World Report Series 2023
Wealth Management

Capgemini RESEARCH INSTITUTE

UNLOCK GROWTH IN WEALTH MANAGEMENT

EMPOWERING RELATIONSHIP MANAGERS AND SERVING THE AFFLUENT



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FOREWORD

As we compiled the 27th edition of the World Wealth Report, macroeconomics was taking a global toll. For example, a prestigious 166-year-old Swiss bank agreed to be rescued by a long-time rival. A mid-tier US bank filed for bankruptcy, triggering worldwide financial services repercussions. Geopolitical crises persisted into a second year, inflation remained high while central banks waffled about interest rate reductions, and corporate earnings stayed flat.

The wealth management industry landed squarely in the thick of these events. International skittishness led to significant investment outflows and, as a result, cash deposits rose, lending was down, and previously resilient consumer spending became unpredictable at best.

Wealth management firm revenues are stressed and operational costs remain high, denting profits. As a result, firms are shifting gears to fortify value, reinforce productivity, and unlock new value streams to catalyze long-term sustainable growth.

Our *World Wealth Report 2023 – Unlock growth in wealth management* marks an inflection point during which trendsetters will cautiously and innovatively brave economic headwinds while soldiering through their digital transformation journeys.

Many leading wealth management firms are assessing capabilities, augmenting their workforce, and exploring potential new client segments – working hard to overcome barriers posed by inadequate digital maturity across the value chain. Relationship managers (or financial advisors) are pivotal to superior client engagement and business model expansion. However, non-core manual tasks often thwart relationship manager productivity by limiting time to nurture client relationships. Enabling and empowering relationship managers is vital to boosting productivity and unlocking opportunities such as those within the underserved affluent wealth segment.

The months ahead will require a shift in mindset and business models. And although some changes may seem daunting, wealth management firms can prepare now by creating a well-defined technology roadmap, equipping themselves to leverage ecosystem integration and customer insights, and improving risk-assessment processes.

Is your organization poised to lead the inevitable change?



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

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EXECUTIVE SUMMARY

Throughout 2022, the global economy experienced a steeper-than-expected slowdown, a cost-of-living crisis, rising interest rates, and escalating geopolitical concerns: as a result, economic growth slowed to 3.2%, as compared with 6% during 2021.[1] During 2023, global economic growth will remain skittish given persistent macroeconomic uncertainties.

HNWI WEALTH AND POPULATION DECLINE HIGHEST IN A DECADE

Difficult macroeconomic conditions led to bearish global markets and significant declines in indices across regions. Following suit, globally, high-net-worth individual (HNWI) wealth and population totals dropped by 3.6% and 3.3%, respectively, as compared to the prior year. While still the wealth leader, North America registered 2022's steepest declines, with total HNWI wealth falling by 7.4% and population by 6.9%.

Concern over continuing market uncertainties led HNWIs to shift investment emphasis from growth to value and to prioritize wealth preservation: indeed, 67% of HNWIs prioritized wealth preservation as a critical objective, leading to shifts in portfolio asset allocations. Overall, the share of equities in portfolio mixes declined year over year by nearly six percentage points – down to 23%. At the same time, average percentage of cash and cash equivalents increased by almost ten percentage points to 34%, as of January 2023.

Despite global economic unpredictability, HNWIs and wealth management (WM) firms remain interested in alternative investments and notably in ESG products, too. Surprisingly, ESG data analysis and traceability are not among the top priorities of wealth management firms.

PRIORITIZE INVESTMENT IN DIGITAL TOOLS AND RELATIONSHIP MANAGER PRODUCTIVITY

To boost revenues and solve for profitability pressures, investment is required. The wealth management value chain is rife with cumbersome and error-prone manual processes. Digital inefficiency negatively impacts the HNWI client experience and relationship: only one in two HNWIs is satisfied with the touch points their WM firm offers. Relationship managers (RMs) spend two-thirds of their time on non-core activities (activities that do not generate revenue), leaving insufficient time for pre-sales and client interactions.

RM enablement and associated digital capabilities are critical. Beyond empowering RMs with resources such as the latest client-facing tools, access to experts, and skill building, wealth management firms can offer RMs an integrated interface to access disparate functionalities and orchestrate superior client experiences. Also, a one-stop-shop digital workstation can catalyze a firm's productivity and client engagement by integrating processes, systems, data, and advisory tools within a single interface.

UNLOCK NEW GROWTH OPPORTUNITIES IN THE AFFLUENT SEGMENT

Affluent individuals, those with investable assets of USD 250k–1M, hold nearly US$27 trillion in wealth and represent a large population base. If captured in their early life and wealth stages, the affluent can grow within the wealth management ecosystem to become future HNWI clients.

However, only 18% of the affluents we surveyed said they are satisfied with their current wealth management service provider and hence are ripe for taking if offered a better experience. At the same time, WM firms hesitate to target and serve the segment because of profitability concerns. Embracing new business models may offer providers with a solution:

- Leverage existing wealth management setup but accelerate digital transformation from front to back to unlock RM productivity, develop AI-driven digital tools, and orchestrate omnichannel experiences; or
- Develop a wealth-as-a-service (WaaS) proposition to deliver wealth services to affluents using third-party channels, including retail banks and independent advisors; or
- Build a dedicated platform for wealth services and other value-added offerings to reach the affluent segment, augmented with self-service tools to improve customer engagement.

Wealth management firms will likely face sluggish economic growth, low return potential from many assets, and an evolving competitive landscape for the foreseeable future. Careful cost management, new value pools, investments in new technologies and relationship manager productivity, and a recalibration of the customer mix through new segments like the affluent will all be required to enable and sustain long-term growth.

HNWI wealth and population decline highest in a decade

Global HNWI wealth and population declined by **3.6%** and **3.3%** respectively in 2022

Unprecedented government stimulus, low-interest rate environments, increased liquidity, and stock market rallies accelerated high net worth individual (HNWI) wealth and population growth in 2021, and as a result, HNWIs entered 2022 in a position of strength, only to be confronted by geopolitical crises, a steep market decline, and unprecedented inflation, imposing a bleak ending to 2022.

Central banks across key markets increased interest rates to soften the blow, sending ripple effects throughout the global economy. Higher rates made financing costs expensive for firms, especially for those that were highly leveraged, resulting in depressed earnings, with a major impact on technology stocks.

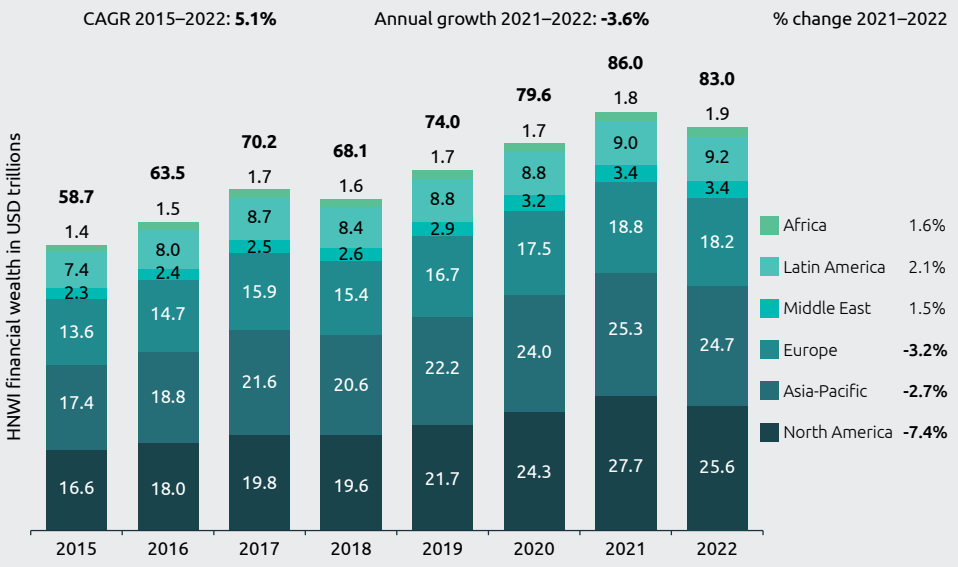
Conditions in 2022 fueled a prolonged drop in investments, with several global stock indices flailing through a bear market:

- In the United States, the S&P 500 index closed the year down almost 20%, and the Nasdaq Composite tumbled nearly 33% – their biggest drops since 2008.[2]
- In Europe, the CAC 40 (France) ended the year with a 9.5% decline.[3] The UK domestic-focused FTSE 250 sank 19.5% by year end – its worst performance since 2008.[4]
- The macroeconomic impact cascaded as the MSCI All-Country World index (representing the performance of large- and mid-cap stocks across 23 developed and 24 emerging markets) dropped nearly 20% in 2022 – losing almost USD 18 trillion.[5]

The result? Overall, global HNWI wealth declined by 3.6% in 2022, the steepest drop observed within the last decade (2013 –2022). With high exposure to diversified market instruments, and especially equities, HNWIs across key markets reported a downturn in wealth.

In line with the dip in HNWI wealth, not surprisingly the HNWI population also fell, by 3.3% in 2022, to 21.7 million, ending a decade of continuous growth. A modest year-on-year increase in HNWI populations in some emerging markets and in France (0.4%) failed to offset the global impact of significant declines in all major economies.

Figure 1. HNWI financial growth declined in Europe, APAC, and North America



Source: Capgemini Research Institute for Financial Services Analysis, 2023.
Note: Chart numbers and quoted percentages may not total 100% due to rounding.

North America holds onto top wealth spot despite equity market plunge

North American HNWI wealth fell sharply as tech stocks plunged in 2022. Share prices of Amazon, Airbnb, Netflix, PayPal, Zoom, Meta, Tesla, and US electric vehicle manufacturer Rivian had each dipped 50% to 83% as of December 2022.[6] Estimates put collective BigTech market value losses at USD 4 trillion.[7]

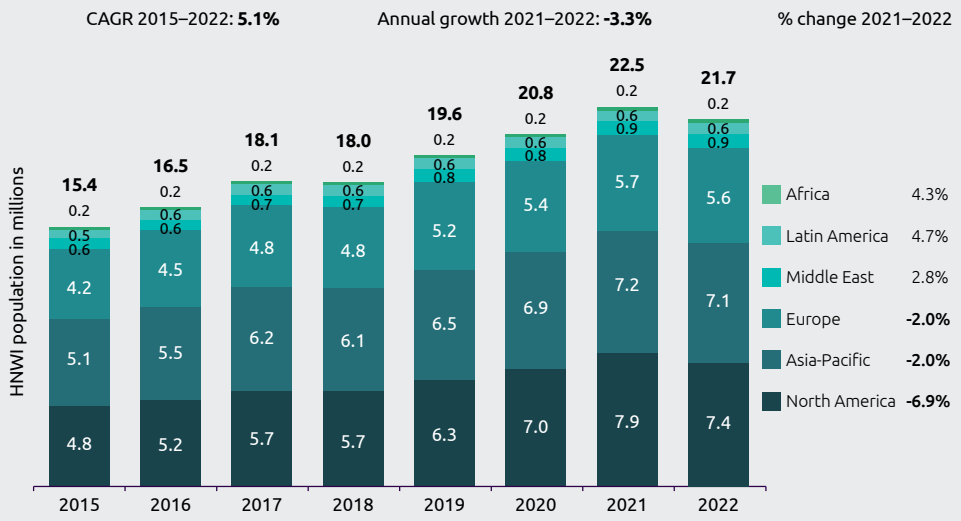
The Canadian S&P/TSX index also posted a negative return of 8.5% by year-end 2022, dragged down by the healthcare, technology, and real estate sectors. However, the Toronto Stock Exchange (TSX) outperformed its US peers due to strong performances within more cyclical sectors such as energy, consumer staples, and materials. Moreover, oil prices were a significant tailwind for Canadian stock performance.[8]

However, as compared with all other regions, North America registered 2022's steepest declines in both HNWI wealth, tumbling by 7.4%, and HNWI population, which slid by 6.9%. By January 2023, North American HNWIs had shifted away significantly from equity investments, with their asset allocations for stocks falling to nearly 23%, compared with 32% in the previous year.

