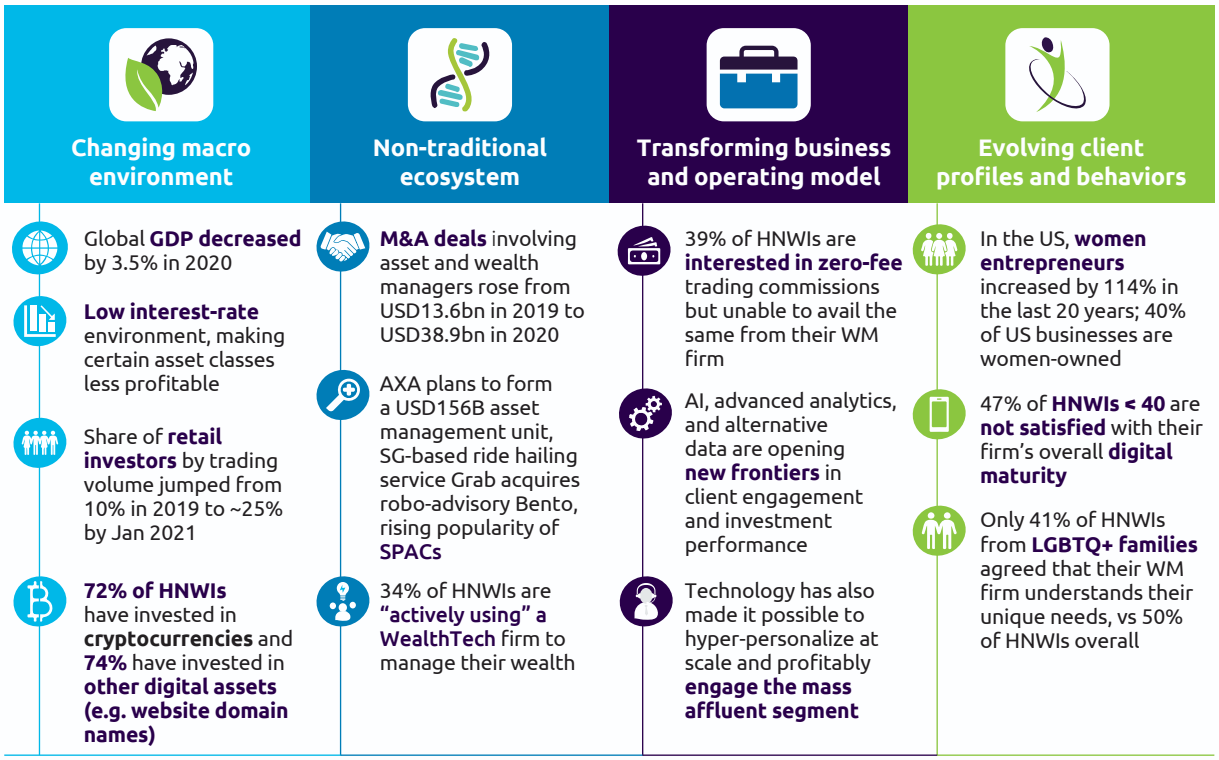
Macroeconomic, technological, and social shifts are accelerating transformation

COVID-19 may have fast-tracked the wealth management (WM) transition to digital, but the industry was already revving for the next competitive lap. Fast and furious changes – both within and outside the industry – have set firms on a challenging new journey (Figure 12).

Changing macroenvironment

COVID-19 intensified the geopolitical uncertainty and global economic slowdown that began in 2019. The IMF estimated that global GDP declined by 3.5% in 2020 and although the institution predicts 6% growth for 2021, it acknowledges the high uncertainty surrounding the outlook depending on the path of global recovery from the pandemic.[40, 41] Many developing economies also face high sovereign debt.

Figure 12. Wide-ranging changes in the WM industry are creating a new playing field for WM firms, Q1 2021 (global)



Sources: Capgemini Financial Services Analysis, 2021; Capgemini Global HNWI Insights Survey 2021, Feb–Mar 2021; text line searches.

[40] International Monetary Fund, "World Economic Outlook Update," January 2021.

[41] International Monetary Fund, "World Economic Outlook – Managing Divergent Recoveries," April 2021.

The low-interest-rate environment is expected to continue in 2021, making certain asset classes – such as cash and fixed income – less profitable.

Wealth management democratization is changing financial market dynamics and unearthing a previously untapped client base.

What's leveling the playing field among wealth bands? Real-time information access, digital investment platforms, reduced fees, lower assets under management (AUM) entry barriers, and the ability for fractional asset ownership.

In the United States, the share of retail investors by trading volume increased from 10% in 2019 to ≈25% by January 2021.[42] These investors are making their presence felt as financial market influencers, as evidenced by the recent GameStop frenzy.[43]

- Our earlier World Wealth Reports offered a cautionary tale, however. When stock markets were volatile, mass-affluent segments and lower wealth bands with less sophisticated, unhedged portfolios were hit hard.

Cryptocurrencies present new opportunities for investors and wealth management firms.

- According to our 2021 survey of more than 2,900 HNW individuals across 26 markets, 72% said they have invested in cryptocurrencies, and 74% have invested in other digital assets such as website domain names.
- However, it will be important for investors and firms to also account for more high-impact price volatility in these currencies. While the price of bitcoin had surged to a record high in April 2021, reaching USD64,829, it had plunged by more than 50% by the second half of May, after Tesla suspended its use for vehicle purchases and Chinese industry bodies banned financial institutions and payment companies from providing services related to cryptocurrency transactions.[44, 45]

Non-traditional ecosystem

The WM competitive map is transforming. 2020 was a year of consolidation in wealth management. Morgan Stanley's acquisition of Eaton Vance and E*Trade and Amundi's stake in Montpensier Finance indicates that firms consider M&A as a means to broaden scale and portfolio offerings as well as capture growth opportunities.[46, 47, 48]

Insurers and universal banks are reprioritizing asset management businesses to bolster revenues in a challenging economic climate.

- French multinational insurer AXA is forming a USD156-billion asset management unit, while Italian insurer Generali will focus on asset management to expand its customer base and diversify revenues.[49, 50]

Non-traditional players in Asia are also exploring investment services to the masses.

- The financial services arm of Singapore-based ride-hailing service Grab acquired robo-advisory startup Bento to offer retail wealth management solutions to users, driver-partners and merchant-partners, via the Grab app.[51]

WealthTechs have become a force as both competitors and enabling partners. In 2020, the WealthTech space generated robust funding and set an annual record of USD3.7 billion across 157 deals through November 2020. Investments grew more than 50% compared with USD2.4 billion throughout 2019.[52]

After a recent lull that seemed to signal the end of the robo-advisory model, robo advisors came back strong in 2020 due to the pandemic's effect on investor behavior.

- 34% of HNWIs told us they actively use a WealthTech firm to manage their assets.

Conversely, collaboration with WealthTechs opens new opportunities for incumbent firms to innovate competitive new products and implement operational cost efficiencies.

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[42] The Economist, "A new epoch for retail investors is just beginning," February 6, 2021.
[43] The Economist, "As trading restrictions are lifted, the GameStop frenzy continues," January 29, 2021.
[44] CNBC, "Bitcoin plunges 30% to $30,000 at one point in wild session, recovers somewhat to $38,000," May 18, 2021.
[45] CNBC, "China bans financial, payment institutions from cryptocurrency business", May 18, 2021.
[46] Morgan Stanley, "Morgan Stanley to Acquire Eaton Vance," October 8, 2020.
[47] The Week, "Why Morgan Stanley is buying E*Trade," February 29, 2020.
[48] CityWire Selector, "Eight of the biggest asset management deals in 2020," December 16, 2020.
[49] Insurance Journal, "AXA Plans to Form $156B Asset Management Unit, Catering to Alternative Assets," March 11, 2020.
[50] Insurance Journal, "Generali Aims to Become Top Player in Asset Management," November 18, 2020.
[51] FinTech Singapore, "Grab Moves into Robo-Advisory with Acquisition of Bento," February 4, 2020.
[52] InvestmentNews, "Wealthtech funding hits record $3.7 billion in 2020," January 20, 2021.

Transforming business and operating models

It is now unavoidable for WM firms to review and refresh fee structures to keep up with HNWI expectations. In 2020, 32% of HNWIs said they were uncomfortable with the fees charged by their firms – with top concerns around transparency (49%), value delivered (44%), and fee levels (43%). While shifting preferences toward performance and service-based fees as mentioned in the 2020 World Wealth Report still hold, there is yet a widening mismatch between existing and desired fee structures (Figure 13).

Alignment around newer types of fee structures has also become an issue, with 39% of HNWIs interested in zero-fee trading commissions but unable to avail the same from their wealth management firm.

Increasingly, technology is critical to competitive advantage and reinventing client interfaces. Artificial intelligence, advanced analytics, and alternative data are opening new frontiers in personalized client interactions and the delivery of superior investment performance. With COVID-19 lasting, virtual channels have become clients' main engagement choice, and digital transformation has taken on new urgency.

Technology has enabled hyper-personalization at scale, making it possible for firms to remain close to HNW clients but also engage with the mass-affluent segment profitably. Incumbents are progressively looking to this segment as a future growth opportunity.

Evolving client profiles and behavior

The wealth management client profile is changing. As generations transfer their wealth and the growing technology economy creates new income sources, client bases morph to include younger and more tech-savvy investors.

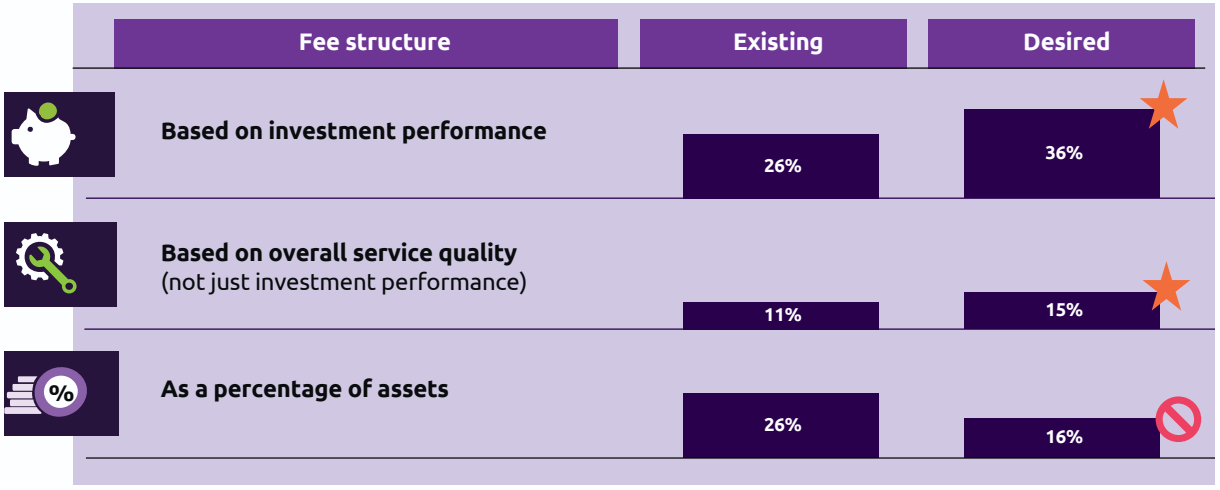
What's more, the percentage of women in the overall client pool is rising through both inheritance and increasing female entrepreneurship.

