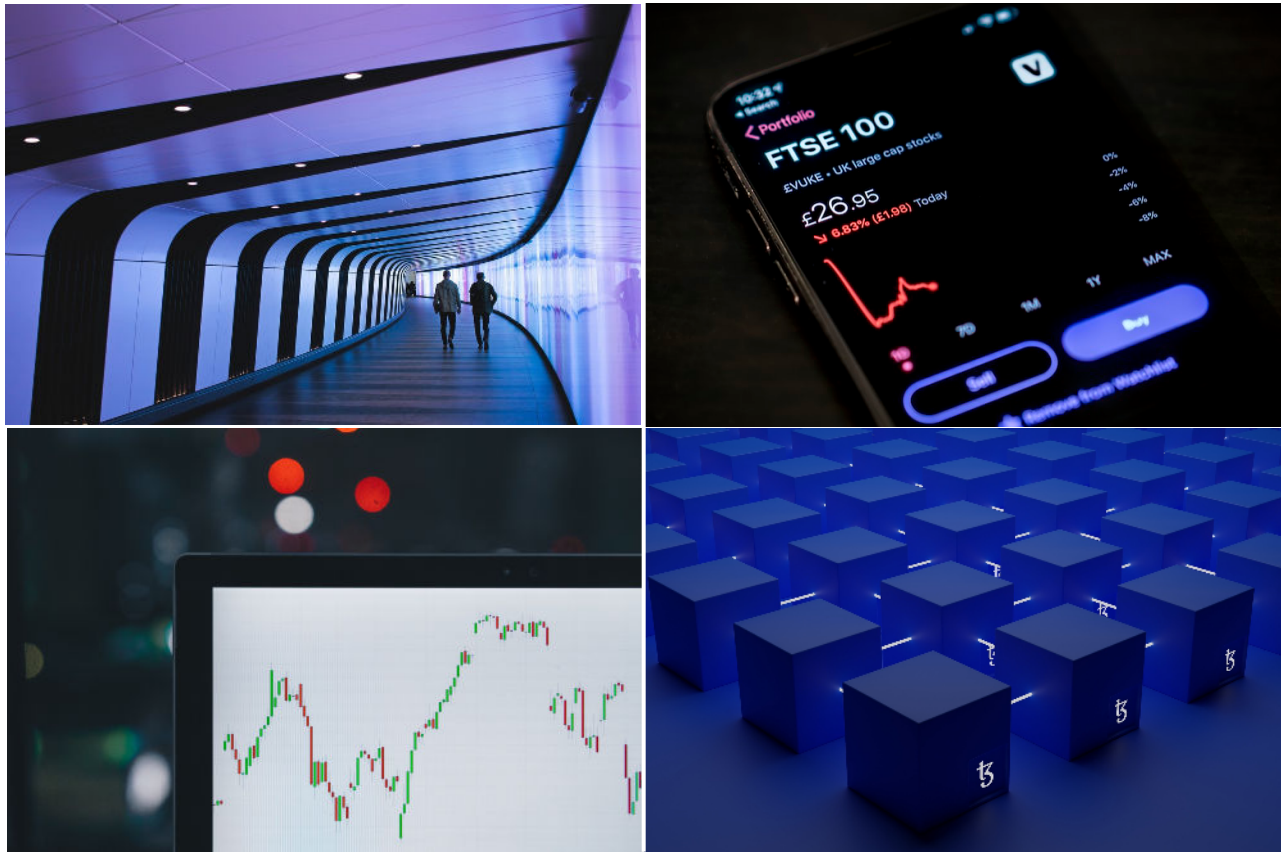
ThoughtLab

# Building a Future-Ready Investment Firm

How firms are reinventing their businesses for the next era of investing




In partnership with

Deloitte. FNZ

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# Becoming future ready

The global wealth management industry faces converging megatrends that are redefining investor needs and reshaping the industry at a time of growing economic and geopolitical uncertainty. These trends include rapid technology innovation, mounting regulation, heightened competition, and broad demographic shifts.

To prepare for the next era of wealth management, investment firms need a clear view of the changing expectations of today's diverse set of investors—and how competitors are rethinking their products and services, internal processes, go-to-market strategies, value propositions, and business models to keep them happy. Having an artificial intelligence (AI) and digital transformation strategy will be an imperative.

**Making the investor the North Star**

To find their way, investment managers must make the investor their North Star. This requires fresh thinking, since traditional investor segmentation no longer adequately reflects today's heterogenous marketplace. With demographics shifting fast, creating a mix of investors by wealth, age, source of income, location, gender, and lifestyle, providers require a deeper understanding of their customers and their morphing needs and behaviors.

To provide wealth management professionals with insights into investor shifts, ThoughtLab joined forces with an exclusive group of wealth industry experts, including Deloitte, FNZ, Genesys, and Amazon Web Services (AWS), to conduct a new study, ***Building a Future-Ready Investment Firm***.

**Rigorous evidence-based research**

The research is based on a broad survey, conducted in October-November 2023, of investors across countries, wealth levels, ages, lifestyles, occupations, gender, and other characteristics. It explores the future of the wealth industry through the eyes of investors: how their expectations around customer experience, digital interactions, and client relationships are changing; what products and services they want in today's era of democratization; which fee structures and value propositions will work best; and the firms they plan to work with to meet their investment needs.

The study also included a benchmarking survey of senior executives from a cross-section of 250 wealth management firms, from independent wealth advisors and private banks to wealth management divisions within regional and international banks. It examines how service providers are adapting to the shifting investor imperatives, including their plans around product and services, pricing and business models, and use of digital technologies. To gain greater insight, we also conducted interviews with top executives from 11 firms.

To cope with seismic industry changes ahead, wealth management providers will need to harness digital and process innovation to become future ready. This report provides them with the road map to do just that.



Louis Celi
CEO, ThoughtLab

# Research background

To understand the future of wealth management, we conducted worldwide surveys of 2,000 investors and 250 investment providers.