Many HNWIs and international banking clients are concerned about economic, social and political volatility in their countries and want to access global markets in order to achieve jurisdictional diversification. One of their main objectives is to preserve their wealth for future generations. Our relationship managers and investment advisors act as trusted partners to our client base and assist them in meeting their banking and investment ambitions."

Melanie Aimer
Head of International Banking & Global Head of Client Experience, Barclays Private Bank

Figure 2. HNWI population in Africa, Latin America, and the Middle East was resilient as other regions contracted



Source: Capgemini Research Institute for Financial Services Analysis, 2023.
Note: Chart numbers and quoted percentages may not total 100% due to rounding.

HNWI gap narrows between Asia-Pacific and North America regions

North America surpassed Asia-Pacific in HNWI wealth and population in 2020 and widened its lead in 2021. However, during 2022, the 4.9% delta between North American and APAC HNWI population growth, and the 4.7% difference in financial wealth, narrowed North American dominance.

Major APAC stock markets reported a double-digit decline in 2022:

- The MSCI Asia Pacific Index, which tracks Asian firms across developed and emerging economies, declined by nearly 19%.[9] The fall-off was driven mainly by China's Shanghai Composite and SZSE Composite indices, which fell by almost 15% and 22%, respectively.[10]
- In Hong Kong, the Hang Seng Index declined by 15%. The sharp tumble in China's property market, which contributes almost 25% of the country's Gross Domestic Product (GDP), coupled with regulatory crackdowns, COVID-19 lockdowns, and weak consumer confidence led to slow economic growth.[11]
- Other major markets, including Taiwan (TWII), South Korea (KOSPI), and Vietnam (VN Index), also reported declines of nearly 22%, 24%, and 33%, respectively.[12]

Japan's HNWI wealth and population declined by 3.5% and 2.8%, respectively, driven by a weakened Yen, which plunged in 2022 to a 32-year low against the US dollar and negatively impacted Japanese earnings. As a result, the Tokyo Stock Price Index (TOPIX) remained subdued, with a decline of almost 5.0% as of December 2022.[13] In contrast, Australia proved to be resilient. Despite the Australian Securities Exchange's 4.5% ASX 200 decline, the Australian market outperformed the S&P 500 and the MSCI Asia Pacific index.[14]

India and Indonesia were APAC-region bright spots during 2022. Indian indices were up year over year – the BSE Sensex by 4.4% and the Nifty50 by 4.3%. Indonesia's Jakarta Stock Exchange Composite reported a 4.0% increase in 2022.[15] Additionally, both markets reported modest HNWI wealth and population growth.

Macroeconomics take a toll on Europe

European HNWI wealth and population totals both experienced 2022 declines, driven primarily by high inflation, rising interest rates, and waning consumer confidence: overall HNWI wealth dropped by 3.2%, and the HNWI population declined by 2.0%. The STOXX Europe 600 index, representing large-, mid-, and small-capitalization companies from 17 EU countries, skidded more than 12% from January to December 2022.

Eurozone business activity endured 2022 stress, with a manufacturing Purchasing Managers' Index (PMI) reaching a year-end 49.3 points to mark a seven-month consecutive contraction.[16] Driven by a housing nosedive, Western European also reported wealth declines – France (0.5%), the United Kingdom (1.1%), Germany (2.2%), Italy (2.7%), and Spain (4.5%). The Nordics suffered the steepest weakening – Sweden (7.1%), Denmark (7.5%), and Finland (8.3%).



Africa, Latin America, and the Middle East demonstrate resilience

In contrast to declines in other regions, HNWI wealth grew in the Middle East (1.5%), Africa (1.6%), and Latin America (2.1%), with HNWI populations following suit – up 2.8% in the Middle East, 4.3% in Africa, and 4.7% in Latin America. Strong earnings from the oil and gas sector drove Middle East growth, and Latin America reported a 3.5% GDP expansion in 2022.[17]

Population retracted most within the ultra-HNWI band

The *ultra-HNWI* population traditionally flourishes during growth years but, in keeping with 2022 downward trends, it fell by 4.6% – a stark contrast to 2021's 9.6% growth. The *mid-tier millionaire* band declined by 3.8% in both wealth and population. The *millionaires next door* population fell 3.3%, while their wealth fell 3.4%. Ultra-HNWIs in North America experienced the deepest retractions: population was down 7.8%, and wealth slipped by 8.2%.

Although the mid-tier millionaires wealth band shrank the most in wealth on a percentage basis, ultra-HNWIs lost the most financial wealth in terms of absolute value in 2022 (Figure 3). This data correlates with across-the-board 2022 market losses in equities, fixed income, and alternative assets. We expect subdued growth in 2023 as market uncertainty persists.

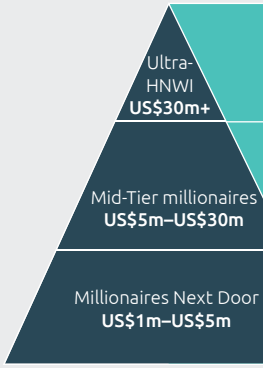
HNWIs lean into value over growth because of market uncertainties

Low interest rates since 2018 have benefited growth stocks over value stocks through cheap borrowing and modest inflation. However, the trend reversed in 2022 as central banks across all major economies initiated aggressive interest rate hikes:

- The S&P 500 Growth index, a key indicator of growth stock performance, fell by 30% in 2022.[18]
- Value stocks, characterized by healthy price-to-book values and sales volume, were also down but fared far better: the S&P 500 Value index fell just 7.4% in 2022.[19]

From Spain, Santander's Francisco Javier García Gómez, Director Adjunto de Banca Privada, said, "The most important factor inhibiting wealth growth in real terms is inflation. However, wealth is likely to grow nominally. But given inflation averages 5% to 6%, it is not likely to happen in real terms, only in nominal terms. At the end of the day, private banking's main objective is to preserve client wealth and then grow it, always in real terms, net of inflation."

Figure 3. How wealth bands contracted worldwide in 2022



	Number of individuals (as of Dec 2022)	Share of HNWI wealth	HNWI population growth 2021–2022	HNWI wealth growth 2021–2022
Ultra-HNWI US$30m+	210k (1.0% of total)	34.0%	-4.6%	-3.7%
Mid-Tier millionaires US$5m–US$30m	1,977k (9.1% of total)	22.7%	-3.8%	-3.8%
Millionaires Next Door US$1m–US$5m	19,524k (89.9% of total)	43.3%	-3.3%	-3.4%

Source: Capgemini Research Institute for Financial Services Analysis, 2023.

Our global survey of more than 3,000 HNWIs across 23 markets revealed that, as of January 2023, 67% prioritized wealth preservation, which led to shifts in portfolio asset allocation mixes:

- Overall, the share of equities in portfolio mixes declined year over year by nearly six percentage points, to 23%. What's more, the growth focus, through tech stocks, transitioned to value stocks.
- By January 2023, fixed-income allocations had declined nearly three percentage points to 15% compared with 18% in January 2022. Fixed-income instruments (mainly bonds) are considered a shock-absorbing haven in times of volatility. During the 2002 and 2008 market crises, fixed income commanded the largest share of the overall portfolio mix. However, 2022 defied the odds as estimates pegged US bond performance as the worst in 250 years. The Total Bond Index, which tracks US investment-grade bonds, fell by more than 13% in 2022; this index, launched in 1972, had never before declined to such a degree.[20]
- Cash and cash equivalents, which was stable at around 25% of portfolios for the last five years (2018-2022), significantly increased – by almost ten percentage points – to 34% as of January 2023. Rising interest rates and high inflation have made returns on cash and cash equivalents more attractive, and they are less risky.
- Finally, the share of alternative investments in the portfolio mix remained static in 2022, although category allocations shifted.

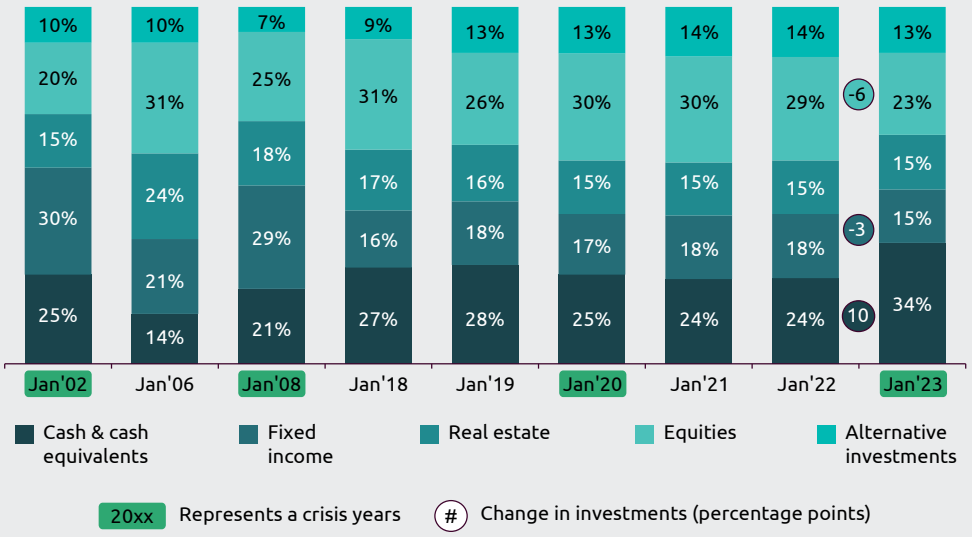
James Dunlop, GM Private Bank at ANZ, Australia, agrees when he says that "clients are more conservative during uncertain times, with priorities focused on preserving wealth through diversified investment strategies and an eye to the future."

Prevailing uncertainty and market volatility drove wealth management firms to prioritize portfolio mix resilience for high-net-worth clients to fortify long-term value over quick returns (Figure 4).

Alternative asset allocations remained low despite rising HNWI interest

While many HNWIs are enthusiastic, wealth management firms are cautiously proceeding when beefing up their portfolios' ratio of alternative assets, including digital assets: only a third of the 95 wealth management executives surveyed in 14 markets said they plan to add more alternative investment products to portfolios in the coming year.

Figure 4. HNWIs move asset allocations towards wealth preservation



Source: Capgemini Research Institute for Financial Services Analysis, 2023.
Note: Alternative investments include commodities, private equity, FX, hedge funds, structured products, and digital assets. Chart numbers and quoted percentages may not total 100% due to rounding.