- In the United States, there are 114% more women entrepreneurs than 20 years ago, and 40% of US businesses are women-owned.[53]

These segments have distinctly different expectations that firms cannot ignore. For example, 50% of HNWIs under 40 would like the option to select purely virtual advice from their firm, compared with 39% of HNWIs overall.

Evolving social and business trends are creating service gaps, too. Traditional family structures are evolving, with an increase in single-parent families, co-habitation arrangements, and same-sex marriages in recent decades.[54] In this context, it will be important for WM firms to demonstrate a deeper understanding of individuals' personal needs. Our survey found that only 41% of HNWIs from LGBTQ+ families thought their firm understood their unique needs compared with 50% of HNWIs overall. With the rise of the gig economy and digital assets such as cryptocurrencies, firms must develop suitable offerings around these trends.

Figure 13. Firms are not meeting HNWIs' shifting fee-structure preferences (%), Q1 2021 (global)



Sources: Capgemini Financial Services Analysis, 2021; Capgemini Global HNWI Insights Survey 2021, Feb–Mar 2021.

[53] Fundera, "Women-Owned Businesses: Statistics and Overview (2021)," December 16, 2020.
[54] Our World in Data, "Marriages and Divorces", accessed May 2021.

Voice of the Executive Steering Committee

A changing wealth management industry landscape

"One of the major changes in the wealth management industry has been client behavior, as clients realize more than before the actual volatility of their wealth. Through tough times, they have acquired an increased understanding of the need for planning, diversification, and hedging."



Michel Longhini
CEO Private Banking,
Edmond de Rothschild, Switzerland

"The COVID-19 crisis has accelerated the ability to interact more digitally with clients, pushing the boundaries of digital adoption and innovation. This digital evolution has enhanced firms' capabilities to take efficient decisions."



Linda Dawudian
Head of Strategy and Development,
BNP Paribas Wealth Management,
France

"Technology has always been the bedrock of human progress, bringing transparency and the ability to measure and assess different factors. AI is making huge inroads in enabling investors to make smarter decisions – making it an irreversible trend."



Georg Kell
Chairman of the Board,
Arabesque, US

"Wealth management firms will have to be more cognizant of the changing demographic landscape and prepare to cater to the various rising segments more than ever before."



Helene Li
Co Founder, GoImpact Capital Partners,
Hong Kong

"Advice can be democratized, and for advisors, this is a huge opportunity to get more clients. Real time information and digital investment platforms have driven the democratization and greater availability of wealth management."



Ned Phillips
Co-Founder and CEO, Bambu,
Singapore

"Technology has opened more investment opportunities to a greater range of clients through new kinds of assets such as cryptocurrencies or tokenized Real Estate and provided access to individual investors to assets generally only accessible to institutional investors such as top-tier private equity funds."



Solenne Niedercorn-Desouches
Non/Executive Director and Senior Advisor in FinTech/VC - Host of podcast,
Finscale, Luxembourg

Amid dynamic conditions, firms must push traditional frontiers to gain a racer's edge

Gone are the days of rigid industry boundaries and definitions that made exploring new sectors daunting, especially the heavily regulated financial services industry. In the quarter-century since we began publishing the World Wealth Report, technology and innovative operating models have spawned game-changing new FS players – from e-commerce giants to car manufacturers.

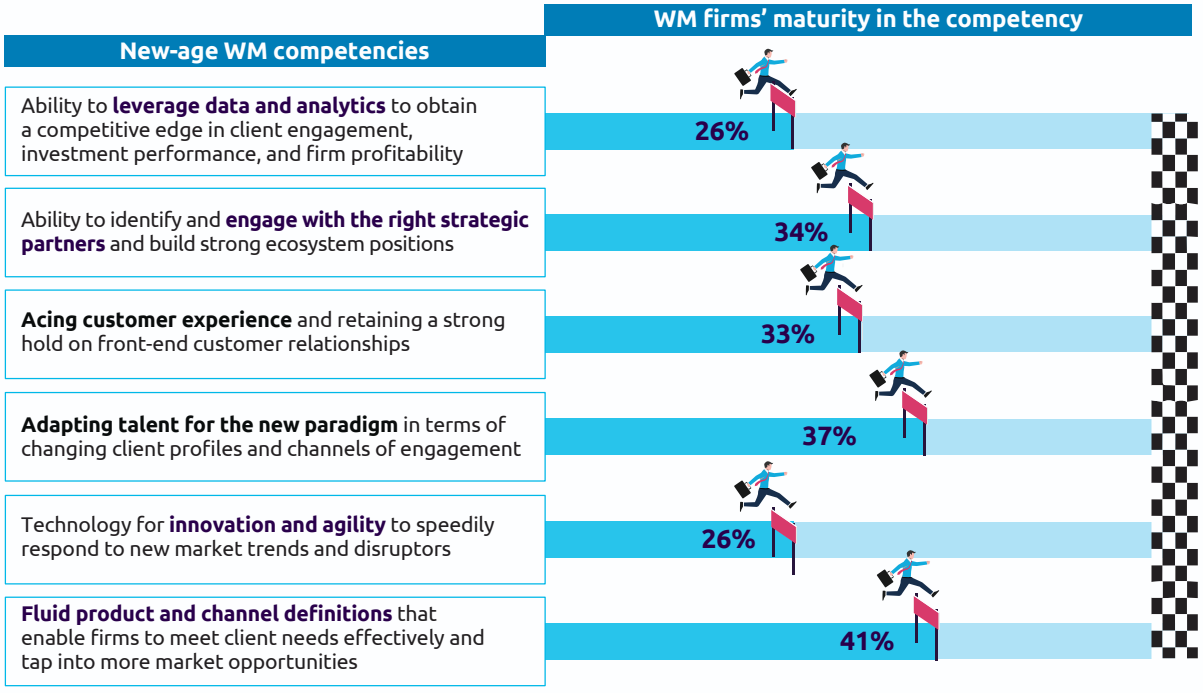
Traditional wealth management competencies, such as years of experience and expertise, are no longer exclusively sufficient to capture client mindshare and new revenue opportunities.

WM competencies are due for a makeover to align with new-age tech firm skills.

- **Data and analytics** capabilities to secure a competitive edge in client engagement, investment performance, and profitability
- Competency to **identify and engage strategic partners** suited to build strong ecosystem positions
- Ability to deliver ***WOW*-factor** customer **experience** and retain front-end customer relationship strongholds
- **Recruiting and upskilling talent** for the new paradigm of changing client profiles and channels of engagement
- **Leveraging technology for innovation and agility** to respond to market trends and disruptors quickly
- **Fluid product and channel definitions** that enable firms to meet client needs effectively and tap more market opportunities.

Our survey and interviews of almost 100 wealth management executives around the globe indicates that firms have yet to master new-age competencies, with less than half reporting high maturity on any competency (Figure 14). While firms are now relatively savvier in empowering talent and adapting products and channels, they still lag behind significantly in leveraging data and technology.

Figure 14. WM firms face hurdles in mastering new-age competencies (%), Q1 2021 (global)



Sources: Capgemini Financial Services Analysis, 2021; WWR 2021 Executive Survey, Mar–Apr 2021.

Leveraging data and analytics

Traditionally, wealth management firms relied on industry expertise to deliver investment performance and on long-standing client relationships to provide personalization. However, data and advanced analytics is the not-so-secret weapon new players are leveraging to leapfrog this venerable foundation and achieve similar outcomes faster and more effectively.

Data and analytics competencies are now critical for WM firms.

- Bespoke client engagement through a 360-degree client view
- Streamlined and targeted investment research aided by automation and natural language processing
- More accurate investment decisions enabled by alternative data and predictive analytics
- Enhanced productivity as firms empower advisors with deeper client insights, next-best-action recommendations, and scenario analysis tools.

Behavioral finance is a high-potential tool enabling firms to study the impact of psychological and emotional influences on the investment behavior of clients and advisors. Early-adopters are using it to design personalized investment propositions, such as portfolios based on an individual's risk adversity, anxiety sparked by market volatility, and emotional response to investments. Similarly, a study of advisors' investment recommendation patterns can be used to de-bias decision making. Assessing various client behavioral data can be a very powerful and cost-effective tool to enhance engagement and mitigate attrition, such as proactively identifying at-risk individuals based on their unusual login patterns.

Singapore's DBS Bank uses AI and data analytics to build intelligent banking capabilities that combine predictive analytics and customer-centric design to personalize recommendations. The DBS wealth management app iWealth recommends sector-specific stocks based on clients' investment portfolios or notifies them about favorable forex rates in their trading accounts.[55]

> ***Client evolution is becoming the change engine and the basis of investment evolution. Through big data, wealth management firms are moving to dynamic segments, where every client is a segment in themselves, and firms can hyper-personalize the offerings to specific needs."***
>
> **– Adela Martín**
> Private Banking Director, Santander España, Spain

> ***One of the key steps towards leveraging the full potential of data and analytics will be to build the ability of foreseeing rather than only understanding where the client is heading; the important piece will not be the analytics itself, but the actions that will come from its understanding."***
>
> **– Gonzalo Pradas**
> Head of Wealth Management and Chief Investment Officer, Openbank, Spain

[55] ComputerWeekly.com, "DBS taps AI and data analytics in intelligent banking move," September 21, 2020.