In addition to the surveys, we drew on insights from our advisory board of experts and from personal interviews with practitioners.



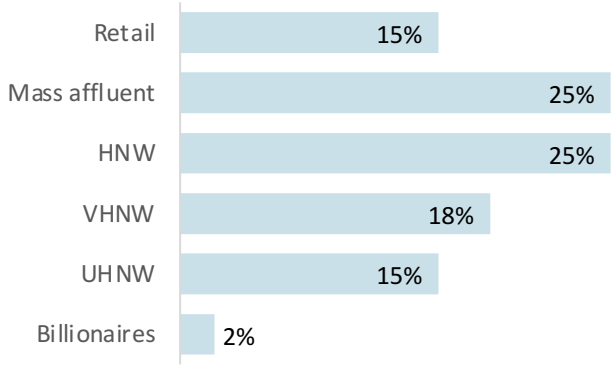
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# Investor survey profile

To understand the expectations and investment practices of investors around the world, ThoughtLab conducted a survey in September-November of 2023 of a cross-section of 2,000 investors who varied by wealth level, age, gender, and location.

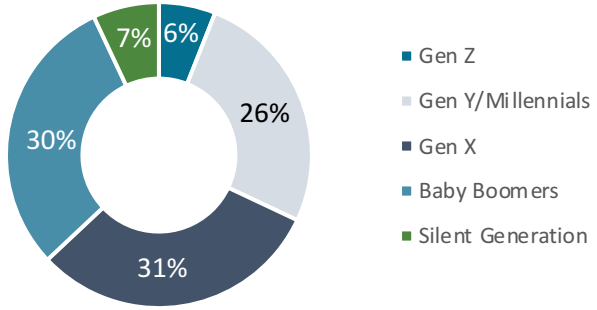
We covered four regions: Asia Pacific, Europe, the Middle East, and North America. By wealth level, the largest shares comprised mass affluent (25%) and high net worth (25%), followed by very high net worth (18%). By age, the largest share consisted of Gen X (31%), followed by Baby Boomers (30%).

## Respondents by wealth level




Retail: $25,000 to $99,999
Mass affluent: $100,000 to $999,999
HNW: $1 million to $4.9 million
VHNW: $5 million to $29.9 million
UHNW: $30 million to $999 million
Billionaires: $1 billion and over

## Respondents by generation




## Respondents by gender*




*In line with gender breakdown of worldwide investors.

## Respondents by region and country

| Asia Pacific 26% | Europe 43% |
|---|---|
| Japan 6% | UK 8% |
| India 5% | Germany 6% |
| China 5% | Italy 6% |
| Australia 4% | France 6% |
| Singapore 3% | Switzerland 6% |
| Hong Kong 2% | Benelux 5% |
| New Zealand 1% | Spain 3% |
| | Sweden 1% |
| | Norway 1% |
| **Middle East 2%** | **North America 29%** |
| Saudi Arabia 1% | US 20% |
| UAE 1% | Canada 9% |

# A global mix of providers

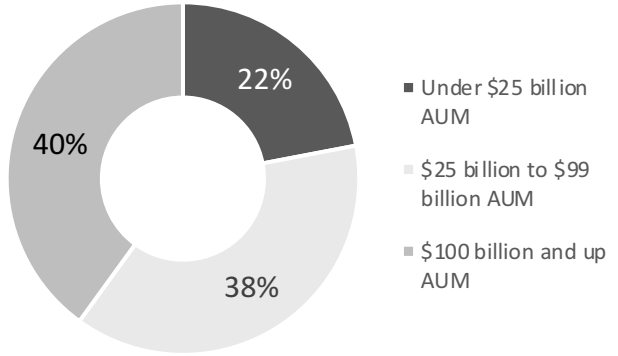
To analyze how investment firms are adapting their strategies, products, and business models to meet fast-changing investor expectations, ThoughtLab also conducted a comprehensive survey in September-October 2023 of 250 investment providers in the top investment markets around the world.

## Respondents by sector




Note: Asset management firms refer to firms that primarily focus on managing investment portfolios, including investments such as stocks, bonds, mutual funds, real estate, and commodities. Wealth management firms typically offer a broader range of services beyond investment management.

## Respondents by AUM




**$147 billion**
Average AUM

**$36.8 trillion**
Total AUM

## Respondents by region and country

| | |
|---|---|
| **Asia Pacific** | **28%** |
| Australia | 8% |
| China/Hong Kong | 8% |
| Japan | 8% |
| Singapore | 4% |
| **Europe** | **40%** |
| Switzerland | 11% |
| United Kingdom | 10% |
| Germany | 8% |
| France | 8% |
| Benelux | 3% |
| **North America** | **28%** |
| Canada | 14% |
| United States | 14% |
| **Middle East** | **4%** |
| UAE | 2% |
| Saudi Arabia | 2% |

# An industry redefined

Digital innovation, mounting regulations, heightened competition, sustainability pressures, and demographic shifts will redefine investor needs and experiences and reshape the industry in the years ahead.



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# A future vision of the industry

By 2028, the wealth industry will look very different, according to 250 senior executives surveyed. Our respondents tell us the following:

- **69%** AI will significantly change the way their firms work.
- **58%** Personal investment advisors will still be necessary in the future.
- **55%** Born digital firms will transform the wealth industry as they did for the retail market.
- **52%** Most products will become commoditized, forcing providers to offer value-added services to defend fees.
- **48%** Commission-based pricing models will largely disappear as fee-based models become commonplace.
- **47%** Blockchain and related technologies will reduce the need for intermediaries, such as custodians and clearinghouses.
- **39%** Investors will look mostly to investment providers for retirement income, health insurance, and longevity planning.
- **39%** Lines between wealth management, banking, and insurance will be blurred as investors demand more holistic services.