Alternative investments – other than digital assets – yielded restrained enthusiasm from risk-averse investors, we learned through our January 2023 HNWI survey. Shares of foreign exchange (FX), commodities, and hedge fund assets within alternative investment allocations fell four, two, and three percentage points in 2022.

Commodities. In the first half of 2022, commodities were top performers in light of supply risks sparked by eastern European geopolitical upheaval. By the second half, however, the slowing global economy, eroding household consumption, and weak business confidence led to a back slide in commodities value.

Hedge funds. In 2022, hedge funds posted their worst performance since 2018: overall, they declined 4.3 percentage points. Equity hedge funds suffered the most significant 2022 losses among subcategories – more than 10% year over year.[21] Even so, HNWIs continue to demonstrate sustained interest in private equity, more so than for all other alternative investment asset categories throughout 2022. Despite underwhelming performance, 42% of RMs said clients remain interested in hedge funds.

Private equity. Nearly half (46%) of the over 800 RMs we surveyed across nine markets said private equity (PE) offerings are generating increased interest among clients. In addition, 2022's private market repricing and valuation corrections to mitigate elevated financing risk may boost HNWIs' appetite for private equity investments in 2023. We expect the PE to experience another round of market corrections in next 12 months boosting their attractiveness among investors.

Digital assets. Throughout our World Wealth Report 2023 interviews, wealth management executives said they are not ready to embrace digital assets as essential portfolio components. WM firms are handling digital assets cautiously, and most especially so with cryptocurrencies, due to ongoing uncertainty, weak regulatory oversight, and poor transparency. However, they acknowledged the growing interest among HNWIs and as a result are exploring safer digital investments, such as tokenized assets.

ESG risk measurement is critical to WM firm growth and HNWI engagement

Despite global economic unpredictability, HNWIs and WM firms remain interested in ESG products. Of our HNWI survey respondents, 40% reported that their returns from ESG-linked assets were similar to those from non-ESG-linked assets.

- Only 23% said ESG-related returns were higher than non-ESG-linked assets, while 27% said returns were lower than non-ESG-linked assets.
- Nearly 11% were unclear on the quantum of returns from their investments in ESG-linked assets.

During challenging economic times, HNWI priorities sometimes shift. For example, our survey identified a 2022 move to wealth preservation versus ESG impact: 67% of respondents said wealth preservation was primary and 63% pointed to wealth growth as their leading goal. Only 41% of surveyed HNWIs globally rated investing for ESG impact as a top priority, and European HNWIs were less keen, with only 31% rating ESG impact investment as a priority.

41%
of surveyed HNWIs globally rated investing for ESG impact as a top priority

Nonetheless, HNWIs say they remain committed to increasing their investment in ESG-linked assets – albeit more slowly – indicating a general belief in the implicit value of sustainable investing. Not surprisingly, 78% of wealth management executives told us their firm holds ESG-linked assets, while another 9% said they plan to offer more ESG products. Allocating capital for long-term growth with effective risks management against climate and sustainability threats can help in building a resilient portfolio and achieving better long-term, risk-adjusted returns.

With an eye on fortifying value, regulators, financial institutions, investors, and stakeholders worldwide seek performance measurements to ensure the credibility of environmental, social, and governance (ESG)-linked assets. Yet navigating risk and opportunity requires targeted, measurable, and trackable action plans.

Regarding ESG-linked investments, 63% of participants in our 2023 HNWI survey said they had requested reliable and traceable ESG scores for their assets. In addition to scores that align a company with ESG best practices and positive environmental and social impact, investment data that describes individual E, S, and G parameters is essential for relationship managers (RMs) to advise HNWIs from a position of knowledge. Of the relationship managers we surveyed, 40% said they needed more data to understand ESG impact, and nearly one in two said they need more ESG information to engage effectively with clients.

40%
of the relationship managers surveyed said they require more data to understand ESG impact

However, wealth management firms still lag in improving ESG data collection, integration, analysis, reporting, and granularity in ESG asset traceability (Figure 5). A Q4 2022 Bloomberg Intelligence report said that assets under management (AUM) with an ESG mandate may reach USD 50 trillion by 2025, from USD 35 trillion in 2020.[22]

Wealth management firms must keep pace with due diligence requirements to handle high capital inflow that necessitates credible data about ESG parameters. The inability to collect, analyze, and report such information can spark overvaluations and elevate financial and greenwashing risks.

Systems and frameworks to produce, distribute, and consume ESG data are immature. Moreover, the ESG data value chain is opaque and lacks granularity and standardization. As a result, there is little visibility into how data is collected, where it comes from, and when it is reported (data lag), and how ESG KPIs and scores are derived. Essential questions are often left unanswered. Until global ESG data standards are formally in place, reporting by firms will remain largely reactive rather than proactive. As a matter of course, firms can release ESG funds' performance information and portfolio mix changes.

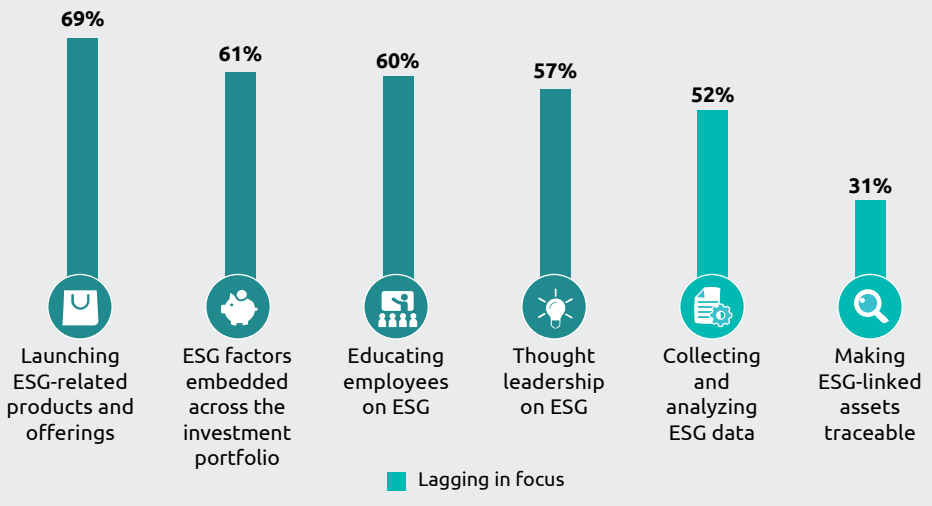
Therefore, a leap to the next frontier is imminent for wealth management firms. First, they must build process muscles to heavy-lift a centralized ESG data hub as a foundation for data collection, and then leverage tools to generate actionable insights from that data.

Wealth management is a business of trust, and we believe firms must collect and report ESG data actively. André Bantli, MD, Head Investments, Distribution & Client Management, Bank Vontobel AG from Switzerland, adds that, "Today ESG is an integral part of any WM investment advice and portfolio construction. However, the investment industry has to further develop investment solutions across all asset class to become mainstream and to deliver on the expected returns."

ESG requirements are evident and important. Momentum to minimize greenwashing and monitor and report on impact is building as ESG score methodology evolves. Regulations are changing to create a stable climate so wealth management firms can confidently invest in ESG capabilities."

Charles Sayac
Head of Sales, Wealth & Distribution, Amundi Technology

Figure 5. How WM executives are supporting ESG investments



Source: Capgemini Research Institute for Financial Services Analysis, 2023.



Capgemini installed ESG Data Hub to support sustainability analytics

Business challenge

The client, an investment manager with USD ~1.3 trillion in AUM, had the directive to integrate ESG into their investment processes. The ESG reporting included, among other metrics, the global compact score (GC score) of their portfolios. However, the firm's data was largely uncertified, non-standardized, and scattered in several siloed systems.

Business solution

Capgemini embarked on an iterative approach to start with a proof of concept and expand into an ESG data exchange as part of the IMS platform for the investment manager. Capgemini used ready-to-deploy ESG in wealth management use cases on a foundation of ESG data hub with third-party data sources. It employed an expandable ESG data model with design patterns to integrate into the investment manager's variety of asset classes. The single unified ESG data hub accelerated delivery of ESG exposure analytics and portfolio view using ESG and GC scores. Also, Capgemini initiated a journey to iteratively execute a roadmap and implementation to build the client's data marketplace.

Business impact

Rapid delivery of a pilot that delivered value in less than eight weeks was possible by leveraging Capgemini's ready-to-deploy ESG Hub data solution, blended with an inventory of sustainability use cases. A foundation that enables comprehensive ESG data and analytics exchange with agile implementation to integrate ESG integration into investment decisions, portfolio construction, and reporting, with trusted data and robust governance mechanisms, was implemented in just four weeks.

Prioritize investment in digital tools and relationship manager productivity

76%
of the WM executives surveyed said improving client experience is vital

As 2022 global markets floundered, with equity and bonds historically underperforming, some high-net-worth clients became skittish. As a result, a rising outflow of investments led to declining assets under management (AUM) and a dip in earnings for wealth management (WM) firms.[23]

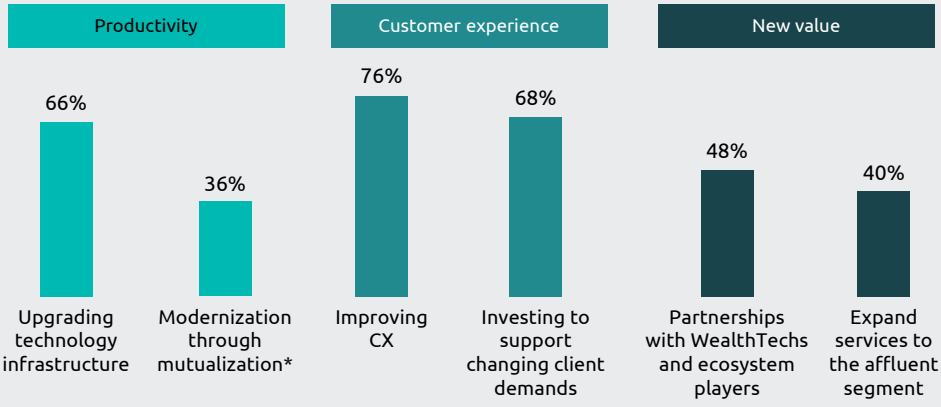
For large and diversified universal banks with WM units, escalating interest rates fueled high-interest income to hedge against dwindling AUM. However, organic revenue growth remained under stress. The market has been particularly tricky for pure wealth management firms as investors shifted to cash deposits outside the firm's purview.

In addition, the 2022 cost base of wealth management firms remained high, if not higher, year over year from 2021. With stressed revenue sources, we expect the average WM firm cost-to-income ratio to average around 65% to 70% as per our estimates. As market uncertainty persists, controlling costs while trying to expand margins remains top of mind for wealth management firms in 2023 and beyond.