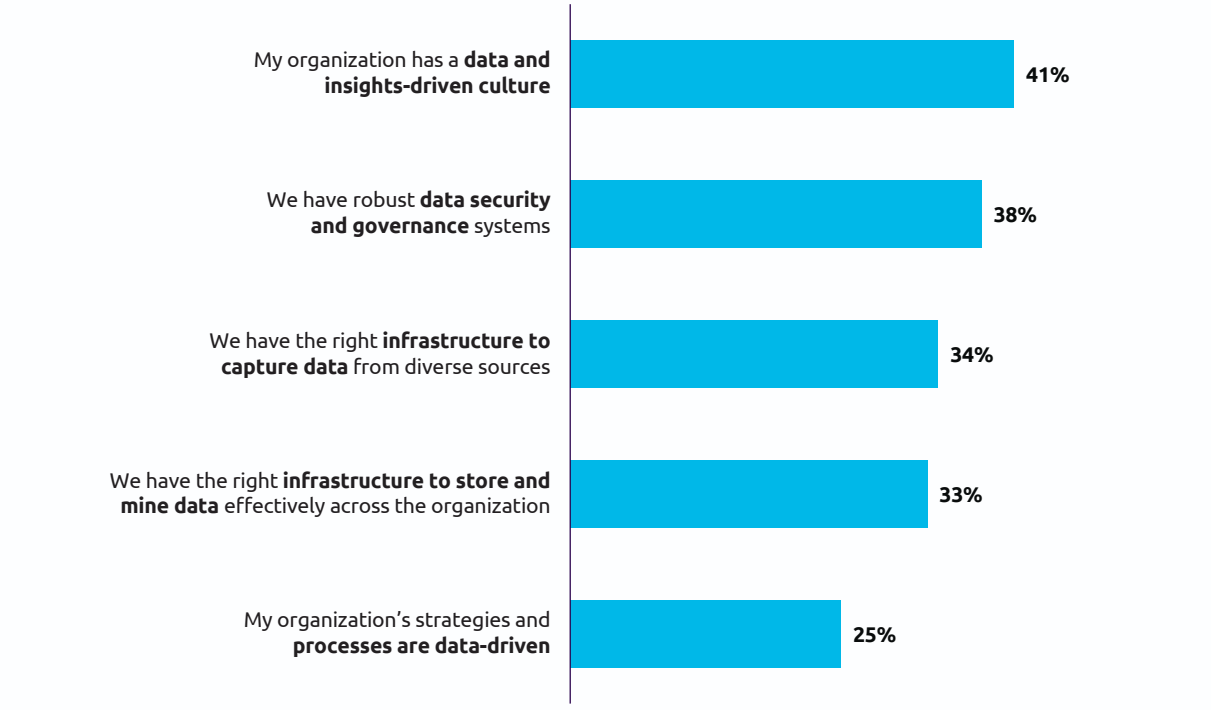
Are wealth management firms prepared to tap data potential?

Fewer than half of the executives surveyed said they are confident in their firm's data readiness. Although WM firms are doing relatively well in the soft skills of data governance and building a data-driven culture, there are more significant gaps in infrastructure implementation and data-driven organizational processes (Figure 15).

Only 51% of firms tapped some form of alternative data for investment analysis. Consumer spending data (43%), data sourced from expert networks (36%), and social media data (32%) were the most popular.

> ***Democratization of data is going to be the new norm and its use is across the full lifecycle. This will be a key in advisors' ability to truly become coaches of investors rather than simply managing portfolio alpha. This is also important to provide the level of personalization in products and services required to be relevant to the changing circumstances of an investor."***
>
> **– Joseph Nadreau**
> Managing Director – Innovation and Strategy, Wells Fargo Advisors, US

Figure 15. Capturing and managing data is a vital opportunity area (%), Q1 2021 (global)



Sources: Capgemini Financial Services Analysis, 2021; WWR 2021 Executive Survey, Mar–Apr 2021.

Edmond de Rothschild Smart Estate Fund leveraging AI for relevant investment opportunities selection

Edmond de Rothschild's Smart Estate Fund was created in 2018 through the collaboration between various entities of the Edmond de Rothschild Group (Private Bank, Private Equity and Real Estate Investment Management). It is a real estate fund targeting the best cities of the Eurozone.

Innovative solution: The EUR115M fund uses a new approach in real estate investment to select and benchmark key investment criteria in European cities using next-generation technologies.

The company's investment committee uses a combination of proprietary research and in-house expertise to identify current and future real estate prospects. The investment recommendations are derived from dedicated data sources, wherein machine learning algorithms are run to detect patterns to forecast profitability for over five years. The algorithm of the AI system, developed by Swiss-based FinTech AAAccell, systematically analyses ~8,000 economic, urban, social, and financial variables.[56,57]

Benefits: Using a proprietary AI platform and big data, the fund is making precise selection of assets based on latest trends and market knowledge. The use of external data is enabling the fund to build a more accurate and resilient model guiding in investment decisions.

Source: World Wealth Report 2021 Executive Interviews, 2021.

Strategic ecosystem engagement

With rapid-fire changes besetting the industry and COVID-19 accelerating shifts to new channels and operating models, firms must innovate quickly to keep up with new entrants and changing client demands. Yet, revenue and margin pressures are constraining.

An **Open X** collaboration mindset and strategy can boost rapid innovation while balancing it with cost and margin considerations. The Open X approach considers evolving towards joining open ecosystems in which participants e**X**change data and resources seamlessly to e**X**pedite innovation and deliver superior customer e**X**perience. It prioritizes true customer experience over selling pre-packaged products, empowering data over relying on assets, delivering fast through partnerships over a build/buy mindset, and making it happen through a shared access approach over full ownership.

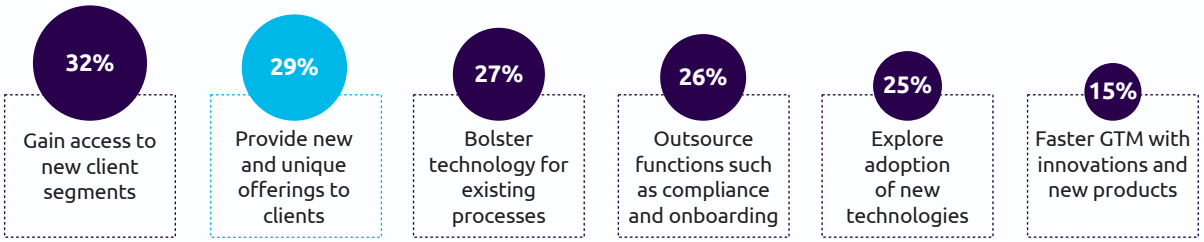
Firms can achieve a variety of objectives via ecosystem partnerships
WealthTechs act as enablers for wealth management firms to enhance capabilities, expand reach, respond to market trends with new offerings and fast GTM, and attain cost efficiencies. • **Banco Itau International** partnered with **Finantix** (now part of InvestCloud) in 2020 to leverage its Digital Collaboration Hub and quickly deploy client service capabilities such as advisory support, market updates, and onboarding and origination workflow-driven processes.[58]
BigTechs can be valuable distributors considering their vast customer base and integration into customers' daily lives. • E.g., Firms can embed investment management functionalities into messenger apps, making clients' investments one click away from their daily communications app.
Financial services firms can partner with other FS players to explore common products on new technologies such as blockchain. • Credit Suisse and BlackRock plan to work together to build and distribute sustainable funds. The firms will offer clients private market investment opportunities that embed sustainability considerations.[59]
Other third-party players and WM firms can work together to mutualize non-differentiating functions, access new distribution channels, or reach new client segments.

[56] Propertyfundsworld, "Edmond de Rothschild's Smart Estate Fund signs first deal," May 2019.
[57] PlaceTech, "Edmond de Rothschild embraces AI with new fund," May 2019.
[58] Private Banker International, "Itau selects Finantix Digital Collaboration Hub for US and Swiss clients," May 6, 2020.
[59] Citywire Americas, "BlackRock and Credit Suisse planning joint ESG product line," February 16, 2021.

WM firms are now partnering with WealthTechs for a lot more than outsourcing or technology adoption use cases. While collaborative models are still emerging in wealth management, WealthTech partnerships are clearly becoming more strategic.

- Our executive survey participants said their top two reasons to collaborate with WealthTechs are to gain access to new client segments and to provide new and unique offerings to clients (Figure 16).

Figure 16. WealthTech partnerships yield improvements in CX and reach (%) for firms, Q1 2021 (global)

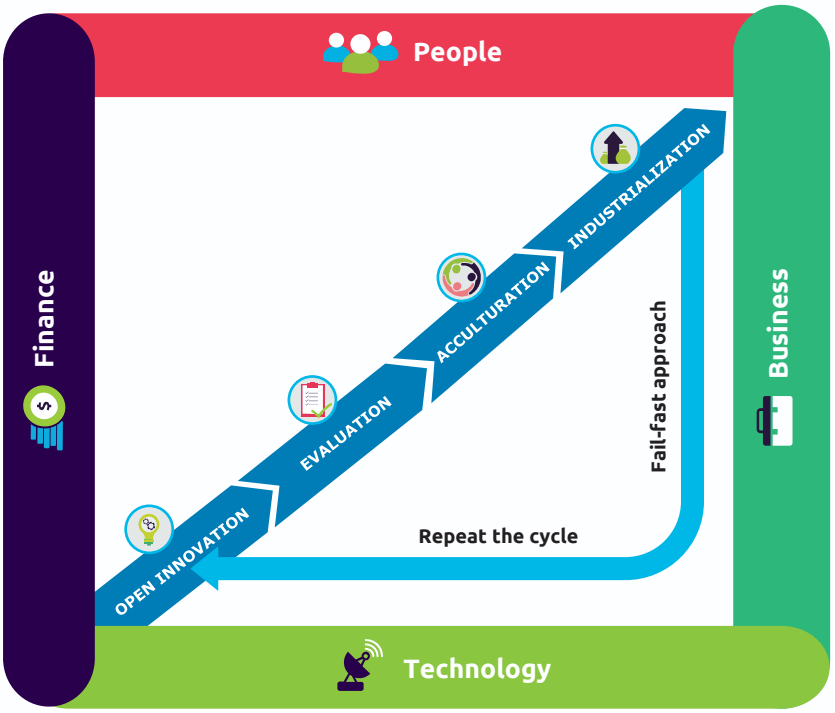


Sources: Capgemini Financial Services Analysis, 2021; WWR 2021 Executive Survey, Mar–Apr 2021.

Even as wealth management firms explore various use cases of collaboration, the next step is to assess if they are ready for collaboration at scale so as to industrialize the benefits. Banks are often unable to achieve the desired return on investment (RoI) from collaboration efforts due to challenges posed by legacy technology and culture.