> "An unforeseen volume of customer, competitive, and environmental shifts is emerging in the sector. The convergence of these shifts is creating new pressures and opportunities for wealth managers—for both individual product profit pools and the overarching business model."

**Jean-Francois Lagasse**
Global Wealth Management Leader
Deloitte Switzerland

PQ10. As you look out over the next three to five years, which statements about the future of the wealth mgmt. industry do you agree with?

# Wealth management megatrends

Senior industry executives around the world believe that technological, regulatory, competitive, demographic, and economic/geopolitical shifts will have a major impact on their business over the next three years. Impacts will range from mounting investor expectations for digital experiences and rising cyber risks, to new business models and pricing pressures. The severity of the shocks depends on the type of institution and its location. For example, investor expectations for digital experience are most disruptive to family offices and independent advisory firms, which tend to be behind in digital engagement. By contrast, robo advisors and online trading platforms are particularly vulnerable to cyberattacks.

**Technological**
**52%**
Advances in AI, blockchain, cloud, IoT, data analytics, biometrics and other latest technologies

**Regulatory & taxes**
**43%**
Growing regulations on data privacy, fintech, investor protection, and ESG reporting and changes in tax codes across world markets

**Competitive**
**41%**
Rising competition among incumbents and new market entrants, such as wealth techs and Big Tech and Retail

**Geo/Economic**
**35%**
Uncertain economic and geopolitical landscape, creating greater market risks and investor concerns

**Demographic**
**31%**
Ongoing demographic and generational shifts, ushering in younger and more diverse investors

## GIVING RISE TO

- 43% Mounting investor digital expectations
- 40% Automated portfolio management
- 40% Rising cyber attacks
- 30% New business and pricing models
- 26% Difficulty differentiating offerings
- 19% Pricing pressures and margin compression
- 18% Democratization of offerings and asset classes

PQ7. Which major wealth management industry market trends do you believe will have the greatest impact on your business over the next three years?

# What the experts say



**Yoni Assia**
Founder & CEO
eToro

Technological transformation—first digital and now AI—has lowered the barriers to entry and significantly increased retail participation. You no longer need six figures in income to invest. This means there is a vast and growing addressable market for wealth managers and other direct-to-consumer investment providers/brokers.

While the opportunity is growing, those wishing to benefit will need to understand and be able to meet the increasingly demanding needs of these consumers. Consumers expect an intuitive, digital-first user experience coupled with a high degree of personalization.

We expect technology-driven disruption only to accelerate.



**Carl Robertson**
Group Chief Marketing Officer
FNZ

The industry is navigating a "perfect storm" of challenges, as a substantial wealth transfer from older to younger generations coincides with the latter's expectations for digital-first services.

Despite the urgent need for digital transformation, the sector struggles with complexity and legacy technology holding it back.

This is exacerbated by an advice gap caused by a wave of retiring financial advisors and insufficient new entrants, which means that a new generation of investors, who find it challenging to engage with the traditional advice model, are underserved.

In response, prioritizing technological strategies such as implementing end-to-end platforms to drive hyper-personalized client experiences and driving extreme automation is essential.



**Sumedh Mehta**
Chief Information Officer
Putnam investments

Everything is changing because of digital disruption. This includes the role of crypto as an asset allocator or currency, digitally enabled product innovation, pervasive cyber threats, the adoption of technology due to demographic shifts, and now generative AI.

Given these shifts, regulatory changes won't be slowing any time soon. There isn't an area of the business that isn't affected—whether on the side of the investor or the advisor. A graph of the changes would show a continuous line upward. These include new regulations on the use of data and cryptocurrencies—what we can do with it, and what we can't—and on ESG disclosures and transparency, to name just a few.

# Clients are driving industry change

Investor expectations are forcing widescale change across the industry. Over two-thirds of investors want digital experiences on par with those offered by digital-native firms. In fact, 51% would consider investing through big brand retailers or tech companies if given the opportunity.

At the same time, more than two-thirds want their providers to take a more holistic approach. Sixty percent want their providers to supply better digital tools so that they can manage their investments directly, without the help of advisors.

As they become more prominent, the next generation of investors—true digital natives--will add to the pressure. Three-quarters of them expect digital experiences as good as the ones they get from the e-commerce sites they use. When picking an investment firm, high-quality digital apps, tools, and platforms are now a prerequisite for 58% of Gen Y and Z investors.

> "The most important disruptor in the industry today is the client. Investors and families have higher financial awareness, literacy, and access to information than at any other point in our history. Their attitudes, expectations, and behaviors are compelling wealth managers to innovate across products, services, and experiences."

**Jean-Francois Lagasse**
Global Wealth Management Leader, Deloitte Switzerland

| % | What the data says |
|---|---|
| 68% | of investors want their providers to offer digital experiences on par with leading born-digital companies. |
| 68% | of investors want their providers to give them a holistic financial picture of all assets and liabilities with all organizations they work with. |
| 60% | of investors want their providers to supply better digital tools so that they can manage their investments directly. |
| 51% | of investors would invest through big brand retailers or tech companies if given the opportunity. |

IQ11. Which, if any, of the following statements about your investment plans and behaviors do you agree or disagree with? IQ16. Which of the following are most important to you when selecting investment providers?

# Firms that modernize to meet client needs will win, others will lose

In the next era of investing, the winners will be those wealth management firms that modernize to meet investor rising expectations for better digital experiences and holistic support. Those that are slow to respond will likely lose market share, as their clients switch to providers equipped to fulfill their needs.

Firms that have modernized through digital technology, such as end-to-end platforms, are already seeing performance benefits—which they believe will grow over the next three years. Some 44% of firms expect digital innovation to reduce their costs over the next three years, and 42% expect a boost in their revenue over the same period. In addition, 38% anticipate rising shareholder value thanks to digitalization, while 35% expect improved customer retention.