With the rise of operational costs, and customer churn and declining profits keeping WM executives up at night, developing strategic plans to maximize productivity, improve client engagement and experience, and unlock value streams is now essential to sustain long-term business growth. Of the WM executives surveyed, 76% said improving client experience (CX) is vital to strengthening HNWI engagement and reducing churn; 66% said they are prioritizing digital infrastructure upgrades, and 48% said exploring partnerships or synergies with reliable third parties is essential to maximizing productivity. From France, the Head of Strategy at Société Générale Private Banking, Damien da Cruz says, "Private banks need to look more systematically at opportunities for industrial partnerships with specialized players or other banks to mutualize non-core activities, rather than trying to build capabilities alone."

In 2022, a leading bank with private banking operations in the US engaged with Capgemini to upgrade their IT infrastructure. As a strategic partner, Capgemini helped the bank to modernize its core banking system, to set up and operate its cloud environment, and to improve integration with its third-party

Figure 6. Client experience tops the priority list of wealth management executives



* Mutualization is where participants share solutions provided by a reliable independent third party enabling each firm to reduce costs and transformation risks, accelerating time-to-market while freeing up management attention and critical resources
Source: Capgemini Research Institute for Financial Services Analysis, 2023.

ecosystem. The open architecture resulted in lower costs and helped the bank increase its straight-through processing rate, thus improving the customer experience. Further, the bank is now able to launch new products and services to the market quickly and operationalize them faster – thanks to a modern platform built for change.

Empower relationship managers with digital capabilities

Relationship managers (or financial or wealth advisors) work at the intersection of these strategic priorities, though enabling them to catalyze all of the above business goals is easier said than done. The wealth management value chain is rife with cumbersome, time-consuming, error-prone manual processes. Beginning with client prospecting, firms struggle to track sales funnel activities such as lead-to-close rates, client conversation rates, and the time, effort, and financial investment it takes to move a lead to a client. Sales and marketing automation tools are crucial to collect, gather, and analyze prospect data stuck in form fields of multiple systems.

One in three wealth management executives told us that critical tasks – such as client account opening, know-your-customer (KYC) processes, and other due diligence – still require significant and intense manual intervention. Therefore, client onboarding is complex for RMs, requiring time-consuming exchanges and coordination between departments.

Without digitalization, anti-money laundering (AML) and KYC regulatory processes remain slow and paper-based. For example, some HNWI onboarding can still take more than 40 days to complete.[24] Not surprisingly, only 47% of the HNWIs we surveyed say they are satisfied with their firm's onboarding capabilities. Lagging RegTech capabilities and rising regulatory complexity drags the onboarding experience down.

On average, only one in three wealth management executives ranked their firm's end-to-end digital maturity as high. Forty-five percent of WM executives said the cost per relationship manager is rising, driven primarily by wealth value chain inefficiencies.

The legacy technology is the status quo around friction-filled inefficient wealth processes. Clients are not engaged in the process and truly included in the wealth journey. As a result, there is a significant disconnect between advisors and clients."

Jacqui Henderson
Founder & CEO, Advice Intelligence



Digital immaturity causes client friction

Digital inefficiency impacts the high-net-worth client life cycle, from acquisition to service and relationship building. Only one in two HNWIs is satisfied with the touch points their WM firm offers. Digital channel experience and maturity ranks high for HNWIs when selecting a wealth management provider.

COVID-19 necessitated the digitalization of several client touch points and influenced HNWI expectations. In today's post-pandemic world, clients want to reach their RMs through various channels. However, 58% of surveyed RMs said managing client expectations of 24/7 availability is challenging. Channels often operate in isolation and are not synchronized for cross-communication.

For example, despite most wealth management firms offering a mobile app, many HNWIs still prefer to call their RMs for basics such as executing transactions and accessing their portfolio (Figure 7). As the WM client base skews younger in the years ahead, digital channels will quickly become even more critical.

The overall satisfaction with wealth management mobile apps was underwhelming compared with mobile app satisfaction in industries such as health insurance, utilities, hotels, airlines, auto insurance, and banking according to a JD Power Study.[25] Therefore, WM firms that synchronize omnichannel interactions position themselves to target, acquire, serve, and nurture relationships with emerging Gen Z clients.

Relationship managers spend a lot of time on manual back- and middle-office tasks. Therefore, it is crucial to digitize manual processes so they can spend more time with their clients, which will eventually result in a more productive and profitable engagement."

Sabine Caudron
Head Private Banking, Degroof Petercam

Figure 7. HNWIs continue to value in-person engagement

		Face-to-face meeting	Phone call	Mobile app	Website	Video call
ACQUIRE	Searching	32%	22%	9%	22%	15%
	Onboarding	20%	23%	10%	26%	21%
	Advice (portfolio building)	25%	27%	9%	18%	22%
SERVE	Managing queries and concerns	23%	28%	11%	20%	19%
	Executing transactions	20%	23%	14%	26%	17%
	Accessing portfolio	16%	22%	15%	32%	16%
NURTURE	Market updates	14%	23%	16%	30%	18%
	Personalized updates	16%	22%	17%	29%	17%
	Expert advice	27%	25%	10%	20%	18%

Top 2 channel preferences of HNWIs

Source: Capgemini Research Institute for Financial Services Analysis, 2023.

Administrative overload causes RM advice and service delivery to suffer

Lagging digital readiness and poor omnichannel platforms drag down RM efficacy. RMs spend two-thirds of their time on non-core activities (activities that do not generate revenue) and only a third of their time on pre-sales efforts and client interaction (Figure 8). US-based John Mathews, Head of Private Wealth Management Americas at UBS, added, "In the last 10 years, the UHNW client band has expanded significantly. This has impacted the efficiency and productivity of advisors and impacted their ability to spend more time with their clients. Some advisors also had to let go of a few relationships to manage their capacity. Focus has now shifted towards embracing technology and tools like CRM to enable and empower relationship managers."

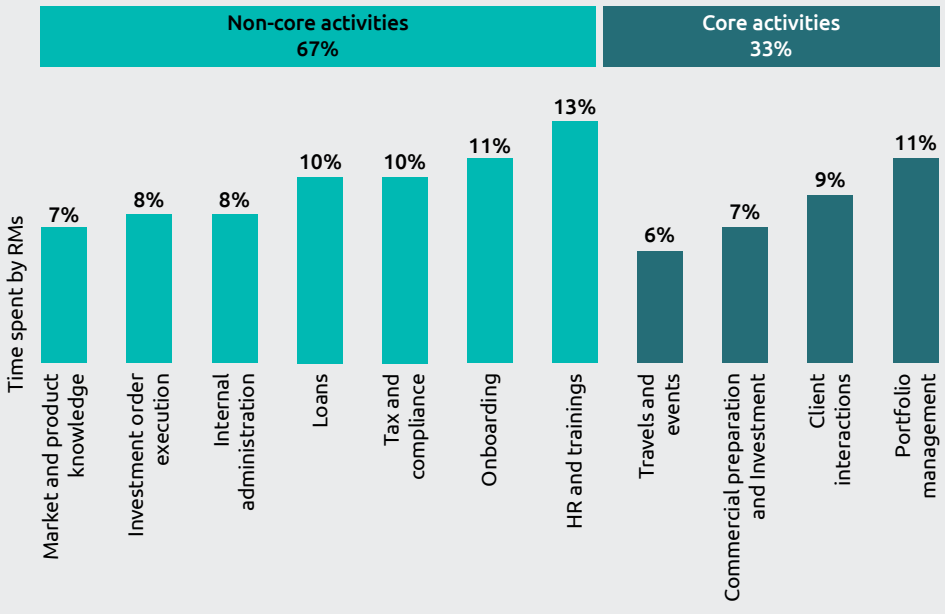
Less-than-stellar productivity from relationship managers can take a toll on a WM firm's ability to offer relevant, timely financial advice and value-added expertise:

- Globally, 56% of HNWI survey respondents said value-added services (e.g., tax planning, inheritance advice, estate management, legal consultation) influence their selection of a wealth management firm. The percentage was even higher in North America (71%) and APAC (65%).
- Yet only one in two HNWIs were satisfied with their relationship manager's capacity to deliver these value-added services.

And based on collected feedback from RMs themselves, 50% said that personalizing client engagement is challenging, and the inability to individualize advice and deliver value-added services limits up-sell and cross-sell opportunities. WM executive feedback echoed this finding, as only 37% of WM executives were satisfied with revenue growth per relationship manager.

> ***We want our relationship managers to spend the vast majority of their time with clients, in good times and even more so in tough times. We are investing in technology to make the work of analyzing and optimizing client portfolios easier - finding opportunities to improve outcomes for clients and ensuring that our people provide the best service to our clients."***
>
> **Annabel Spring**
> CEO, Global Private Banking & Wealth, HSBC

Figure 8. RMs struggle to prioritize time for core client engagement activities



Source: Capgemini Research Institute for Financial Services Analysis, 2023.

In addition to the impact on RM profitability (high cost and low revenue realization), lackluster digital experiences and broken client journeys affect HNWI willingness to advocate for their firm. For example, only 25% of HNWIs recommend their WM firms to their friends, relatives, and colleagues. And nearly 31% said they would likely switch wealth management providers in the next 12 months.

WM firms begin to address value chain gaps

Generally speaking, wealth management firms are slow to embrace digital transformation. However, as with other industries, the pandemic was a black swan event that made change a survival necessity. As a result, nearly half (45%) of the wealth management executives we polled said they were pursuing digital transformation for their organization and explained their stages of digital maturity.

A three-stage approach should be considered towards digital maturity, from implementing foundational technologies to building a value expansion layer (Figure 9).

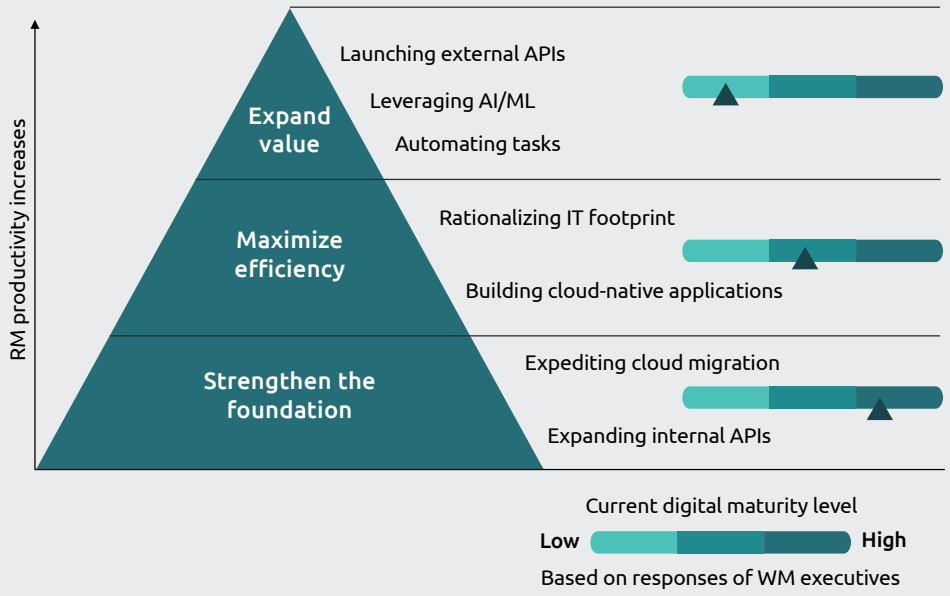
1.Strengthen the foundation: The pandemic accelerated cloud adoption across all financial services domains. Of the 88% of wealth management executives who said their firm is pursuing cloud migration, more than a third (36%) added that migration is progressing quickly (nearly 90% complete).