The Open X Readiness Index provides a multi-dimensional view of a firm's maturity and readiness to effectively collaborate at scale with an open ecosystem. The index evaluates banks' collaboration readiness across the four "pillars of effective collaboration" (People, Finance, Business, and Technology) and the four "moments of effective collaboration" (Open Innovation, Evaluation, Acculturation, and Industrialization) to identify strengths and pain points (Figure 17).

Figure 17. The Open X Readiness Index provides a multi-dimensional view of banks' collaboration readiness



Source: Capgemini Financial Services Analysis, 2021.

Delivering the WOW! factor in customer experience

Client experience (CX) is in the latest battleground as products become commoditized. As industry boundaries blur – and BigTech entry looms – wealth management cannot give client experience short shrift and expect relationships to remain strong during competitive disruptions. HNWIs want personalization and seamless digital interfaces on par with their other daily transactions. While wealth management firms have been taking steps to address this, 51% of HNWIs still say they are not satisfied with their firm's personalized offerings or digital interfaces. Moreover, clients increasingly seek support beyond investments, with 36% saying that a firm's lack of value-added services might drive them elsewhere.

> ***Client expectations from advisors have evolved from expecting specific investment recommendations to looking to advisors for comprehensive advice across their entire financial lives."***
>
> **– Stacey Gaine**
> Managing Director, Wealth Management at Bank of America, US

Considering that consumers regard BigTechs as CX frontrunners, can wealth firms adapt tech-giant strategies to push client engagement frontiers?

Hyper-personalization – BigTechs are standouts thanks to their ability to hyper-personalize customer experience. **Spotify** creates custom workout music playlists based on a short quiz and data from users' past preferences.[60] Likewise, wealth management firms can hyper-personalize client journeys through individualized product recommendations and updates, custom portfolios, and value-added services.

Comprehensive customer ecosystem – BigTechs often provide customers an ecosystem through allied offerings that increase the likelihood shoppers will use their products. **Amazon Prime** membership includes benefits across various Amazon services – online shopping, video and music streaming, and e-books – to boost customers' likelihood of staying in their ecosystem.[61] Similarly, wealth management can benefit by creating a comprehensive financial services ecosystem that leverages synergies across clients' FS and non-FS needs – such as banking, insurance, and wealth management. In fact, 54% of HNWIs say they would like to access all financial services from one platform.

Intuitive interfaces – Intuitive interfaces that reduce customer journey friction are a BigTech best practice suited for WM firm adoption. Apple has a reputation for intuitive device interfaces, from the early use of graphics to initial use of skeuomorphic design that mimics real-world objects to accustom customers to digital interfaces.[62] Interactive client reporting, simplified product explanations, and opti-channel capabilities are ways wealth management firms can make the client journey more seamless and intuitive.

Integrating with customers' daily life and across services – BigTechs are integral to consumers' everyday lives through their branded and third-party platforms. Google stays top of mind through its location mapping and login functionality featured across various other applications.[63] Likewise, wealth management firms, with the "family office spirit", can embed themselves into customers' lives by integrating with other platforms such as online banking or personal financial management tools.

Conversely, WM firms have unique customer service and engagement strengths that will be difficult for new entrants to replicate:

- Depth of relationships, trust, and the element of exclusivity
- Depth and breadth of offerings and a strong track record of performance
- An ecosystem of specialists for tax, legal, and other financial requirements
- Risk management expertise
- A strong understanding of local markets and regulations

Maximizing these strengths while addressing personalization and digital capability gaps can bolster efforts to retain HNWI loyalty in the face of new competition.

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[60] TechCrunch, "Spotify's new personalized playlists are designed for your workouts," July 8, 2020.
[61] Amazon.
[62] Interaction Design Foundation, accessed April 2021.
[63] Google.

Wealth management firms today are aware that they must create a sustainable competitive advantage by improving their clients' experience. In the current digital marketplace, customers are more demanding than before. Investors are searching for the intuitiveness, personalization, and proactive interactions they have with BigTechs from their wealth management firms."

– Shaka Rasheed
Managing Director – Capital Markets, US Financial Services, Microsoft, US

Adapting talent for the new paradigm

In the World Wealth Report 2003, a post-crisis analysis revealed that while HNWIs shifted to a more self-directed investment approach when markets performed well, they sought advice during the uncertainty after the tech-bubble collapse.

Within today's VUCA (volatile, uncertain, complex, and ambiguous) world, human advisory support remains relevant even as digital platforms gain traction. Thus, while wealth management firms should provide self-service platforms to meet today's needs, it is equally important to invest in employees and prepare them to cater to the changing client pool amid new market trends.

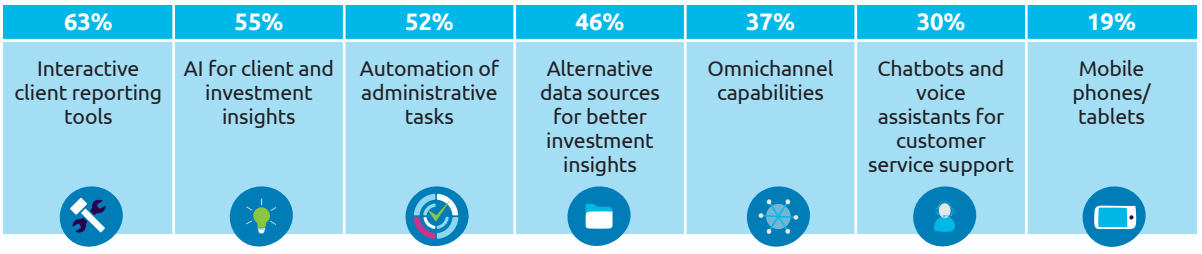
Talent is the future: nurture it through hiring, re-skilling, and digitally empowering.

1. **Hiring:** In consideration of the changing wealth management client profile, firms will need a more diverse advisor workforce. 57% of HNWIs say they would prefer an advisor who matches their socio-demographic profile as they expect them to understand their needs better.
   – J.P. Morgan Wealth Management will boost diversity by hiring ~300 additional Black and Latinx advisors by 2025. The bank's US Wealth Management division created an *Inclusive Investing* team to lead the strategic design and delivery of products to serve women, people of color, and other under-represented investor groups.[64]
2. **Re-skilling:** It is also essential for wealth management firms to train and re-skill current staff to service new client profiles and adapt to new service delivery channels. Only 38% of wealth managers say they are confident in their ability to understand the unique needs of millennials and engage with them effectively.
3. **Digital empowerment:** Technology can empower advisors to serve clients efficiently by automating administrative tasks and freeing time for more value-adding activities. AI and analytics can offer deeper client insights and next-best-action recommendations. And reporting tools provide the latest market information and real-time updates.
   – However, 63% of wealth managers say they aren't satisfied with their firm's efforts to provide them with tools and training to meet the demands of changing client demographics.

Our executive survey indicates that more firms take steps to up-skill advisors or empower them with digital tools (51%) versus hiring a more diverse workforce (38%).

In terms of tools and technologies, wealth managers want their firms to prioritize investment in interactive client reporting, AI for client and investment insights, and automation of administrative tasks (Figure 18).

Figure 18. Six out of 10 wealth managers want their firms to invest in interactive client reporting tools, Q1 2021 (global)



Sources: Capgemini Financial Services Analysis, 2021; WWR 2021 Wealth Manager Survey, Mar–Apr 2021.

[64] JPMorgan Chase, "J.P. Morgan Wealth Management Unveils Plan to Boost Diverse Advisor Hiring," March 26, 2021.

> ***In addition to financial skills, it will be important for advisors to embrace the full potential of new technologies to augment their capacity to meet the evolving expectations of clients."***
>
> **– Michel Vuilleumier**
> Head of Enterprise Architecture,
> Pictet Group, Switzerland

Technology for innovation and agility

COVID-19 made physical channels and office spaces redundant overnight, and, quickly, firms across industries had to adopt virtual client interactions and new ways of working. Those with robust technology infrastructure adapted their operating models in short order. Some even captured opportunities by rolling out new products that met pandemic market needs.

Innovation and agility are reliant upon technology – particularly during disruption or black swan events.

- **Cloud-based infrastructure and applications** offer speed, flexibility, and scalability to adapt to changing market requirements cost-effectively. Increasingly, WM firms are exploring the cloud for various use cases. Vanguard uses AWS cloud-integrated models to deliver data-driven analytics, while RBC relies on a private AI cloud to drive intelligent applications to market faster.[65]
- **Open APIs** allow firms to follow a plug-and-play model for new capabilities that enable agility and a faster go-to-market (GTM) strategy. UK-based digital wealth manager Nutmeg partnered with API-provider TrueLayer so clients can make investments quickly via open banking.[66]
- **Microservices** are a critical software development approach to achieve agility and flexibility, faster time to market, and better customization. In this approach, applications are built as an assembly of independent functional modules that can communicate with each other, making it easy to enhance and update applications.

COVID-19 was a wake-up call to accelerate technology investments. The wealth firm executives we surveyed said cloud, advanced data analytics, and intelligent automation are now on their investment wishlist or have become a budgetary priority.

Fluid product and channel definitions

In a world of constant innovation and disruption, WM firms constrained by traditional product and channel definitions hinder their market opportunities. History is rife with examples of top brands across industries that became extinct because of static product ideas. The ability to creatively explore new products and channels beyond traditional boundaries will determine future growth leaders.

In efforts to meet clients' evolving needs, non-traditional products merit exploration.

- **Cash management solutions that maximize returns from savings** – WealthTech firms, including Wealthfront and Robinhood, offer cash management solutions that make it attractive for investors to park uninvested funds with the firms. The strategy keeps client wealth within the firm's ecosystem and easy to move to investments when required.[67, 68]
- **Offerings for new asset classes such as emerging forms of currency** – Apart from designing innovative offerings for traditional asset classes such as cash and equity, it is time for wealth management firms to be prepared with offerings for emerging asset classes such as cryptocurrency and even potential future asset classes such as carbon currency! Goldman Sachs is preparing to meet its private wealth management group clients' cryptocurrency requirements through investment vehicles for bitcoin and other digital assets in 2021.[69]
- **New investment avenues** – New HNWIs arising from the tech industry are exploring new investment avenues such as direct investment opportunities by creating a VC group or crowdfunding or through increasingly popular special purpose acquisition companies (SPACs).[70]

[65] FinTech News, "Wealth Management IT Spend: Cloud Priorities in the Age of COVID-19," February 5, 2021.
[66] Finextra, "Nutmeg introduces Open Banking payments," July 30, 2020.
[67] Wealthfront, accessed April 2021.
[68] Robinhood, accessed April 2021.
[69] CNBC, "Goldman Sachs is close to offering bitcoin and other digital assets to its wealth management clients," March 31, 2021.
[70] CNBC, "What is a SPAC? Explaining one of Wall Street's hottest trends," January 30, 2021.