At the same time, our research shows that providers that fail to meet changing investor expectations will likely experience greater customer churn. Almost 6 out of 10 investors across all wealth levels are considering switching providers over the next three years. More that a third of them—and more than half of younger investors—might do so to get better digital apps, channels, tools and platforms.

## How firms win if they modernize

**42%** of firms are planning for revenue growth over the next 3 years from digital innovation.

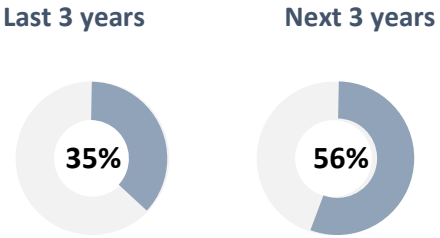
**44%** of firms expect digital innovation to reduce costs over the next 3 years.

**38%** of firms anticipate rising shareholder value over the next 3 years from digital innovation.

**35%** of firms expect improved customer experience and retention over the next 3 years from digital innovation.

## How firms lose if they fail to modernize

More investors are considering switching providers over the next 3 years.




**35%** of investors and

**53%** of young investors

might switch providers for better digital apps, channels, tools, and platforms.

PQ29. What are the main benefits your firm is seeing from its tech investments now and what main benefits does it expect to see over the next three years? IQ15. Have you switched from one investment provider to another over the last three years? Are you considering making such a change over the next three years?

# What digital leadership now looks like

We divided survey respondents into three digital maturity levels based on their progress in technology and process transformation. We classified 16% of them as leaders, 62% as intermediates, and 22% as laggards.

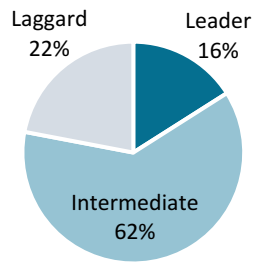
Under competitive pressure, broker-dealers have advanced the most since our last study, partly by acquiring and partnering with fintechs. Robo advisors and online trading platforms are only slightly behind broker-dealers, but with the fewest laggards. Next come wealth advisory firms and divisions in banks, which have the most leaders. The largest firms, with greater resources, are furthest ahead.

Conversely, asset management firms, as well as private banks and family offices, lag the other categories. Asset managers tend to have less private client business, while the others focus more on human support and white-glove service.

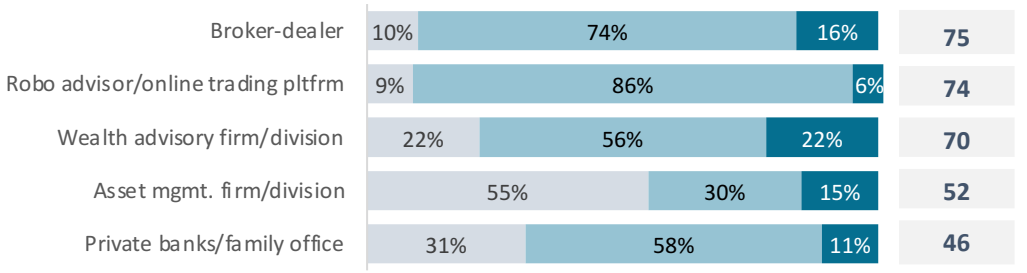
It is telling to see where leaders are furthest ahead: AI and automation, which most executives believe will be transformative for the industry. They are also ahead on such people-focused areas as digital employee experience and organizational culture.

PQ22. At what stage of development is your organization in the following areas of technology and process transformation now?

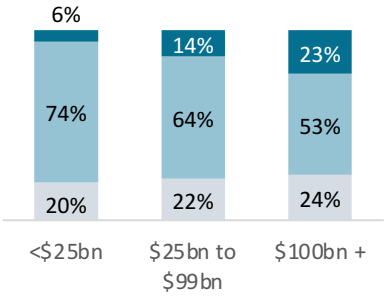
## Digital maturity



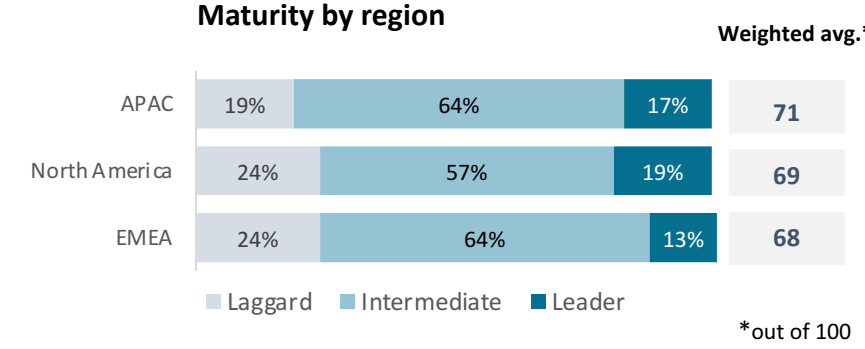

## Maturity by sector




## Maturity by AUM size




## Maturity by region




## Where leaders are furthest ahead

(% advanced)

| | Leaders | Others |
|---|---|---|
| AI-enabled, automated activities | 90% | 40% |
| Digital employee experience | 74% | 30% |
| Middle- and back-office optimization | 72% | 29% |
| Purpose-led organizational culture | 77% | 39% |

*** Weighted average** calculated by multiplying the percentage of leaders by 3, the percentage of intermediates by 2, and laggards by 1, then dividing the total sum by 3.

# Building a future-ready wealth management firm

To cope with these disruptive changes, wealth management firms will need to transform their strategies around clients, advice, products and services, and business models. Becoming future ready will require that they fully embrace digital and business innovation—and for many, accelerate their transformation programs so they don't fall behind.

Our research identifies five critical steps that firms should take to thrive in the next era of investing. Each step is covered in the remainder of the report, designed to be an operating guide for investment firms seeking to stay profitable and competitive in a fast-changing marketplace.