In addition to the cloud, 63% of WM executives told us they are quickly expanding internal application programming interfaces (APIs). The cloud and internal APIs can improve data handling capabilities, eliminate functional silos, and integrate disparate workflows to offer a more consolidated view of operations.

2. Maximize efficiency: At the mid-way point, digital maturity tends to lag as only one in two wealth management executives said their firms had begun to decommission legacy systems (in phases) to rationalize their IT footprints on the back of increasing cloud maturity. Nearly half (47%) of wealth management executives say their firm is in the early stages of building cloud-native applications, of which 20% are still without a specific plan.

Challenges stem from managing the inherent complexity of a multi-cloud environment as WM firms lack the talent, tools, and skills to create interoperable workflows in multi-cloud environments. The formidable task of data integration aggravates digital investment value realization.

Figure 9. Advanced digital maturity directly affects returns on investment



Note: External APIs are used to share a WM firm's capabilities with third parties to orchestrate ecosystem collaboration. Internal APIs simplify the process of linking back-end systems or data between various applications that control internal operations.
Source: Capgemini Research Institute for Financial Services Analysis, 2023.



Formue makes the client-centric move from a wealth advisory to financial life advisory focus

Scandinavian advisor Formue is an independent wealth manager serving private individuals, institutions, and organizations in Denmark, Norway, and Sweden with NOK 140 billion (~USD 15 billion) in assets under management.

Business challenge

The firm sought to redefine the wealth management experience by making it innovative and meaningful to clients. Its vision for "a richer life" emphasizes individuals and families, not markets. To make room for a more strategic dialogue with clients, Formue needed to help RMs shift away from administrative and shallow tasks and create a hybrid client experience incorporating all aspects of wealth and its potential.

Business solution

Formue implemented Salesforce's Financial Services Cloud platform solution to help its relationship managers leverage customer relationship management (CRM) to shift from traditional investment advisory and administrative tasks to financial life management grounded in proven behavioral finance.

The platform segments Formue clients' Wealth into Lifestyle, Investing, and Aspirational/entrepreneurial categories. The firm conducts regular client-family workshops, webinars, networking events, and reviews to enable proactive account management and client understanding. A dynamic data tool allows RMs, experts, operations, and marketing teams to access and collect all client data, including in-person meetings and workshops. Information is integrated within Formue's marketing sales funnel, pulling client journey details from discovery to engagement. This data is augmented with an AI-powered dashboard to allow advisors to prioritize tasks at a glance and determine next-best actions efficiently. The dashboard also connects with Formue's sustainable excellence center to offer sustainability advice. A mobile app connects investors to information about wealth planning, carbon footprints, private equity investing, and more. The app also has a meeting mode so that information shared in meetings is dynamic and within context of the overall client experience.

Business impact

Formue's advisory framework allows clients to get more out of their wealth, elevates client experience, and allows for enriching conversations regardless of market behavior.

3. Expand value: Finally, maximizing digital transformation requires firms to orchestrate ecosystems, build artificial intelligence/machine learning tools, and automate tasks across the value chain. Firms that expand value can potentially shift their advisory model – from transactional relationships to full financial life partnerships.

External APIs and API stores allowing wealth management firms to share, receive, and plug-and-play third-party capabilities are critical to enhancing the value chain and leveraging open banking advantages. For example, external APIs can boost KYC and onboarding processes by accessing information from clients' banking partners. In addition, they can provide payment flexibility and allow multiple account aggregation for a 360-degree view of a client's financial assets. Forty-four percent of wealth management firms are in the process of launching external APIs, of which 18% are not yet ready to make a move.

Artificial intelligence (AI) can impact the entire wealth management value chain – from modeling data to assisting in portfolio building to personalizing offerings.

- For instance, thanks to AI, Charles Schwab is now able to build, monitor, and automatically rebalance a diversified portfolio based on a client's goals.[26]
- Similarly, Morgan Stanley has developed a Next Best Action (NBA) system that leverages machine learning to consider clients' life events and generate hyper-personalized investment proposals in near real-time.[27]

The dialogue format of fast-advancing generative AI technology (ChatGPT launched in Q4 2022) may soon provide personalized offers, conversational virtual assistant support on complex queries, and specific wealth planning advice. Morgan Stanley is collaborating with US research lab OpenAI, the group behind ChatGPT, to build an internal-facing service that supports relationship managers by mining in-house research, analyst notes, comparative models, etc. to help serve clients better.[28]

Despite the benefits, building, piloting, and scaling AI at the enterprise level remains challenging for many wealth management firms. More than half (56%) of the WM executives we polled said their firm is in its early planning stages, and 22% of respondents said they didn't plan to take on AI soon. Chris McDonald, Industry Specialist, Capital Markets at AWS, says, "Wealth management firms want to provide their advisors and front office with a 360-degree client view and personalized investment recommendations. Cloud hosted capabilities help WM firms across various opportunities, from optimizing contact centers to integrating third-party data to providing personalized experiences with AI-driven analytics. With these capabilities, WM firms can provide personalized investment insights to their clients, saving both time in preparation and uncovering new recommendations."

The challenge for firms is to build upon their digital foundation while ensuring that transformation initiatives don't become stuck in silos across the wealth value chain. They must consider end-to-end client life cycle issues to eliminate friction throughout all aspects of relationship management.

Integrated capabilities deliver improved RM productivity and seamless CX

Today advisors rely heavily on client service and support teams. They must access the analyst pool to model and build portfolios. Meanwhile, the service desk handles transactional activities like deposits and opening accounts. Meetings with third-party specialists may be necessary for philanthropic activities or clients' passion investments. And RMs regularly check with capital markets specialists for product and asset information and details about the performance of equities, fixed-income assets, or trades.

During a typical day, relationship managers would interact with:

- Support teams, and risk and compliance, to facilitate resolution of regulatory issues and research for market insights,
- Business teams to identify cross- and up-sell opportunities, and
- Marketing teams for client communications and engagement.

As each team is probably at a different stage of its digital transformation journey, RM productivity takes a toll on advisory capabilities, and leads to sub-par service. As firms advance their digital maturity, which tools will enable relationship managers to access functionalities across the value chain?

I'd argue there's never enough time in a relationship manager's day. Back-office automation and implementation of AI-enabled tools are priorities for today's WM firms and a lot of investments should go into these initiatives to free up RMs for more client-facing time."

Greg Gatesman
Head of International Wealth Management, Morgan Stanley



Connecting departments on a single platform to streamline end-to-end client lifecycle management

Business challenge

Many private banks and wealth management firms seek to evolve their client knowledge, understanding, and services to meet ever-increasing client expectations. Yet, firms often face narrowly scoped, poorly connected solutions that result in inefficient processes full of manual steps or workarounds.

Business solution

Paris-based Indosuez Wealth Management, a branch of the Crédit Agricole Group, turned to the Wealth Dynamix solution from its subsidiary Azqore to overcome client lifecycle friction. Azqore provided a comprehensive, industry-specific solution that orchestrates the entire client lifecycle, from intelligence-driven pipeline prioritization and prospect management to automated digital onboarding. The solution offers Indosuez advisors insights to comprehensively understand each client via rich 360-degree views that feature embedded interactive analytics.

Business impact

Indosuez Wealth Management connected disparate departments on a single platform. The solution reduced client onboarding time by 90%, from a 14-day industry average to same-day onboarding. It also helped improve the efficiency of complex processes by 70% and boosted relationship manager productivity by eliminating administrative tasks.

The relationship manager is an architect. WM firms must shift from the status quo in which RMs do everything alone to a supportive situation to help them get through complex regulatory, product, and competitive issues. Acting as a liaison with internal teams, the RM should be able to mobilize and orchestrate the right experts at the right time/life moments to serve the client.

To maximize RM productivity, wealth management firms need to offer RMs a one-stop-shop digital workstation, as an integrated interface to access disparate functionalities and orchestrate superior client experiences. This digital workstation will integrate processes, systems, data, and advisory tools within a single desktop interface. As a result, RMs can seamlessly access all relevant client information and functions, expediting the service delivery process.

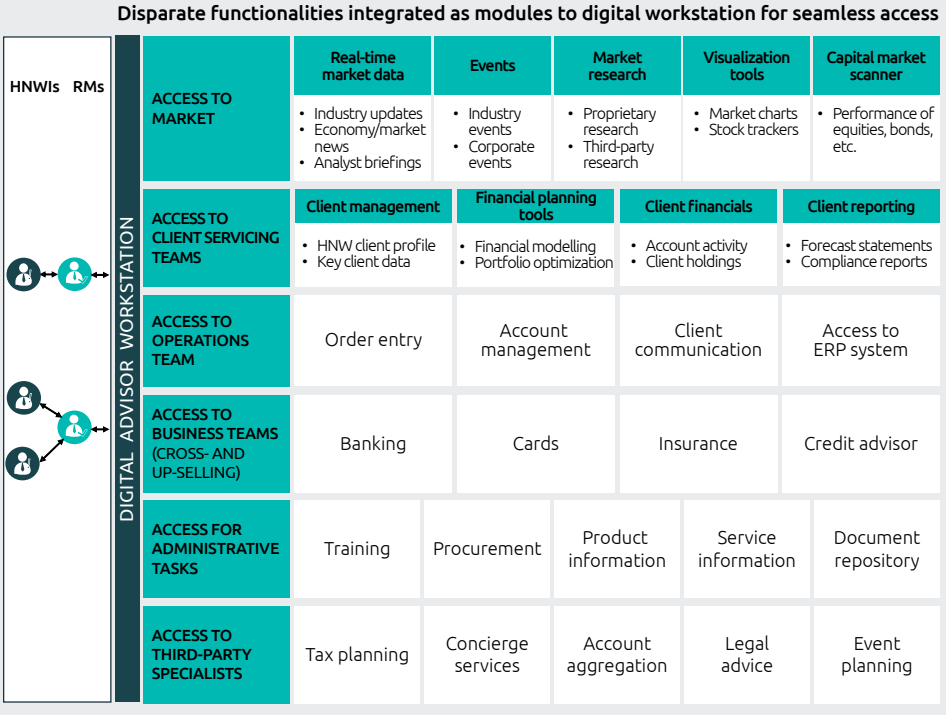
- Moreover, scaling and onboarding new RMs on digital workstations would be economical and easy, with WM executives saying they could reduce onboarding time by nearly 30%.
- In addition to consolidating and managing the everyday tasks of RMs, a digital workstation can facilitate online and in-person HNW client meetings ensuring a superior omnichannel experience, increasing the client face time with RMs by 15-20%.

Digital workstations can automate several disconnected and manual processes and encourage RMs' use of intuitive value-adding tools. They also provide a 360-degree view of clients to improve RM decision-making. As a result, workstation benefits could potentially boost RM productivity by 25%, wealth management executives conjecture.