What's more, SPACs are starting to target firms in the wealth management space, and some advisory firms looking for capital to level up their growth are considering partnerships.[71]

> ***Wealth management firms need to expand their perspective on products to consider not only traditional investable assets such as equities and fixed income, but non-investable assets such as life insurance and non-bankable assets (i.e., passion investments, real estate, business ownership) in order to bolster their revenues. This will become more important in the future, as upcoming generations will look to invest and plan their financial lives in ways that differ greatly from previous generations."***
>
> – **Kerry Ryan**, CPWA(R),
> Director, Industry Solution
> Go to Market, Salesforce, US

Look beyond traditional definitions of channels to access new client segments.

Channels need not be confined to online or branches. Any avenue that enables greater client reach – such as strategic partnerships – can be considered a distribution channel.

- UOB Asset Management partnered with communications technology firm Singtel to offer robo-advisory investment services to individual investors through Singtel's Dash mobile wallet.[72]
- Morgan Stanley's acquisition of E*Trade and Solium bolstered its existing capabilities and offered access to a younger demographic in their early wealth accumulation years.[73, 74] Likewise, the bank's acquisition of Eaton Vance enhanced its access to US retail investors.[75]

Online marketplaces are already widely present in insurance where policyholders compare and buy products. Wealth management may be the next frontier. A nascent example is India-based Fisdom, a platform that provides access to multiple investment products, including mutual funds and insurance schemes.[76]

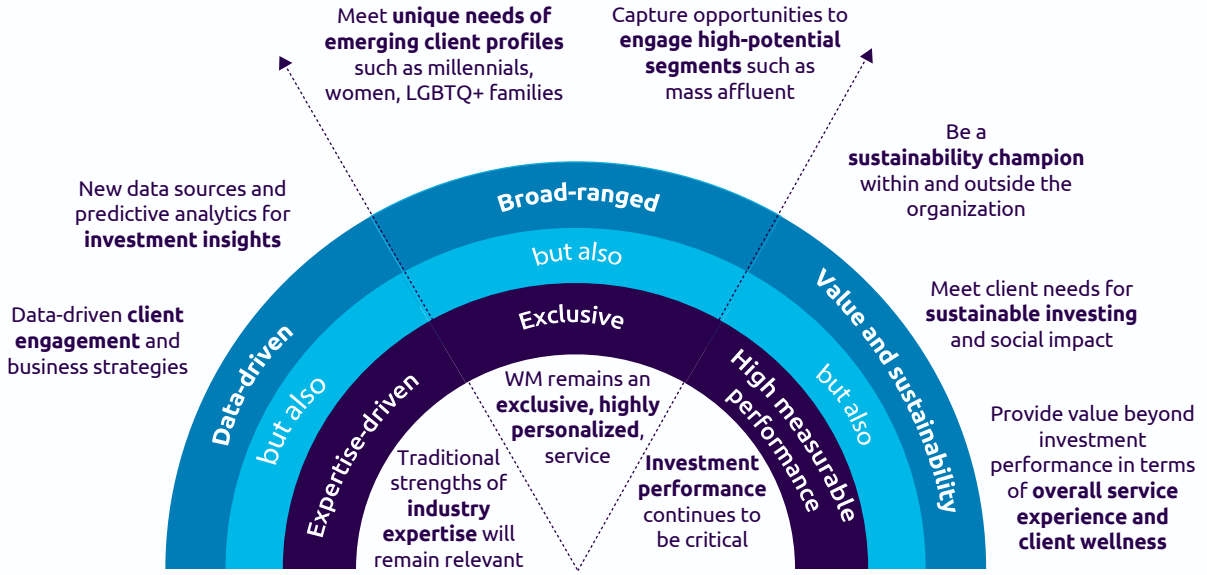
Beyond expanding core wealth management competencies, future-proofing requires wealth management firms to push legacy mindset boundaries. The new-age wealth management firm will be expertise-driven but also data-driven, exclusive but also broad-ranged, and provide high measurable performance but also value and sustainability (Figure 19).

> ***One of the biggest changes in wealth management over the years is the move to humanize financial services/wealth management. There is a recognition that connecting meaning and money – rather than just focusing on accounts and performance – helps clients stay connected to their strategies, which creates better client and business outcomes."***
>
> – **Michael Liersch**
> Head of Advice & Planning, Wealth & Investment Management, Wells Fargo, US

> ***Private banking has further evolved from a service to wealthy clients which was mainly focused on the management of investments towards a much more holistic approach looking also at future generations and different components of the clients' wealth. This also means that private banks are now playing in a different competitive landscape."***
>
> – **Kristof Kustermans**
> Head of Private Banking, ING Belgium, Belgium

[71] Barrons, "How Firms Should Handle SPACs as They Eye Wealth Management," January 14, 2021.
[72] United Overseas Bank Asset Management, "Singtel's Dash and UOB Asset Management to make investing more accessible with robo-advisory collaboration," December 14, 2020.
[73] The Week, "Why Morgan Stanley is buying E*Trade," February 29, 2020.
[74] Morgan Stanley, "Morgan Stanley to Acquire Solium, Creating a Leading Provider of Stock Plan Administration and Workplace Wealth Solutions," February 11, 2019.
[75] Morgan Stanley, "Morgan Stanley to Acquire Eaton Vance," October 8, 2020.
[76] The Tech Portal, "Wealthtech startup Fisdom raises $7 million in latest round led by PayU," December 7, 2020.

Figure 19. Expanding a firm's cultural mindset can open doors to new opportunity



Source: Capgemini Financial Services Analysis, 2021.

Fluid product and channel definitions: Nordic bank extends beyond traditional products to broaden client relationships

Helsinki-based Nordea is the Nordic region's largest financial services group, serving individuals, small- and medium businesses, corporations, and institutions. The firm has a presence in 20 European countries and ~28,000 employees.[77]

Background: Typically, only the wealthiest investors in Norway could take advantage of direct investments in private equity (PE) funds. However, Nordea (which combines Nordic and Idea) noticed an increased demand for personalized investment strategies and beyond-traditional investment products. Nordea Private Banking wanted to meet its HNW customers' rising interest in direct PE investment opportunities – a service that had not been available in the Norwegian market.

Strategic implementation: To make PE investments available to non-professional investors, Nordea Private Banking partnered with Cubera, a specialized PE fund-in-fund investment firm – with Oslo and Stockholm offices – that offers tailored and diversified exposure to private equity. The partnership allows Nordea clients to participate in Cubera's latest funds – which Norwegian non-professional investors otherwise have had to sign up with a minimum USD6-million investment. However, Nordea's offering allows clients to participate with ~USD30,000 through an FSA approved feeder fund.

Benefits/results: The offering was an enormous success, with more than NOK500 million (USD60 million) raised over three days. Nordea customers can now access a product previously available only to ultra-HNWIs and institutional investors. The Cubera offering is part of Nordea's strategy to serve as a customer hub, offering branded products as well as third-party products outside its core product lines through value-adding partnerships. The offering is planned to continue with new PE vintages being offered to customers.

Source: World Wealth Report 2021 Executive Interviews, 2021.

[77] Nordea, accessed April 2021.

Technology for innovation and agility: Shift to elastic cloud-based infrastructure enables Rockefeller Capital Management to quickly adapt during the pandemic

Rockefeller Capital Management is a financial advisory firm specializing in wealth planning, accounting, investment strategies, and other consulting services, primarily in the US.

Business objective: Expansion of private wealth management and advisory services after an acquisition in 2018 meant the next generation of strategic technology implementation for Rockefeller Capital Management. The wealth management firm required a solution which was secure and could be scaled as the company increases its geographic footprint beyond its 14 offices in the US.

Strategic implementation: Rockefeller Capital Management was assisted by Microsoft in a modernization initiative to move its infrastructure on Microsoft Azure for seamless and secure client experience. A shift to Azure, Dynamics 365, and Microsoft 365 helped Rockefeller address the need for creating efficiency for its employees, elasticity in its infrastructure, and integration across assets.

To enable a better user experience, the solution provided single sign-on, along with end-to-end identity access management, enabling client and account teams to share and collaborate within the same security infrastructure. Moreover, in order to ensure that consolidated client information is included in advisors' dashboard and reports, the company integrated several vendor-specific APIs through Azure API management.

Through the deployment of the solution, employees from multiple internal teams could use the collaborative functionalities in Microsoft Teams and Microsoft SharePoint to rapidly develop as well as deliver the required services and features.

Benefits/results: When the pandemic began, many wealth managers and wealth management firms were not prepared to work remotely with their clients. As per a 2019 survey, 66.7% of the wealth mangers never or rarely worked from home.[78] Rockefeller Capital Management, with its newly elastic cloud-based infrastructure, was able to easily manage the COVID-19 shift to work from home. The company took the advantage of scaling its infrastructure on Microsoft Cloud and was able to provide Windows Virtual Desktop to triple the size of its virtual PC environment and remote access capabilities in just 48 hours. Also, the company faced no loss of productivity during the transition and the process had very low friction for the IT team.

Source: World Wealth Report 2021 Executive Interviews, 2021.

[78] RIA Intel, "Remote Work Has Been a Success. Advisors Plan to Return to the Office Anyway," November 19, 2020.

Voice of the Executive Steering Committee

Building new-age wealth management competencies

"The battleground for customer mindshare will be in how firms provide advice and content at scale in a way that is personalized. Firms can achieve this by replicating human personalization and augmenting advisor capabilities with the help of technology."



Marc Van de Walle
Global Head, Wealth Management, Standard Chartered Bank, Singapore

"Hyper-personalization is where the action is in wealth management. For firms, there's an opportunity to get closer to clients by explaining the use of data and how it can be used to hyper personalize the client experience."



April Rudin
Founder and CEO, The Rudin Group, US

"The foundational element of client experience management is data and really knowing the investor by tapping into various data sources. Firms can also look into non-financial dimensions of customer behavior, such as digital interactions, purchase behaviour, lifestyle attributes, or client sentiment, to better understand their goals and preferences."