**Digitally transform** client advice and experience




**Make** client diversity a business opportunity




**Drive** performance through AI and digital innovation




**Rethink** offerings for the next investment era




**Adapt** business models and market positioning

> The future of the wealth industry is undeniably intertwined with its ability to adapt, innovate, and transform in the face of disruption, positioning those that embrace this evolution for growth and success.
>
> **Brie Williams,** Head of Practice Management, State Street Global Advisors

# 1.
# Digitally transform client advice and experience

Technological advances will transform advisor roles and client experiences. Machines will take over many of the tasks formerly handled by advisors, while advisors will need to focus on what they do best—provide trusted, specialized, and holistic advice. Client engagement will move to the palm of the hand and virtual interactions—but personalization will be key.



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# Technology is redefining the role of the advisor

Due to the simplicity and lower cost of self-service digital platforms and AI solutions, many investors prefer to use machines over personal advisors for many investment activities. These include areas long associated with advisors, such as tax-loss harvesting and investment advice.

While most middle-aged and older investors will still rely on advisors, there is a generational shift: 60% of young ones don't believe they will need a personal advisor by 2030. Currently only about a fifth of young investors use one. This proportion will grow over the next three years, but it will still be less than four in 10—compared with about 7 in 10 older investors. This includes Gen-Xers, who, now in middle age, are the "sandwich generation," with many competing financial responsibilities.

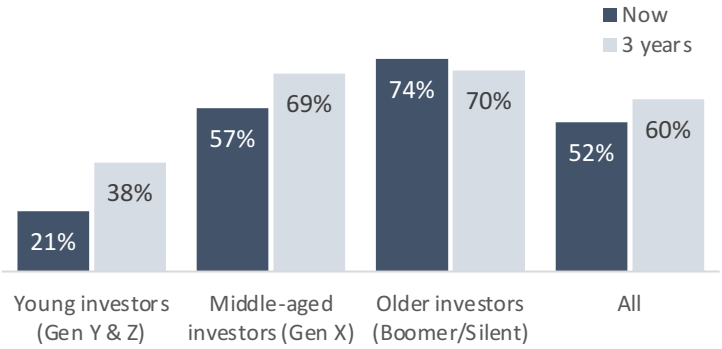
**Will digital natives embrace personal advice?**

Although most Gen Y and Z investors expect advances in technology to eliminate the need for personal advice, it remains to be seen if that will be the case as the decade unfolds. Will young investors turn to advisors as they become older and wealthier, as former generations have done? Will AI advance to a level that can replicate the functions of an advisor and provide trusted advice? And will regulators even allow it?

**Preference for use of digital solution, by activity**

| | All | Gen Y & Z |
|---|---|---|
| Update account information | 82% | 86% |
| Review account information | 82% | 85% |
| Research products and services | 74% | 72% |
| Get view of accounts across firms | 74% | 75% |
| Execute transactions | 65% | 67% |
| Asset allocation | 62% | 75% |
| Portfolio rebalancing | 61% | 63% |
| Receive investment advice | 60% | 63% |
| Track performance against financial benchmarks | 60% | 64% |
| Track performance against life goals | 60% | 64% |
| Tax loss harvesting | 56% | 58% |

**Use of personal advisor/advisory team, by age**




**60%** of Gen Y and Z investors do not expect to use an advisor by **2030** due to advances in technology.

The percentages are highest in Spain, Nordics, Switzerland, Benelux, India, and Middle East.

IQ21. Which of the following activities would you generally prefer to handle through a personal investment advisor, a low-cost digital platform, or AI-enabled process? IQ17. Do you use a personal investment advisor/advisory team now? IQ11. Which, if any, of the following statements about your investment plans and behaviors do you agree or disagree with?

# Advisors will need to offer more value

As technology takes on more wealth management tasks, advisors will need to offer more value-added support that machines cannot easily match. These include three key areas where humans have a decided edge:

**1. Trusted judgment**

Nearly half of investors believe that over the next three years, the greatest value from advisors will come from trusted investment advice. About a third will look to them for investment ideas and opportunities. "The trust and value derived from authentic human interactions with financial advisors are irreplaceable, making them indispensable in a landscape increasingly influenced by AI," says Williams of State Street Global Advisors.

**2. Holistic, personalized support**

Taking a holistic and personalized approach is a key differentiator for a third of investors, as is being available when they need them, particularly in trying times. Williams explains: "While technology can enhance efficiency and recalibrate strategies, it falls short in providing emotional support and a holistic comprehension of clients' unique life events."

**3. Specialized advice**

Advisors differ from machines by offering specialized advice on legal and tax matters, sustainable investing, and retirement planning. Almost two-thirds of executives agree that specialization of advisors will increase over the next three years.

**Where investors see greater value from advisors**

| | |
|---|---|
| Provide investment advice that I trust | 46% |
| Provide innovative investment ideas | 33% |
| Be available when I need them, esp. difficult times | 33% |
| Help me meet my holistic financial goals | 33% |
| Understand and support my lifestyle/needs | 31% |
| Handle administrative investment activities | 28% |
| Maintain friendly, personal relationships | 25% |

**Specialized advice investors will use in 3 years**

| | |
|---|---|
| Legal advice and tax planning | 44% |
| Advice on specialized investing | 33% |
| Planning and financial services for business | 32% |
| Advice on sustainable investing | 32% |
| Advice on retirement planning | 31% |
| Estate and philanthropic planning | 20% |

IQ17d. In the next three years, in which areas do you believe a personal advisor will deliver the greatest value to you? IQ26. Which of the following advisory services do you use now, and which do you plan to start using or continue using over the next three years? PQ8. Over the next three years, how do expect the investment advisor experience to change in your organization in the following areas?



# What investors want from advisors

"My financial service providers could make one big change that would help a lot: move towards a more customer-centered approach that puts personalized advice first."

**Mass affluent investor**
**New Zealand**

"It is important for advisors to increase their ability to provide legal counsel on the various investing methods and hazards."