Strengthen the foundation to unlock the next big opportunity

Digital transformation is key to improving the wealth management value chain, reducing the cost base, and uplifting RM productivity. These efficiency gains allow RMs to shift their focus to value-adding tasks and client interaction, thereby creating new revenue opportunities, both cross-sell and up-sell. In parallel, synchronization of disparate channels (for example, app, website, branch, call-center) to an orchestrate omnichannel interaction elevates the HNWI client experience. This is the foundation on which new value propositions and relationships can be explored, targeted, captured, and nurtured.

Figure 10. A digital workstation connects RMs to the service and support ecosystem



Source: Capgemini Research Institute for Financial Services Analysis, 2023.



High-productivity RBC Wealth Management-U.S. relationship managers drive superior experience for HNW clients

Overview

Minneapolis-based RBC Wealth Management-U.S. is a global leader, reporting USD 510 billion in assets under management as of Jan. 31, 2023. It employs more than 2,100 financial advisors who provide advice and wealth solutions to individuals, families, and institutions.

Business challenge

Believing that the future of wealth management depends on relationships, RBC Wealth Management leaders realized that the definition of "relationship" is prone to fast change in the digital world. So, they set out to overhaul the organization's processes and systems to ensure long-term success. They used a legacy customer relationship management (CRM) tool reliant upon 26 systems to gather client data. Unfortunately, the time-consuming process could not consistently ensure synchronized data sharing between systems. As a result, advisors spent time with administrative tasks at the expense of generating new business. Through a 2017 survey, RBC learned that 1 in 4 recruits accepted jobs at competitor companies because of the state of their digital technology.

Business solution

Firm executives collaborated with **Salesforce** and selected Financial Services Cloud, a purpose-built platform that unites RBC Wealth Management client data into a single source of truth. The platform allows relationship managers to access client information easily from their desktops. A seamless data exchange between Financial Services Cloud and the other systems also solves the problem of inconsistent data between systems. Speed to market was an important consideration to catch RBC up with competitors technologically. The solution also offers back-end reporting, a new benefit for the company.

Business impact

Now, advisors create and customize reports instantly while accessing real-time analytics around their books of business – from their desktop. Regulatory compliance solutions, such as Client Best Interest, can be built into the platform to keep advisors focused on client protection while helping management augment regulatory transparency and immediacy. The Salesforce solution launch took six months, including integrations with RBC legacy systems. Initially, the desktops included basic templates, but advisors later customized them to fit the information they needed in the way they wanted to present it. With a single source of truth, entering data into the platform updates 90% of advisor systems for substantial time savings. Opening a new account had taken days or weeks, but now it is accomplished in hours. The platform allows RBC advisors to focus on clients and build new business. RBC Wealth Management reported a 95% adoption rate of the platform, which illustrates the value of digital capabilities. Transformation also turned around recruitment efforts and kept retention strong.

Unlock new growth opportunities through the affluent segment

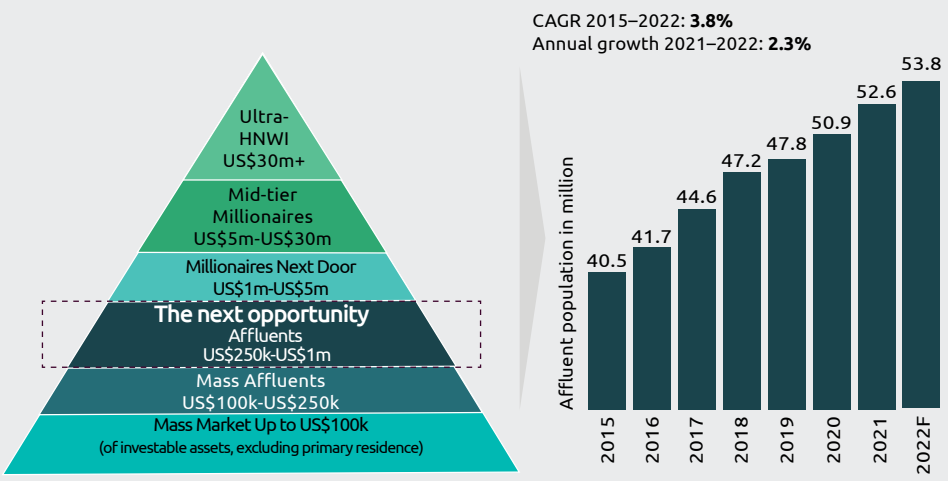
Expanding the pool of potential wealth management clients is now an imperative to help drive long-term growth across the industry. WM providers need to look beyond their current HNWI base. It is the affluent segment (USD 250k-1m) that now presents a new frontier as this population continues to grow in size and financial clout.

Historically, wealth firms have focused their efforts on attracting and servicing the needs of the high-net-worth client. The market is changing, and many wealth firms are now broadening their client focus to include the affluent segment, a 50 billion dollar untapped market opportunity. This segment is growing fast, needs help with financial literacy, easy financial planning and tools that permit them a collaborative experience with their advisor"

Michelle Feinstein
GM & VP, Wealth & Asset management, Salesforce

- With nearly USD 27 trillion in assets – almost 32% of total HNWI wealth – and a large and increasing population base, the affluent market segment dominates a sizeable chunk of the wealth pyramid (Figure 11).[29]
- Regionally, North America is home to nearly 46% of the affluent segment in wealth, followed by Asia-Pacific that represents the second largest market, with an almost 32% share of global affluents wealth. Today's aging HNWIs typically take a conservative investment approach – with a less hearty risk appetite and frequent fund withdrawals – resulting in slow growth for WM firms. In contrast, affluents captured in their early life stages can grow within the wealth management ecosystem to become HNWI clients. They are more likely to seek growth assets and pursue long-term investments. Targeting and capturing the affluent segment can help firms to balance their client mix.

Figure 11. Affluents outnumbered HNWIs by 2.5x in 2022



Sources: Capgemini Research Institute for Financial Services Analysis, 2023; GlobalData's Wealth Markets Analytics, 2023.
Note: The data on the right chart represents the population of individuals with investible assets between US$300k and US$1m. Affluents are defined as individuals with liquid assets between US$250k and US$1m. This data is considered a proxy for the affluent population due to minimal differences in the value of investible assets.

Are affluents a good fit with traditional wealth management firms?

We estimate the affluent segment totals around USD 40–50 billion of WM firms' annual total addressable market. However, despite considerable revenue potential, wealth management firms are yet to find their way in terms of how best to address this segment.

- 52% of surveyed executives said universal banks with a wealth management division consider affluents a prominent customer segment.
- However, a third of their banks are not exploring this segment and have no short-term engagement plans. From a pure wealth management firm perspective, only one in three executives consider affluents a segment of interest.

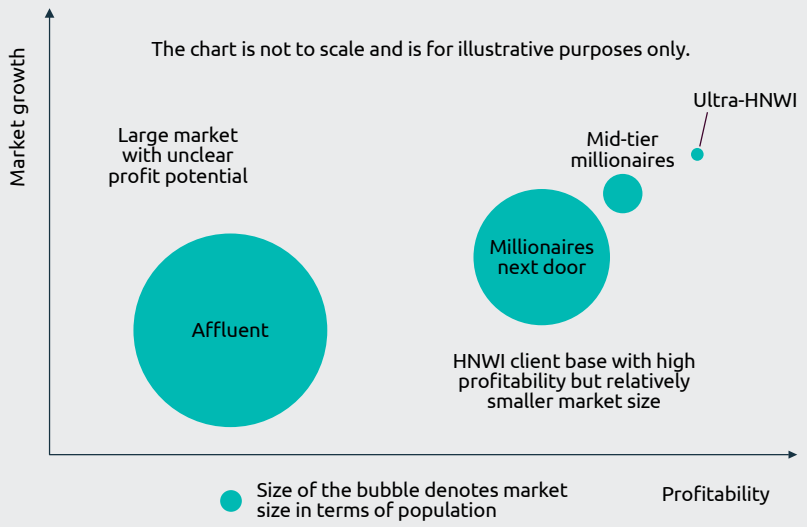
Concern about profitability is the primary apprehension. Despite its large population, affluents are yet to prove growth and profit potential on par with the HNWI wealth band (Figure 12). At Norway-based Nordea Private Banking, the Head of Frontline Support, Jan Magne Berge, said, "For the affluent segment to become a continuous opportunity, we need a more cost-efficient model. And we need the capacity to serve customers effectively and personally."

Some wealth management firms serve affluents with pure robo-advisory models featuring commoditized offerings and limited value-added services. While this approach is cost-efficient, the lack of differentiation sparks clients' price sensitivity, lukewarm loyalty, and a tendency to jockey between firms in search of better prices. As a result, WM firms lose money on ill-fated client acquisition and retention efforts.

The expanding wealth continuum represents a significant opportunity for wealth management firms to tap into the growing affluent segment. Technology-enabled AI/data solutions allow firms to scale and democratize their services without requiring significant additional resources."

Sanjoy Sen
MD, Group Head of Consumer Bank, DBS

Figure 12. Unproven affluent segment profitability creates doubt about long-term market potential



Source: Capgemini Research Institute for Financial Services, 2023.

Nonetheless, prevailing indecisiveness in targeting and serving the affluent segment leads to poor reach and engagement while pushing this segment to independent advisors.

An affluent customer is more likely to move based on price versus perceived value or potential return. So affluent customer loyalty will likely remain significantly lower than high-net-worth individuals."

Stuart Grant
Head of Capital Markets, SAP

46%
of affluents said WM firms do not offer them value-added services

The affluent segment is in need of advice and attention

Our 2023 affluent customer survey found that only 57% of individuals within the affluent segment look to relationship managers of any kind for investment advice. In addition, about one in three expect value-added services, including tax planning, mortgage management, portfolio management, and other advisory services.

We asked affluent wealth band individuals how they currently get investment advice. Looking at aggregated results globally, 43% said they rely on independent wealth advisors; much smaller numbers of affluents said they look to retail banks or traditional wealth management firms for investment services, only 17% and 5%, respectively, whereas 20% said they manage their own investments via do-it-yourself approaches or tools. Survey results did indicate some preference or experience differences by region:

- 51% of North American affluents receive wealth services from independent wealth managers, with percentages using retail banks and traditional wealth managers essentially on par with the global numbers. Nineteen percent said they manage their investments alone.
- In contrast, 27% of the European affluent segment said they receive wealth services from their retail banks, followed by 25% who count on independent advisors and 5% with traditional wealth managers. Seventeen percent of European affluents said they manage their wealth themselves.
- In the Asia-Pacific region, 58% of affluent segment survey respondents said they rely on independent wealth managers; just 10% said they turn to retail banks, and half that number engage with traditional wealth management firms. About one in four manage their wealth alone.

It is not surprising, then, that affluents face investment friction and challenges:

- 58% of affluents said they lack the knowledge and support to make investment decisions during times of volatility, such as in 2022.
- 46% of affluents said WM firms do not offer them value-added services.
- Nearly 42% of affluents are unaware of investment-related risks and their investment strategies are not aligned with their life goals.
- Almost one-third of surveyed affluent investors said robo-advisory service does not effectively answer their questions.

These challenges stifle affluents' overall investment advisory experience and satisfaction: indeed, only 18% of survey participants said they were satisfied with their current wealth management service provider. All of this data describes a wealth band that could benefit from experienced guidance. Therefore, the timing is right for wealth management firms to step in to meet the pent-up needs of the affluent segment.