Christopher Young
Director – Industry Strategy & Marketing, Financial Services, Adobe, US

""How do you use the data?" Organizations need to answer this question in order to keep up with changing customer expectations. New data strategy together with AI, will help better segment clients and capture some of the low hanging fruits."



Alexandre Duret
Product Director – Wealth Management, Temenos, France

"Future growth for wealth management firms will come from an advisor-centered model with a depth and breadth of experiences. The industry will continue to move towards truly valuing the entirety of advice being offered to clients."



Greg Gates
CIO, LPL Financial, US

"Wealth management firms need to design their processes and operations around the client in order to meet HNWI expectations for superior CX."



Yann Charraire
CEO, Airwealth, France

"There is an opportunity for firms to provide 360-degree wealth management, with a holistic view of both financial and non-financial assets in one place. The future battleground will be about providing a holistic relationship to clients."



Christine Ciriani
CEO – Private Banking & Wealth, InvestCloud, Switzerland

"Mutualization is a key way forward as it provides bandwidth to focus on clients and at the same time, leverage on specialized Fintechs for improved client relationships."



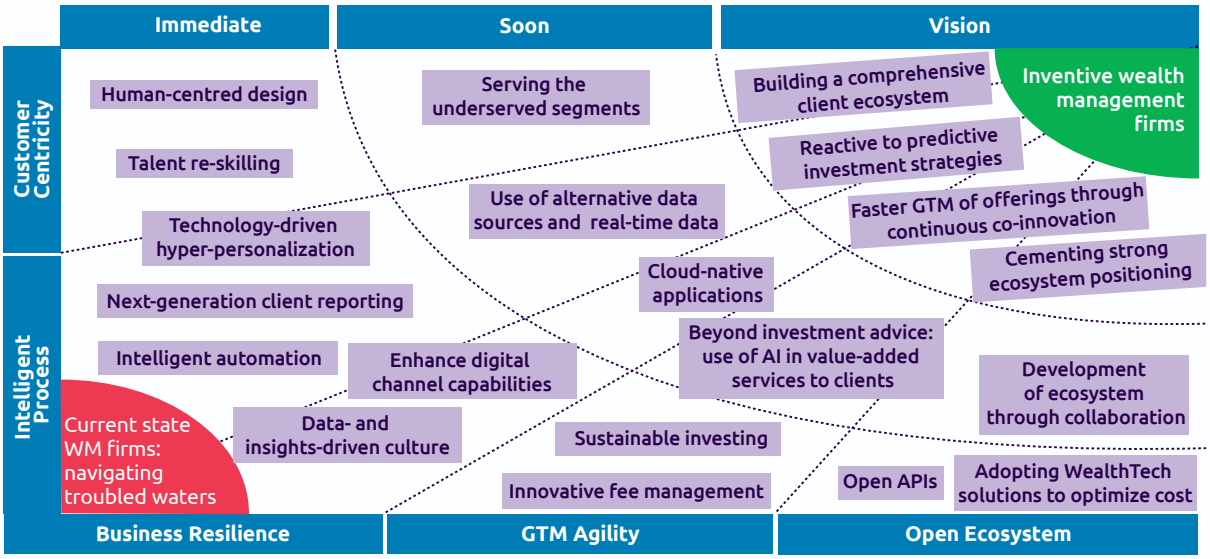
Frederic Kemp
Chief Market Officer, Azqore, Switzerland

Building blocks for the future: human-centered design, data and insights-driven culture, sustainable investing

As firms navigate away from today's challenges and begin the metamorphosis to inventive wealth management, they will need new-age building blocks. Our phased roadmap will help lay the foundation for:

- Client-readiness, in terms of customer centricity
- Ecosystem-readiness, in terms of an open ecosystem approach
- Organizational-readiness, in terms of intelligent processes, business resilience, and GTM agility (Figure 20).

Figure 20. Lay a foundation for client-, ecosystem-, and organizational readiness by following a phased approach



Source: Capgemini Financial Services Analysis, 2021.

Human-centered design, data and insights-driven culture, and sustainable investing are especially relevant in the post-pandemic world.

Human-centered design

As firms step up digital transformation driven by pandemic effects, embedding customer centricity and advisor centricity in the design of products and interfaces will ensure a superior last-mile experience.

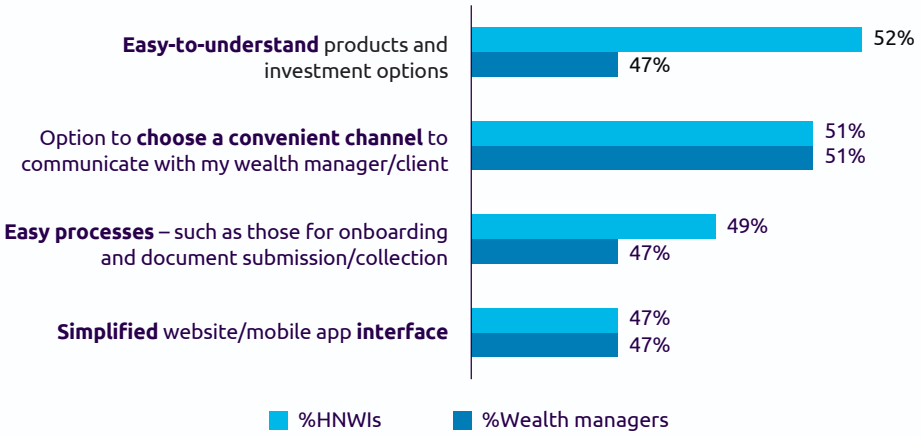
Our surveys found that HNWIs and wealth managers are not particularly satisfied with existing processes and interfaces. Products' ease of use, convenient channel options or processes, and online/mobile interfaces wowed around half (or fewer) (Figure 21).

Wealth management firms that follow human-centered design methodologies consider their clients' needs, context, behaviors, and emotions when developing products and services. A user-centric model is critical to building an enhanced client experience, innovating products, and developing solutions.

- Schwab Advisor Services developed a *Digital Account Open tool* and enhanced onboarding to streamline advisors' workflow and make the onboarding process seamless for clients.[79]

[79] ThinkAdvisor, "Schwab: Digital Onboarding, Money Transfers Surge Amid Pandemic," May 6, 2020.

Figure 21. HNWIs and wealth managers report low satisfaction with existing processes/interfaces (%), Q1 2021 (global)



Sources: Capgemini Financial Services Analysis, 2021; Capgemini Global HNWI Insights Survey 2021, Feb–Mar 2021; WWR 2021 Wealth Manager Survey, Mar–Apr 2021.

Data and insights-driven culture

Data is increasingly becoming one of the most critical assets for any firm. However, the organization needs a data and insights-driven culture to truly realize all benefits.

Firms can enable cultural change through investments across three dimensions		
People	**Process**	**Technology**
Build a data-empowered workforce through unwavering leadership support and employee training to upskill on new analytical tools.	Break data silos through a strategic centralized database and dedicated data units that ensure all processes incorporate data and insights.	Implement a data-empowered digital infrastructure and provide advisors with digital tools – advisor workstations, apps, and gamification – to better understand clients and investment performance and improve financial planning.

- Technologists, scientists, programmers, and problem solvers employed at the UBS innovation center harness technology and data to cater to evolving client needs. The lab uses a vast data set for any decision and leverages data analytics to develop novel solutions.[80]

Sustainable investing

While rising in popularity in recent years, demand for sustainable investing has accelerated in 2020. A Capgemini Research Institute survey of +11,000 consumers found that the proportion of consumers who prefer to invest in assets with a positive societal impact despite lesser returns increased from 31% before the COVID-19 outbreak to 46% by November 2020.[81]

HNWI demands around sustainable investing are also maturing, and they now expect more information on sustainable investment opportunities as well as more customized sustainable investing solutions.

- 43% of ultra-HNWIs and 39% of HNWIs age 40 or younger are likely to request an environmental, social, and governance score for products offered by their firm.
- Industry executives note a growing demand for sustainable investing education, which underscores the need to build informational resources for clients and advisors.

[80] UBS, accessed April 2021.

[81] Capgemini Research Institute, "After the COVID-19 vaccine… What will define success in the financial services new normal?" March 2021.

In terms of sustainable investing strategies, theme-based investing to support specific causes emerged as the most popular. One of five wealth managers also says that their clients' most preferred approach is to optimize the ESG score of their existing portfolios (Figure 22).

However, wealth management firms and wealth managers grapple with measuring the impact of and returns from sustainable investing. A top challenge for 41% of wealth management firms and 36% of wealth managers is finding accurate ESG impact data. The lack of clarity regarding sustainable investment returns also is problematic.

- 38% of wealth management firm executives said sustainable investing might deliver less competitive returns, and 47% of wealth managers said they need more sustainable investing information to convince clients of ESG benefits and returns.

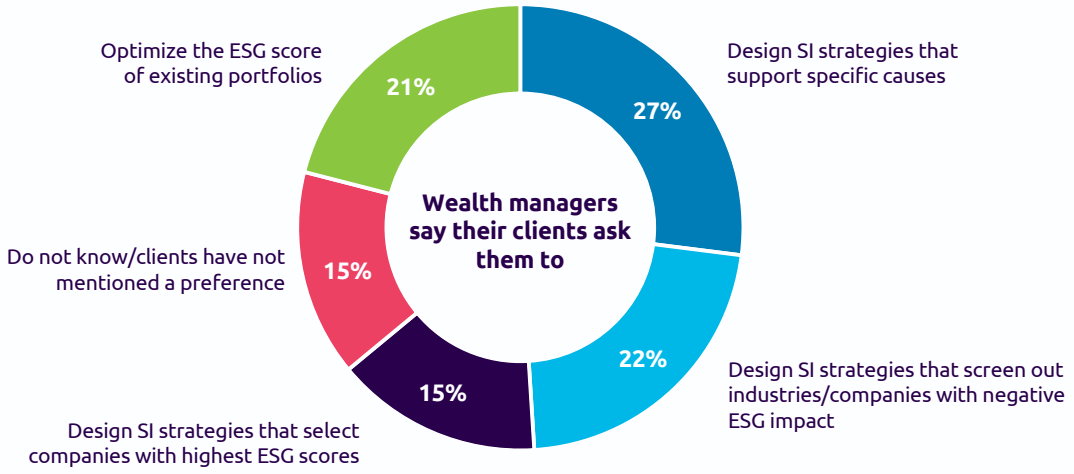
Firms can address this challenge by partnering with WealthTechs for ESG data and analytics.