**HNW investor**
**US**

"Sustainability-focused financial advisors may help evaluate organizations based on environmental, social, and governance considerations.

They can explain company evaluation standards and help investors choose firms that match their beliefs and investing opportunities."

**Ultra-high-net-worth investor**
**UAE**

"Rapid contact with an advisor is one of the ways that my investing service is assisting me in meeting my holistic life and financial objectives."

**Mass market investor**
**Saudi Arabia**

"I want my financial advisors to be open and honest about any conflicts of interest they may have and how they resolve them."

**Very-high-net-worth investor**
**UK**

"They can develop personalized financial plans by paying attention to our goals and determining our risk tolerance."

**Mass affluent investor**
**UK**

"It is critical for investment providers to cultivate solid relationships with their customers. Commitment and retention can be strengthened by assigning specialized relationship managers as well as advisers to them while giving individualized support."

**High-net-worth investor**
**Canada**

# RBC Wealth Management: Advisors alive and well at a universal bank with a holistic approach



**Aharon Kagedan**
Chief Product Officer
Canada RBC

Reports of the of the death of the personal investment advisor are premature, at least at RBC Wealth management, a division of Royal Bank of Canada, argues Aharon Kagedan, Chief Product Officer for the division's Canadian operation. "We believe the hype around the rise of digital-first investing and resulting displacement of advisors is overplayed, particularly in the Canadian market, which tends to be a bit more conservative in the use of digital compared to markets like the US and Asia," he says. "The advisory business is very strong and a critical element of the wealth management relationship, particularly with HNW families. Digital is a great enabler of advice and delivering an exceptional advisor-led client experience, not a replacement for it."

One reason is that RBC, as a full-service universal bank, is well placed to provide the holistic planning, advice, and services that investors require. "While not all our clients are also clients of the retail and commercial banking divisions, a lot are. It's a big part of the proposition we bring to the table, since we have those partnerships very deeply embedded in our offering. We can support clients across all their financial needs," says Kagedan.

To make that a reality, RBC's wealth management division works with other parts of the bank to break down siloes and make smooth cooperation possible. He explains that top-level sponsorship has ensured that the bank has cross-silo committees and networks between advisors, bankers, and insurance specialists to drive referrals and facilitate consultations.

### Building in technology

To ensure a common view of client data, the entire bank has adopted Salesforce CRM software. "We are investing more in consolidated reporting solutions across our divisions and other institutions, and to ensure smooth handoffs between groups," says Kagedan. "We keep track of all the touchpoints within the client relationship and with the family across the bank."

While the personal advisory relationship is primary for RBC, it does offer a robo-advisory platform to allow it to meet the needs of all clients, at all levels of net worth. And it is investing in technology to support advisors and help them be more productive. But he sees challenges. "You can't understate the change management exercise required to roll out new technology to established advisor teams that have been in business for upwards of 20 years. They have been running their businesses successfully for a long time and don't want to risk disrupting their success through poorly implemented technology. We need to sell the story and the vision of where we want to go, and we need to execute on our vision effectively and with full transparency," Kagedan says.

He adds that it's important to explain how the technology saves time, effort, and money on tasks like rebalancing portfolios and executing trades and managing service plans, giving advisors the opportunity to spend more time on relationship management. "You can't change behavior overnight, but we can nudge it forward and gradually get there if we put the right technology in front of advisors and bring them along for the ride."

# Technology will make advisors more productive…

Over the next three years, wealth executives expect the advisor experience to become more digital, automated, cloud-based, and AI-enabled. This will allow advisors to work more efficiently and save time, improving their ability to handle more clients.

"There is a movement towards adopting integrated end-to-end wealth management platforms that offer seamless connectivity across back-, middle-, and front-office functions, moving away from the myriad of in-house systems or the cumbersome integration of disparate 'best in breed' solutions, says Philippe Bongrand, Global Head Private Banking at FNZ.

AI-enabled tools will support client relationship management, personalized financial planning, performance reporting, client onboarding, client communication, investment research, and data analysis. They will help with compliance tasks like KYC, monitoring transactions, flagging potential compliance issues, and generating compliance reports.

Many advisors will increasingly use AI for portfolio management. This may be acceptable for many investors, since our survey shows that 80% are at least somewhat willing for advisors to use AI for managing their portfolios.

PQ8. Over the next three years, how do expect the investment advisor experience to change in your organization in the following areas? IQ22. If it saved your time and money, to what extent would you be willing to use AI-enabled processes for the following tasks?

| Digitalization of the advisory role* | Increase | No change | Decrease | Greatest increase by sector |
|---|---|---|---|---|
| Importance of digital engagement with clients | 66% | 25% | 10% | Universal banks 85% |
| Use of AI-enabled tools for servicing investors | 60% | 34% | 6% | Robo advisors 80% |
| Meet with clients virtually | 57% | 32% | 11% | Broker dealers 70% |
| Use of integrated tools on cloud platform | 55% | 30% | 15% | Robo advisors 80% |
| Use of AI-enabled tools for portfolio mgmt. | 55% | 38% | 6% | Indep. advisory firm 75% |
| Job satisfaction as routine tasks are automated | 52% | 32% | 16% | Robo advisors 70% |

*Figures may not add up to 100 due to rounding.

80%

of investors are willing or somewhat willing to use AI for support in managing their portfolios.

"We use AI to perform cognitive activities such as report analysis, which has allowed our advisors to concentrate on more critical work."

**C-level manager**
**US-based family office**

"With the use of AI and ML, financial advisors might present their clients with more tailored investment suggestions."

**Mass market investor**
**US**

ThoughtLab

# …and align advisor supply and demand

The shortage of advisors is likely to grow over the next three years as older advisors retire. “There are a lot fewer young advisors going into the business, so there will be less advice,” says the executive director of investments at one large US-based investment firm.