Even when markets are highly volatile, HNWI clients benefit from wealth advice, timely and tailored investment recommendations, and value-added services from their wealth manager. However, the affluent segment often does not have the same access to advice."

Christine Ciriani
CEO EMEA, InvestCloud

New business models to open doors to profitable reach and engagement

Before taking the plunge on expanding the wealth segments they serve, WM firms will need to solve the tricky equation of keeping operational costs low while at the same time providing the expertise and service that the affluent segment seeks. WM firms will need to shift from commoditized offerings to mass personalization – but customization and staff engagement are a pricey approach as near-term margins will be low. Therefore, technology-enabled customization, based on broad client segmentation, has to be the way forward. Moreover, firms that focus on younger members of this new wealth band can derive added benefits – improving their client mix and maximizing client lifetime value.

The mass-affluent segment represents a vast opportunity (nearly USD 50 billion). However, it is a complex wealth band requiring dedicated teams and a digital platform to reap inherent benefits."

Stephane Gomis
Deputy CEO, AZQORE SA

We see three different approaches that wealth management firms should consider as they figure out how they might best serve the affluent market. And real-world examples exist for each of these strategies today.

1. Leverage existing wealth management structures

Based on our survey, one in three wealth firm executives globally considers building out existing infrastructure and creating/leveraging in-house teams to target and serve affluents as the best way to pursue this new opportunity. Nearly half of universal banks and 29% of pure-wealth management firms rated this model as the best way forward.

- Selection of this option requires wealth management firms to speed up digital transformation to boost productivity and relationship manager efficiency, develop artificial-intelligence-driven digital tools, and orchestrate client-facing, omnichannel experiences.
- Effectively catering to the needs of the large, diverse affluent segment will also require wealth management firms to pair clients with best-fit relationship managers. Banks are already exploring artificial intelligence (AI) tools and capabilities to help affluent clients find advisors best suited to their needs and expectations, while optimizing service, outreach, and engagement costs.



As one current industry example, during the fourth quarter of 2022, Bank of America's wealth management division, Merrill Lynch, launched a digital platform, Merrill Advisor Match, to match affluent customers with advisors. More than 5,000 Merrill relationship managers trained to use the platform, which collects data regarding investor attitudes, behavior, and life goals. According to the survey, 43% of the affluents said their investments do not align with their life goals.[30] Platforms such as Merrill Advisor Match are able to connect clients and advisors based on multiple dimensions, resulting in a higher degree of personalized engagement.

2. Develop a WaaS proposition

A growing financial services (FS) business model is Banking-as-a-Service. FS firms leverage open application programming interfaces (APIs) to embed regulated products within the platform of an FS or non-FS third party. Likewise, wealth-as-a-service (WaaS) can enable WM firms to package core capabilities into modules and embed them with third-party partners, such as retail banks or independent advisors (Figure 13).

71%
of surveyed affluents said they would like WM services from their banks

WaaS can streamline the delivery of cost-effective wealth management services to affluent clients at the appropriate time and through the right channel. It also allows WM firms to leverage clients' banking data to customize offerings.

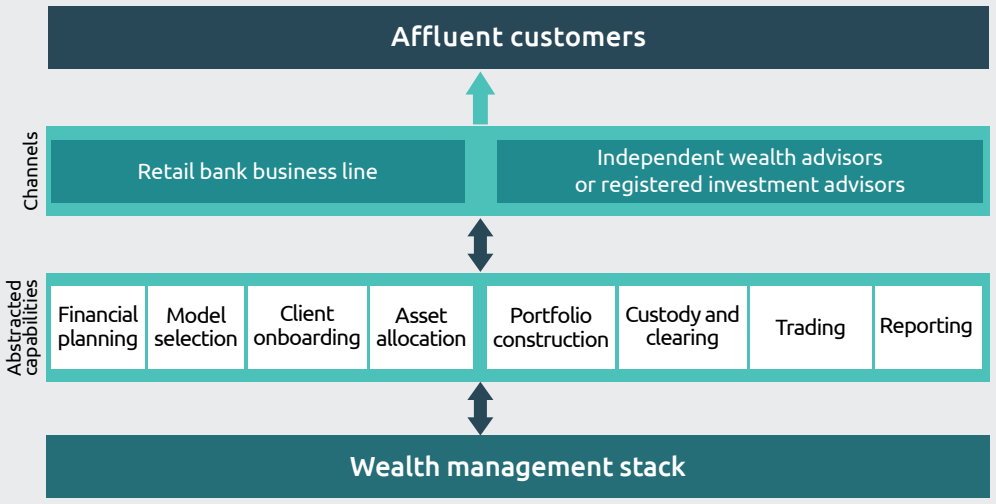
The as-a-service approach can be extended to brokerage-as-a-service, custody-as-a-service, and other services, including portfolio management, risk scoring, and financial wellness using retail banks as intermediators. Of surveyed affluents, 71% said they would like wealth management services from their retail banks. Olivier Goerens, Head of Marketing Private & Wealth at Belfius Bank, believes that "combining existing wealth management and retail infrastructure should help capture the affluent segment effectively and profitably."

However, WaaS is not enthusiastically embraced as a winning strategy by all. Our survey findings on this topic include the following:

- Overall, just 22% of WM executives said embedding financial advisory into affluents' banking relationships is a move they would support.
- Not all universal banks support embedding and delivering wealth services through a retail arm, with only 14% backing the strategy.
- In contrast, pure wealth management firms are keener to leverage the WaaS model, with nearly one in four saying WaaS could be an apt strategy to reach and serve affluents.

Another related approach is for wealth management firms to offer as-a-service modular wealth capabilities, including onboarding, KYC, custody, brokerage, advisory, and white-label robo-advisory to independent advisors. Like retail banks, Registered Investment Advisors (RIAs) can become intermediaries that help large WM organizations acquire and serve the affluent segment. In addition, third-party channel partnerships may help WM firms monetize their digital infrastructure through a WaaS revenue stream.

Figure 13. Wealth-as-a-Service (WaaS) offers a path to affluents through third-party channels



Source: Capgemini Research Institute for Financial Services Analysis, 2023.

Goldman Sachs partners with independent advisors to target and serve affluents. It developed custody platform *Advisor Solutions* to encourage independent wealth advisors and RIAs to include WM offerings within an embedded environment.[31] And when Cincinnati, Ohio-based United Advisor Group (UAG) launched as a RIA in Q1 2023, it selected the Advisor Solutions platform. The arrangement gives UAG a suite of wealth management solutions, access to back-office capabilities, on-demand add-ons, and solutions covering alternative investments, lending, and more.[32]

WaaS models allow wealth management firms to explore, target, and serve the affluent segment, but the potential to lose control of data and direct client visibility exists. Moreover, participating firms depend on retail banks and RIAs to extend reach and engage with affluent investors.

Multi-national financial institution integrates retail banking and wealth channels for superior CX

Business overview

DBS Bank is a leading financial services group in Asia with a presence in 18 markets. Headquartered and listed in Singapore, DBS serves critical Asian growth regions: Greater China, Southeast Asia, and South Asia.

Business challenge

DBS executives sought to invest strategically in cutting-edge technologies to ensure continued growth and a competitive edge. With wealth management among its priorities, the bank aimed to address the challenges of scaling, generating traction, and gaining client insights while integrating its wealth and retail banking strategies.

Business solution

First, the bank prioritized seamless customer journeys that connect the offline and online worlds. By creating a unified customer experience (CX), DBS aimed to provide convenience and accessibility. Next, the bank reiterated its commitment to data and artificial intelligence to scale personalization and hyper-personalization for customers and employees. The aim was to deliver solutions tailored to unique needs. Another DBS goal was employee productivity through a one-stop platform that streamlines internal processes and offers easy access to tools and resources.

DBS selected a hybrid approach of off-the-shelf tools and technologies complemented by in-house capabilities. It expanded tech infrastructure and trained talent to leverage predictive cognitive banking. More than 100 machine learning algorithms analyze >15,000 customer attributes to generate relevant nudges that are useful yet not intrusive. DBS also built an in-house platform, Client Connect, to help relationship managers deliver meaningful, hyper-personalized advice via a 360-degree client view of financial and non-financial data. DBS bolstered equity-trading CX by integrating these solutions into its retail banking application, digibank while augmenting portfolio management tools for a consistent omnichannel experience

Business impact

The bank determined that the value created from its retail/wealth efforts was ~SGD100 million (USD75 million). Additionally, clients quadrupled online equity transactions in 2022 versus 2018. Customers ranked satisfaction with digibank at 4.60 (SG) and 4.42 (HK) out of 5.00, and RMs' client engagement and productivity improved significantly.

3. Build a dedicated platform

Finally, some wealth management firms are developing a dedicated platform to target and serve the affluent segment. Organizations can build, partner with, or acquire platforms that offer a one-stop-shop for affluents by consolidating wealth services, banking, and other value-added offerings, augmented with self-service tools to improve client engagement (Figure 14)

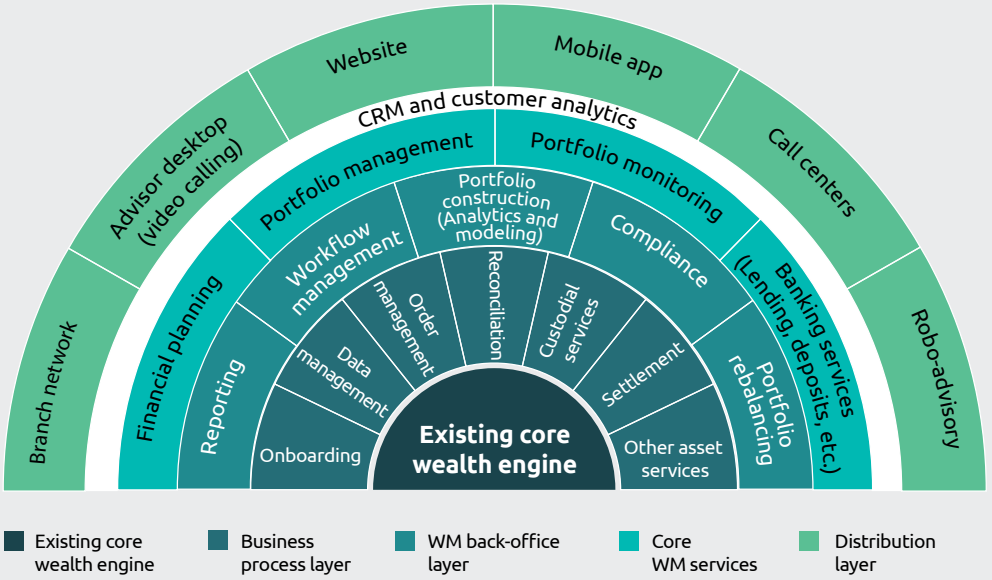
Using composable architecture and as-a-service pre-packaged modular solutions to assemble a platform without technical debt has become less daunting than in the past. Building a digital platform, however, often requires high set-up costs. And parent firms must cross-subsidize operations before the platform breaks even. Conversely, decommissioning or exiting the platform can be equally costly.