- BlackRock has taken several initiatives to help investors better understand and incorporate sustainability criteria into their portfolios. It launched Aladdin Climate to help clients understand the impact on portfolios of risks sparked by climate change and the transition to a low-carbon economy. The firm also invested in Clarity AI – a sustainability analytics and data science platform – to help investors gain actionable sustainability and impact insights for a broad range of companies.[82]
- Citi is collaborating with Truvalue Labs to combine data from traditional sources with real-time, AI-driven ESG data to get a more comprehensive view of companies' ESG impact.[83]

> ***Sustainability considerations across industries are driving transformation that will lead to emergence of new sectors and thereby, new investment opportunities. For new customers, sustainable investing will become a hygiene factor. In a few years' time, it will be the new normal."***
>
> – **Fredrik Steen**, COO
> – **Anders Zachrisson**, Chief Strategist Formuesforvaltning, Norway

> ***An ESG-driven investment approach is the future. The world, not only the financial one, is looking at this segment. There is a growing demand for cleaner, greener portfolios and strategies that focus on environmental, social, and governance principles. It is only a matter of time until this is the new normal."***
>
> – **Stefano Schrievers**
> Head of Wealth Management Italy, BNL Gruppo BNP Paribas, Italy

Figure 22. HNWIs seeking sustainable investing want ESG scoring embedded into their portfolios (%), Q1 2021 (global)



Sources: Capgemini Financial Services Analysis, 2021; WWR 2021 Wealth Manager Survey, Mar–Apr 2021.

[82] BusinessWire, "BlackRock Boosts Aladdin's Forward-Looking Sustainability Analytics and Reporting Capabilities Through Strategic Partnership with Clarity AI," January 14, 2021.

[83] BusinessWire, "Citi Partners with Truvalue Labs to Enhance ESG Research Capabilities," September 30, 2020.

FinTech startup and Finastra partner to create ESG investment vetting tool

Alygne is an early-stage Redwood City, Calif., startup that uses patented AI/NLP models and algorithms to help consumers and investors make value-based decisions. Alygne mines vast amounts of daily information to deliver a clear picture of a company's Environmental, Social, and Corporate Governance (ESG) impact.[84]

Formed in 2017 through the merger of Misys and D+H, Finastra specializes in financial software solutions spanning retail banking, transaction banking, lending, investment management and capital markets. The firm claims USD1.9 billion in revenue, +9,000 employees, and ~8,600 customers.[85]

Business challenge: As sustainable investing becomes mainstream, the need grows for a simple, transparent, and comprehensive data measurement tool to evaluate the ESG impact of investments. Company information is often available only for the most prominent public corporations, subject to green-washing, or scattered across disparate sources. Asset and wealth managers must trawl vast data across sectors, sites (social media, news, official statements, etc.) and cull out misinformation. Wealth firms are hard-pressed to meet clients' expectations for credible reporting on ESG-based investments.

Strategic implementation: Alygne and Finastra partnered in 2020 to address the challenge with a simple, comprehensible, and accessible end-to-end solution to serve HNWI and institutional investors. Alygne allows the investor or wealth manager to select granular priorities and those outside traditional ESG frameworks (e.g., a client refuses to invest in firms producing violent video games). Using proprietary artificial intelligence and natural language processing models and algorithms, the solution scores how well selected companies align with the client's values. Results are transparent and traceable, with a credibility score for each information source.

The Alygne metrics are integrated seamlessly into Finastra's asset management software, Fusion Invest, with data from more traditional providers. Fusion Invest gives wealth managers and high-net-worth individuals a holistic investment view that enables decisions based on financial and ESG performance. Retail clients can also access Fusion Invest data, allowing institutions to promote ESG capabilities to end customers.

Benefits/results: Alygne and Finastra's solution offers investors and wealth management firms access to corporate ESG information. Unique criteria and details from official publications, news, and social media enable a 360-degree view of a firm's ESG position to make informed investment decision making possible.

Source: World Wealth Report 2021 Executive Interviews, 2021.

[84] Alygne, accessed April 2021.
[85] Finastra, "Our Story," accessed April 2021.

Conclusion

The quarter-century edition of the World Wealth Report captured modern-day industry changes and megatrends, but meanwhile, the future is already taking shape. New, tech-driven wealth is finding its way to non-typical investment avenues. Millennial entrepreneurs are reinvesting money gained from exits back into the real economy through new startups or creating their own investment funds in collaboration with other young HNWIs.

Special-purpose acquisition companies debuted in the early 1990s but have been attracting mainstream interest for the last two years, driven by deals including DraftKings (a US fantasy sports contest and betting operator) and US space-tourism company Virgin Galactic.[86] The current boom is unprecedented and at historic levels, particularly in the United States.

- From 2020 until early 2021, 10 European SPAC listings (valued at ≈USD1.3 billion) were announced. At the same time, 522 US SPAC deals (+USD300 billion) were completed, according to data compiled for Reuters.[87]

What's more, new asset classes – in addition to cryptocurrencies and sustainable businesses – are taking off. Speculative investors are sinking money into everything from virtual art to digital homes and virtual baseball cards – thanks to blockchain-powered non-fungible tokens (NFTs).[88, 89]

- Sotheby's auction house recently sold The Fungible Collection, a "novel collection of digital art redefining our understanding of value," for more than USD17 million.[90]

Will these new investment vehicles erode wealth management firms' wallet share?

Firms that prepare with adequate tools, educational resources, and new asset class offerings and investment avenues will be poised to engage clients and capture a potentially significant market opportunity.

- Fidelity Investments announced plans to launch a bitcoin exchange-traded fund as it works to cement its clout in the digital assets and virtual currency market.[91]
- Robo-advisor Wealthfront has also announced plans to provide users access to crypto investment options to cater to increasing client interest in exploring different investment vehicles.[92]

Capgemini will continue to track new wealth drivers and the growing criticality of sustainable investing as the post-COVID-19 financial world bounces back.

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[86] Reuters, "How the American SPACs rocket has failed to take off in Europe," March 29, 2021.

[87] Ibid.

[88] TechCrunch, "What happens to your NFTs and crypto assets after you die?," April 5, 2021.

[89] **Non-fungible tokens** (NFTs) are distinct pieces of digital media that are verifiably scarce and unique. NFTs rely on blockchain for authenticity, security, and payment.

[90] The Conversation, "NFTs are much bigger than an art fad – here's how they could change the world," April 26, 2021.

[91] CNBC, "Fidelity to launch bitcoin ETF as investment giant builds its digital asset business," March 24, 2021.

[92] InvestmentNews, "Robos roll out crypto offerings ahead of potential Bitcoin ETF", May 4, 2021.

Methodology

Market sizing

The World Wealth Report 2021 market-sizing model covers 71 markets, accounting for more than 98% of global gross national income and 99% of world stock market capitalization.

We estimate the size and growth of wealth in various regions using the proprietary Capgemini Lorenz curve methodology. The macro level value of HNWI investable wealth is derived yearly using this methodology.

The model is built in two stages: the estimation of total wealth by market, and the distribution of this wealth across the adult population in that market.

- Total wealth levels by market are estimated using national account statistics from recognized sources, such as the International Monetary Fund and the World Bank, to identify the yearly total amount of national savings. These are added over time to arrive at a total accumulated country wealth. The model captures financial assets at book value, and final figures are adjusted based on world stock indexes to reflect the market value of the equity portion of HNWI wealth.
- Wealth distribution by market is calculated by distributing income across wealth bands based on a wealth/income relationship formula. Data on income distribution is provided by the World Bank, the Economist Intelligence Unit, and national government statistics. The resulting Lorenz curves are then used to distribute wealth across the adult population in each market.

To arrive at the investable wealth as a proportion of total wealth, we apply country data (where available) to calculate the investable wealth figures and extrapolate these findings to the rest of the world.

Each year, our macroeconomic model is enhanced with domestic economic factors analysis that influence wealth creation.

The investable asset figures published:

- Include the value of private equity holdings stated at book value, as well as all forms of publicly quoted equities, bonds, funds, and cash deposits
- Exclude collectibles, consumables, consumer durables, and real estate used for primary residences
- Calculate offshore investments based on estimates each country provides regarding their citizens' flow of property and investments into and out of their jurisdiction
- Account for undeclared savings.

Given exchange rate fluctuations over recent years, particularly with respect to the USD, the impact of currency fluctuations is also considered. From our analysis, we conclude that our methodology is robust, and exchange rate fluctuations do not significantly impact the findings.

Finally, we actively engage Capgemini's global network of subject matter experts to best account for the impact of domestic, fiscal, and monetary policies – over time – on HNWI wealth generation.

2021 Global High-Net-Worth Insights Survey

The Capgemini 2021 Global HNW Insights Survey queried more than 2,900 HNWIs across 26 major wealth markets in North America, Latin America, Europe, and the Asia-Pacific regions. Respondent demographics, as broken down by region, age, gender, and wealth band, are captured in Figures M1 and M2.

The Global HNW Insights Survey was administered in February and March 2021 in collaboration with Aon, with more than 20 years of experience in conducting private client and professional advisor interviews in the wealth management industry through its global Client Insight team. The 2021 survey covered key areas around HNWI investment behavior, including HNWI trust and confidence, satisfaction, comfort level with fees, and asset allocation preferences.

To arrive at global and regional values, and to ensure survey results are representative of the actual HNWI population, we use country- and region-level weightings, based on the respective share of the global HNWI population.