Since demand for advice will remain strong in the shorter term, the supply will be insufficient. That’s why some players are scrambling to beef up advisory teams. Says the managing director of a Japanese broker-dealer: “We intend to hire additional experienced financial advisors to meet increased demand and be able to provide personalized advice to clients.”

Over the longer term, supply and demand may self-correct as demand for advisors falls among younger investors who prefer digital platforms and robo advisors. Technology also will help fill the gap in two ways. First, future advances in AI and other technologies will make self-service tools and robo advice even more effective. Second, these advances will allow advisors to expand the number of clients they can service.

The ability to work from home may make it easier for some to take on the advisor role. “The traditional model of face-to-face meetings, often costing over 3%, is evolving. It is now expected that advisory services can be conducted mainly remotely via chat or video at a lower cost, removing barriers to entry,” says Dean Butler, Managing Director, Retail Direct and Advice, Standard Life UK.

**How the advisor experience will change***

| | Increase | No change | Decrease | Greatest increase/ decrease by sector |
|---|---|---|---|---|
| Work from home | 41% | 50% | 9% | Increase: Robos **60%** |
| Number/size of branches and offices | 38% | 42% | 20% | Increase: Private banks **45%** |
| Number of investment advisors | 32% | 31% | 37% | Decrease: Asset mgmt. firms **50%** |
| Average age of advisors | 18% | 42% | 40% | Decrease: Asset mgmt. firms **55%** |

*Figures may not add up to 100 due to rounding.

PQ8. Over the next three years, how do expect the investment advisor experience to change in your organization in the following areas?

> “Not too far in the future, we are all going to be able to have an artificial intelligence life advisor, not just for financial purposes. That is one way we can close the gap between the demand for and supply of investment advisors.”
>
> **Jaime Lazaro**
> Head of Asset Management & Global Wealth, BBVA

# The financial advisor of the future



**Brie Williams**
Head of Practice Management
State Street Global Advisors

There will be a profound transformation in how work gets done by advisors. Advanced technological solutions propel this shift, automating data-driven decision-making and facilitating hyper-personalization and continuous engagement with investors. This metamorphosis enables advisors to make efficiency gains. Machine intelligence streamlines operations, reduces administrative workload, and ensures agility.

Advisors see the opportunity to differentiate with holistic financial planning. They set new standards for delivering advice and products, providing guidance and strategies tailored to various aspects of a client's financial life. This delivery model seamlessly integrates with technology, empowering clients to monitor, adjust, and progress toward their aspirations. It's a forward-thinking approach that combines technology with the human touch of personalized advice.



**Dean Butler**
Managing Director, Retail Direct and Advice, Standard Life UK

A new proposition is emerging:  the bionic adviser. This concept combines the 'digital-first, always-on' approach with the support of a human adviser. By seamlessly integrating technology with financial advisors, it aims to reduce the cost of delivery and service.

The advisor will focus on understanding and engaging with customer needs, while the technology will craft personalized and tailored advice cases. This approach highlights the best actions for both the adviser and the customer to take. The advice, connected to extensive data sets, will be always available. Propositions will evolve beyond one-off consultations or annual check-ins to provide proactive, continuous advice and guidance. This system will connect customers to human advisers at the most opportune times.



**Michael Hunwick**
Management Consulting Director, Deloitte UK

The investment management industry increasingly recognizes the significance of the advisory relationship in fostering loyalty and intimacy. As a result, most players are shifting their focus towards delivering comprehensive advisory experiences that draw on experts across the organization.

This shift is driving the industry toward a more team-based model for the client relationship.

# Filling the advisor gap through technology



**Tom Chard**
CEO of North America
FNZ

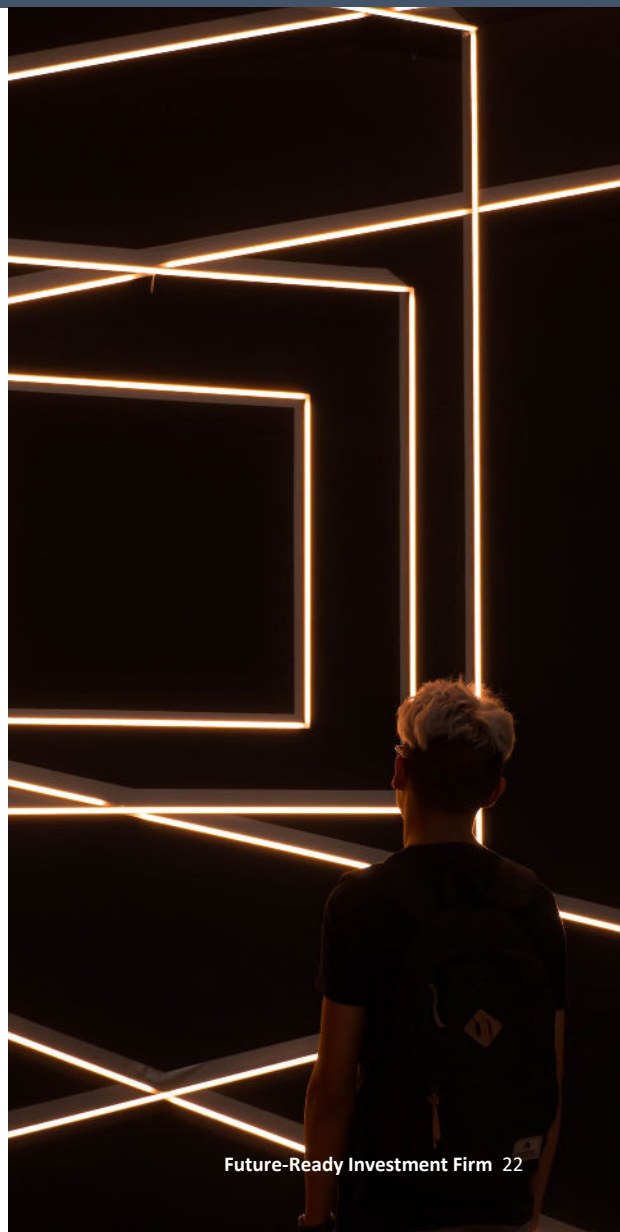
In the US now, there are 330,000 financial advisors and 160 million potential investors. That's almost 485 potential end-investor clients per advisor who need help. The average advisor, however, services only 50-100 end-investors. Not only is there a major gap, but the average age of a financial advisor is early 50s, and many are starting to retire. Too few new advisors are coming into the field, which means this gap will only widen.