Morgan Stanley acquired brokerage firm E*Trade in October 2020 to engage affluent investors.[33] The New York-based investment bank coupled its traditional advisor-driven wealth management model with E*Trade's direct-to-consumer digital capabilities. Morgan Stanley bolstered its platform capabilities to give affluent segments greater control, visibility, and customization.[34]

In another example, Swiss banking giant UBS launched wealth management services for affluent clients in China via its *WE.UBS* digital platform in October 2022. The quick-to-onboard, AI-driven platform offers local and global investment products, investor education, and 24-hour tracking based on market developments.[35] Banks are not the only financial institutions launching dedicated affluent-segment platforms and mobile apps. According to our executive survey, 47% of pure wealth management firms support establishing a dedicated affluent segment platform.

Zürich-based investment firm Vontobel Holding AG launched its digital affluent-segment platform, *volt*, in 2019. And today, *volt by Vontobel* is an investment app that delivers private banking-level service combined with the option of personal advice. As a result, affluent clients can access digital investment services that might otherwise be available only to HNWIs. The mobile-only app offers personal investment advice, select pre-built portfolios, and access to exclusive benefits and alternative investments. The entire basic portfolio is ESG certified and completely sustainable.[36]

Figure 14. Assemble a composable wealth management platform



Source: Capgemini Research Institute for Financial Services Analysis, 2023.

Shaping the wealth management future – today

We believe WM firms will likely face sluggish economic growth, low return potential from assets, and an evolving competitive landscape in the foreseeable future. Irrespective of which strategic path a firm selects, sustaining long-term growth will require cost management, new value pools, and a recalibration of the aging customer mix by adding new segments, such as affluents, early in their life stages.

As technology advances, firms can reduce cost-of-service significantly. Moreover, they can expand personalization from commoditized modular offerings to tailored products that resonate with affluent segment aspirations. A loyal client base with high lifetime value is bound to result.

Progress will require strong top-down commitment and investments in emerging technologies and resources as firms soldier through current headwinds and shape the future of wealth management.



IN CONCLUSION

Economic indicators predict that investment challenges will continue through the months ahead. Expect interest rates to remain high as central banks continue to rein in inflation. Meanwhile, uncertain global equity markets, corporate profits, and unsteady real estate may make it difficult for wealth management firms to generate superior investment returns. As a result, HNWI expectations throughout 2023 will likely be more demanding, complex, and diverse: value-added services will take on greater importance to retain client loyalty. And with sluggish AUM growth and increasing industry competition, profit margins will undergo extreme pressure.

We recommend three enabling initiatives for wealth management firms so that they can sustain current business and grow new revenue streams throughout the challenging months ahead:

1. Build resilience to fortify value for clients. Increase focus on alternative investments (hedge funds, private equity, structured products) to align with HNWI client interests. Pursue robust ESG-rating frameworks to support RM/client engagement relative to these investments and to avoid greenwashing challenges.

2. Empower relationship managers for profitable growth. Prioritize operational excellence through digital transformation. Bolster the WM value chain's digital maturity by embracing cloud and emerging technologies. Implement high-impact changes such as digital desktops to maximize RM productivity and allow greater focus on revenue-building activities.

3. Extend reach to unlock new growth. Choose between different platform approaches to reach the affluent segment efficiently. Develop innovative value propositions and personalized, tailored products that resonate with this target wealth band.

Partner with Capgemini

The time to transform your business is now

New customer expectations around technology and easy access to data, and ever-higher demands for a seamless and simplified customer experience are raising the bar high for wealth management firms. With the added complexity of the regulatory environment, firms may face increased cost structures, while finding revenue growth at risk. As a result, it is essential that wealth managers engage in a deep transformation of their business. Capgemini helps clients transform their wealth management business to a more efficient, sustainable, and digital business model. Our offerings help you:

Reinvent yourself: Embrace a new wealth business model

Capgemini helps financial institutions reinvent their core business model by strengthening customer experience from the front to back end with innovative, digital solutions and efficient operations. Our capabilities across the wealth management value chain allow firms to meet the needs of new customer segments generating additional revenue streams and increasing profitability.

Unify the wealth client and banker experience through digital technologies

Wealth management customers and bankers are leveraging technology to simplify processes and to provide immediate access to information in all areas across the customer life cycle. Capgemini designs a seamless digital experience for multi-channel, multi-device, and face-to-face interactions. Our leading innovation and design agency develops best-in-class digital services, fully integrating the digital user experience for the wealth management client, the banker, and third-party partners.

Unleash intelligent advisor and augmented relationship management capabilities

The bar is constantly being raised by high net-worth customers. Capgemini implements innovative customer relationship management and customer lifecycle management solutions that improve sales tracking, enhance customer onboarding, and make smart Know-Your-Customer and AI-driven recommendations. We help enhance your portfolio management platform through a comprehensive set of computation engines.

Embrace a new wealth management priority – sustainability

The movement towards sustainability and ESG investing is rapidly gaining momentum, spurred on by banks and asset managers aspiring to be net zero, by the transfer of wealth to Generation Z and their ESG interests, and even regulatory changes. Capgemini works with wealth managers to commit to a net zero strategy and ESG-aligned new business model and enable monitoring and results reporting through a solid data foundation. To move quickly and embed sustainability along the entire investment process, we offer ready to deploy assets like ESG datahub, an inventory of use cases, ESG dashboards and access to an ecosystem of partners across data and platform providers, blended with a dedicated regulatory watch team.

Envision user-friendly and scalable "wealth-as-a-service" for your business

Financial services firms are looking for alternatives to costly, complex, and risky technology transformation. To be competitive, they need to gain agility and shorten time to-market. We provide financial services institutions a better way to leverage technology enabling modularity and plug and play capabilities with micro services, API, blockchain, quantum, etc. In combination with the delivery of superior customer journeys, this service can be deployed to deliver added value to the business in quick steps, rather than over a long horizon before any benefits are realized.

Methodology

Market sizing

The World Wealth Report 2023 market-sizing model covers 71 countries, 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. Using this methodology, we derive the macro-level value of HNWI investable wealth annually.

The two-stage model estimates total wealth by market and the distribution of this wealth across the adult population in that market.

- Total wealth levels by the market are estimated using national account statistics from recognized sources, such as the International Monetary Fund and the World Bank, to identify the total yearly amount of national savings. These are added over time to arrive at a total accumulated market 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. The World Bank, the Economist Intelligence Unit, and national government statistics provide data on income distribution. Then, the resulting Lorenz curves are utilized to distribute wealth across the adult population in each market.

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

We enhance our macroeconomic model annually with analyses of domestic economic factors that influence wealth creation.

The investable asset figures published:

- Include the value of private equity holdings stated at book value and 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 market 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 concerning the USD, the impact of currency fluctuations is also considered. However, our analysis concludes that our methodology is robust, and exchange rate fluctuations do not significantly impact on 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.

2023 Global High Net Worth Insights Survey

The Capgemini 2023 Global HNW Insights Survey questioned 3,171 HNWIs across 23 major wealth markets in North America, Latin America, Europe, and Asia-Pacific. The breakdown by region, age, gender, and wealth band, respondent demographics can be seen in the paragraph below.

The Global HNW Insights Survey was administered in January 2023 in collaboration with Aon's Client Insight, a firm with more than 20 years of experience conducting private client and professional advisor interviews in the WM industry. The 2023 survey covered HNWI investment behavior, channel preferences, value-added services, preference for emerging asset classes such as digital assets and ESG investments, and preference for WM providers.

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

Our HNWI survey had diverse representation:

- by Wealth Band – $1–5MN: 11%, $5–30MN: 34%, $30MN+: 55%
- by Age Band – Under 40yrs: 46%, 40–59yrs: 38%, 60+yrs: 6%
- by Gender – Male: 57%, Female: 43%

HNWI Survey Geographic Breakdown2023 Affluent Survey

Market	# HNWIs
Americas	**844**
US	525
Canada	103
Brazil	106
Mexico	110
Europe	**761**
UK	162
Germany	104
Switzerland	56
France	151
Italy	100
Netherlands	55
Belgium	54
Spain	79
APAC	**1566**
China	384
India	203
Australia	109
Japan	131
Malaysia	101
Indonesia	110
Thailand	113
Taiwan	104
Singapore	108
Hong-Kong	95
South Korea	108

The Capgemini 2023 Global Affluent Insights Survey questioned 3,203 affluents across 11 major wealth markets in North America, Europe, and Asia-Pacific. The breakdown by region, age, gender, wealth band, and respondent demographics can be seen in the paragraph below.

The Global Affluent Insights Survey was administered in January 2023 in collaboration with INJ partners. The 2023 survey covered affluent investment behavior, channel preferences, value-added services, preference for emerging asset classes such as digital assets and ESG investments, and preference for WM providers.

To arrive at global and regional values and ensure survey results represent the actual affluent population, we use market- and region-level weightings based on the respective share of the global affluent population.

The affluent survey had diverse representation:

- by Wealth Band – $250k–500k: 45%, $501k–1M: 55%
- by Age Band – Under 40yrs: 35%, 40–59yrs: 60%, 60+yrs: 5%
- by Gender – Male: 69%, Female: 31%

Affluent Survey Geographic Breakdown

Market	# Affluents
NA	**1000**
US	700
Canada	300
Europe	**1202**
France	300
Germany	300
UK	301
Switzerland	301
APAC	**1001**
China	200
Hong-Kong	250
Singapore	250
India	101
Australia	200

2023 Global Wealth Management Executive Survey

To bring in the WM industry perspective, we also conducted surveys of WM executives and wealth managers across North America, Europe, and Asia-Pacific. Surveys were administered in January 2023 in collaboration with Phronesis Partners, a cross-industry global research and analytics firm. The 2023 Wealth Management Executive Survey covers more than 95 responses across 14 markets, with representation from pure WM firms, universal banks, independent broker/dealer firms, and family offices. The survey drew on executive insights regarding their firm's prioritization of customer engagement and evolving segments, market trends, the role of the relationship manager in a bear market, and future strategies to empower relationship managers. The executive survey witnessed representation from WM firms (35%), universal banks (24%), independent brokers/dealers (30%), and family offices (11%).

2023 Global Relationship Manager Survey

The 2023 Relationship Manager Survey executed by Phronesis Partners and covers more than 800 responses across nine markets. The survey questioned relationship managers about their views on the firm's WM strategy priorities, their satisfaction with the support provided by their WM firm, and customers' increased interest in new products/offerings. The relationship manager survey witnessed representation from North America (25%), Europe (59%), and Asia-Pacific (16%).

Ask the experts



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Nilesh has been with Capgemini for 20+ years and is an expert in managing digital journeys for clients in the areas of core banking transformation, payments, and wealth management. He works with clients to help them launch new banking products and their underlying technology.



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About us

Capgemini is a global leader in partnering with companies to transform and manage their business by harnessing the power of technology. The Group is guided everyday by its purpose of unleashing human energy through technology for an inclusive and sustainable future. It is a responsible and diverse organization of over 360,000 team members in more than 50 countries. With its strong 55-year heritage and deep industry expertise, Capgemini is trusted by its clients to address the entire breadth of their business needs, from strategy and design to operations, fueled by the fast evolving and innovative world of cloud, data, AI, connectivity, software, digital engineering and platforms. The Group reported in 2022 global revenues of €22 billion.

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