Figure M1. Global HNW Insights Survey responses, Feb–Mar 2021

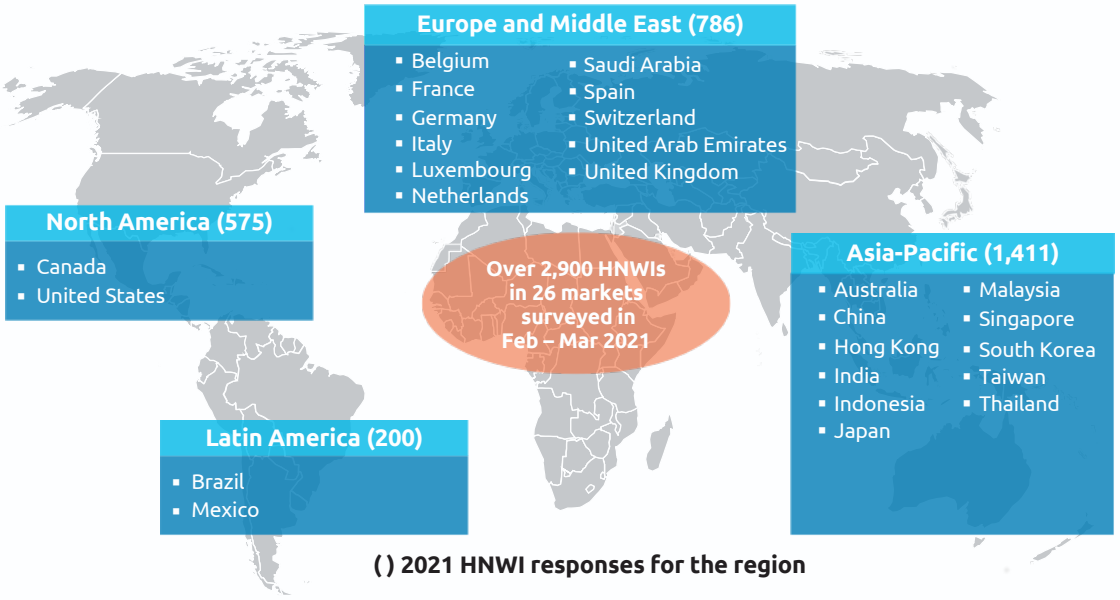
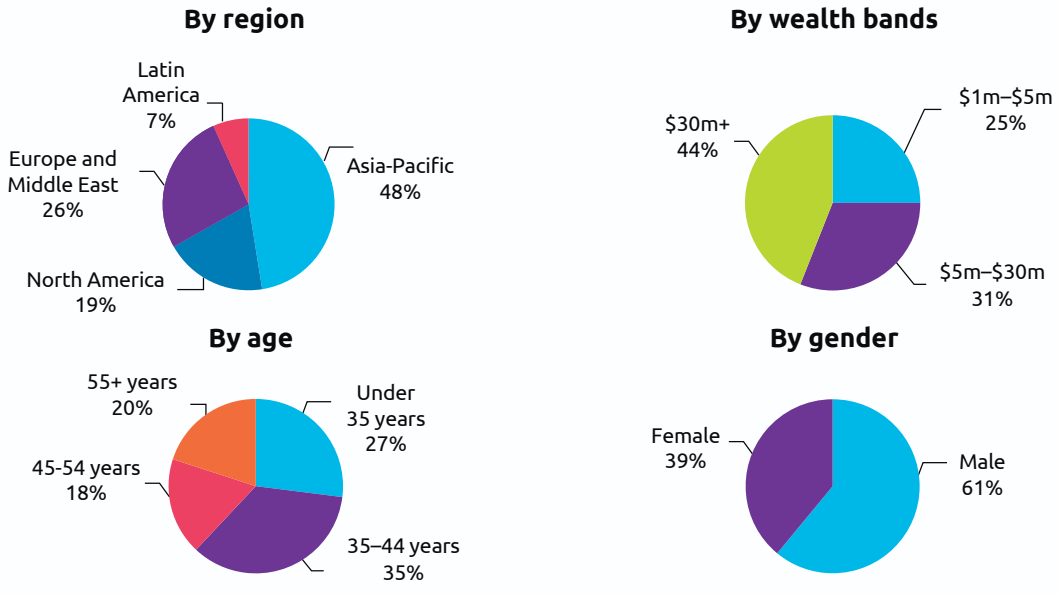


Figure M2. Global HNW Insights Survey demographic breakdown, Feb–Mar 2021

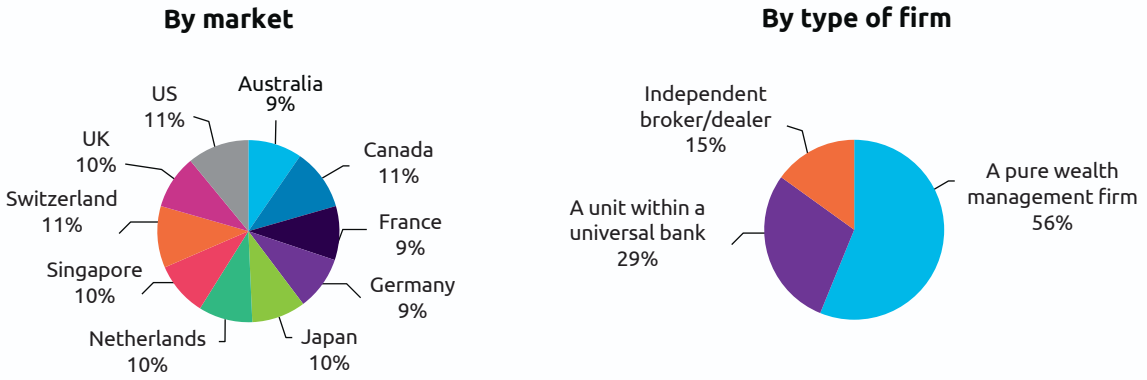


2021 Global Wealth Management Executive and Wealth Manager Survey

To bring in the wealth management industry perspective, we also conducted surveys of wealth management executives and wealth managers across North America, Europe, and Asia-Pacific. These surveys were administered in March and April 2021 in collaboration with Phronesis Partners, a cross-industry global research and analytics firm.

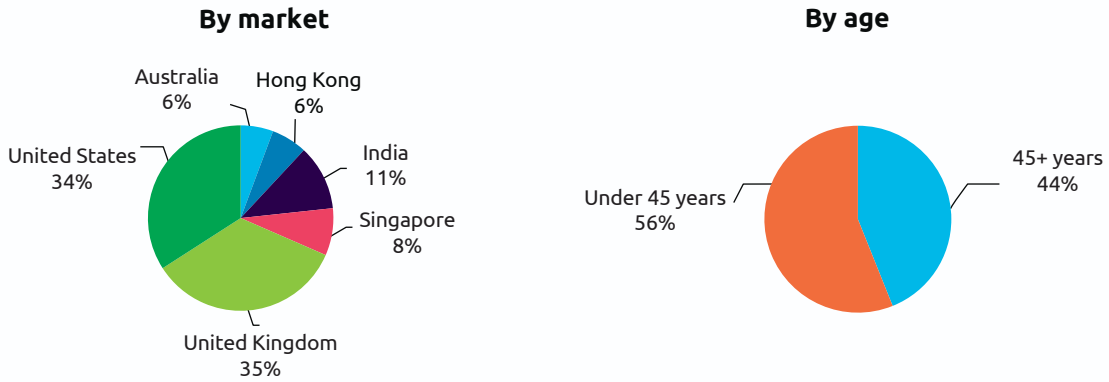
We interviewed and surveyed more than 100 wealth management executives across 17 markets, with representation from pure wealth management firms, universal banks, and independent broker/dealer firms. The survey drew executive insights in terms of digital transformation efforts, collaboration strategies, and views on industry trends such as sustainable investing (Figure M3).

Figure M3. Global Wealth Management Executive Survey demographic breakdown, Mar–Apr 2021



The 2021 Wealth Manager Survey covers more than 350 responses across six markets (Figure M4). The survey queried wealth managers on their views on industry trends, preparation for new market demands, and their satisfaction with the support provided by their wealth management firm.

Figure M4. Global Wealth Manager Survey demographic breakdown, Mar–Apr 2021



Partner with Capgemini

Leverage data to hyper-personalize client engagement

A strategic data analytics plan can help wealth management firms orchestrate client acqusition and engagement and deliver personalized content, and product/service/portfolio recommendations at the right time via the most appropriate channel and technology. The first step is taking advantage of first-, second-, and third-party data and advanced analytics models to identify, anticipate, and predict client behavior and needs.

Capgemini helps wealth management firms define the approach and roadmap to:

- Enable planned communications and cross channel client messages by managing audiences, relationships, creative assets, communication campaigns, and workflows
- Design and develop an architecture plan
- Deploy and roll out the new engagement strategy, including data, content, and platform migration
- Implement processes and technology that enable tailored experiences to improve CX and reduce HNWI friction.

Progressive core modernization

A digital platform enables cloud-native models that support WOW-factor client experience, omnichannel engagement, and flexible adoption of new product/service models. Our API-based transformation solution helps wealth management firms re-engineer and simplify core infrastructure and product platforms by splitting off high-change services to leave an efficient core processing engine. Capgemini's API strategy and Design & Build accelerators are the first steps to API transformation. We will work with you to:

- Determine API objectives and success factors
- Set up an API use plan to evolve and scale
- Create a centralized governance structure that enables innovation and enhanced business capabilities
- Focus on decommissioning legacy systems as you go versus clean up at the end.

Are you ready to collaborate at scale with the Startup ecosystem?

Capgemini's Open X framework unlocks new business models through effective collaboration with the Open ecosystem. Embracing the Open X framework will help wealth management firms maximize revenue while minimizing the impact of disruptions. Are you ready to do it at scale?

The Open X Readiness index evaluates the WM firm's readiness to collaborate at scale with the startup ecosystem. Firms' readiness will be evaluated across:

- The four pillars of effective collaboration: People, Finance, Business, and Technology
- The four moments of effective collaboration: Open Innovation, Evaluation, Acculturation, and Industrialization

The index assessment involves a 360-degree review of the firm resulting in a:

- Detailed quantitative assessment on the current readiness level
- Set of recommendations to improve readiness for higher success
- Benchmarking snapshot showing the WM firm's readiness compared to its peers (anonymized).

Enabling value-added services

Open banking and new-age competitors are placing increasing pressures on banks to bring new products to market quickly and evolve them at pace. This is particularly the case for the wealth sector which has seen a rapid rise in the number of WealthTechs offering highly customized value-added services.

To respond to this, banks can adopt a buy-and-aggregate approach to creating new products as bundles of existing products with new third-party offerings. To enable such a strategy, a product management engine needs to be implemented to orchestrate the bundles of services.

Capgemini's proven, architecture-led, model enables firms to implement product management engines through:

- a multi-tiered ecosystem approach driven by core service transformation and ongoing innovation
- a "test and learn" approach for the creation and launch of new value-added services in the market.

Ask the experts



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Marie leads Capgemini's wealth management capabilities across Europe. She has helped major banks to define their strategy as well as transform and turnaround their business, operating models, and technology platforms, across retail banking, wealth management, and corporate finance.



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Tatiana has dedicated the majority of her career helping leading players in retail banking and wealth management to transform their operating models, advising on their emerging needs related to growth, innovation, and digital change across Europe and Asia.

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World Wealth Report 2021

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