**Bridging the gap**

The landscape of advisory firms is constantly transforming. There are already near-term ways we're harnessing technologies such as AI to close portions of the advice gap and enable advisory firms to offer market-leading personalized wealth solutions that extend to more clients at an industrial scale.

This transformation is facilitated by the extreme automation of mundane tasks, freeing advisors to concentrate on holistic client management—the discussions and moments that matter. Many technologies, including artificial intelligence (and its many forms), will play a pivotal role in enabling advisors to scale their services without sacrificing the personal touch and behavioral guidance crucial to financial advising. The shift towards complete wealth planning at an individual and family level will continue to grow, with a greater reliance on outsourcing portfolio construction and tailoring investment strategies to individual client and family needs.

To truly bring this to life, advisers must be able to access a seamless experience from the customer to the wholesale marketplace. This requires end-to-end integration of traditional adviser technology solutions through to the marketplace—giving the consumer complete access to well-priced wealth solutions that meet their needs.



# The hybrid advisory model will become the norm

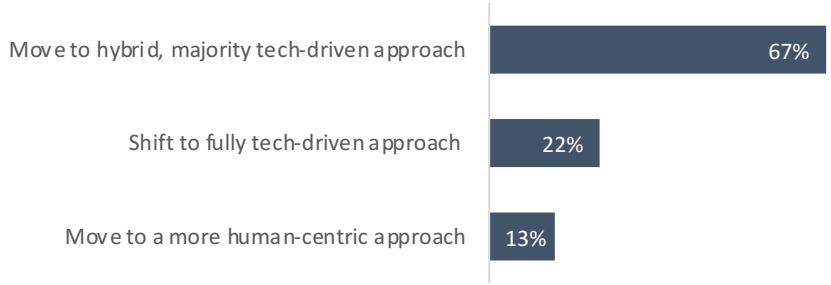
The quest to provide personalized advice at a competitive rate has led to solutions along a spectrum from purely tech-driven robo advisors to hybrid solutions with varying degrees of human interaction. In the years ahead, most firms (67%) will move to a hybrid approach.

Firms like UBS, HSBC, Charles Schwab, and Vanguard, for example, have successful models that include both technology platforms and a level of human advice. UBS's My Way allows investors to input their information and make their own asset allocations and theme choices online, but advisors do the investing. Schwab and Vanguard start with a robo platform but add advisors.

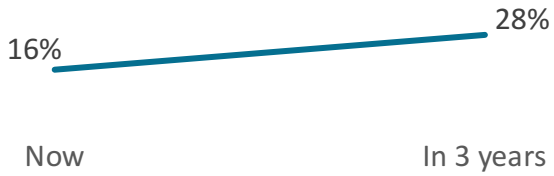
Fewer firms—predominately robos and online trading platforms—will shift to a fully tech-driven approach, which may prove more difficult. While fintechs like Wealthfront, Betterment, and eToro have been able to scale their businesses across millions of investors and boost AUM, this can take years, says Vinod Raman, Chief Product Officer at an Asia-focused wealthtech. "There is no silver bullet, but digital advisors and fintechs can find a path to profitability," he says.

However, many robo advisors and fintechs are not making enough money from their low-cost models. JPMorgan, for one, is shuttering its pure robo-advisory platform because it wasn't profitable. Robinhood also had a difficult time, with trading revenue reportedly declining about 25% in 2022.

**How business strategy will change over next three years**




**Use of robo/hybrid advisors is growing for investors**




PQ20. What are the main ways your firm plans to change its business strategy over the next three years? IQ12. Which of the following types of investment providers do you work with now? Which do you plan to start working with over the next three years?

> As financial advisors retire, investors will explore new transaction methods, fueling the rise of digital-first and hybrid approaches. These industry shifts embrace a wider spectrum of emerging investor segments, which value the guidance of human advisors while also prioritizing affordability and accessibility in direct investing. Wealth managers need to consider hybrid solutions and craft a seamless bridge between these two worlds.

**Brie Williams**
Head of Practice Management, State Street Global Advisors

# Preparing for the next generation: A CEO View



**Giorgio Pradelli**
CEO
EFG Bank

Zurich-based EFG International, a leading Swiss private bank, has always taken a classic but innovative approach to wealth management. Established in 1995 by an entrepreneurial family, EFG, which CEO Giorgio Pradelli describes as a family-controlled (yet public listed) "pure play" boutique private bank, has dedicated client relationship officers offering first-class personal service to its global HNW and UHNW clientele. However, the bank is now in the process of digital transformation as it looks ahead to serving the next generation.

"In the next five to 10 years, we will see the biggest transfer of assets from the current generation," says Pradelli. He adds that while the needs of younger clients will converge with those of older generations as they age themselves, some aspects will be different, particularly their affinity for technology and interest in sustainability. "For us, the adoption of modern technology and digital solutions is not so much a matter of competitive advantage, but of having a platform and tools to communicate with our clients and become more productive," says Pradelli.

**The future is hybrid**

Pradelli sees a hybrid model for the bank's future, where for certain basic functions, like trading, even its wealthiest clients will use technology. "If we don't have that digital capability, we will lose that business." However, Pradelli explains, for major decisions about structuring their wealth and intergenerational planning, clients will lean on their relationship managers. "They will need someone who has emotional intelligence and can talk to the family," he says. The bank is adding younger bankers to its teams to help the bank connect better with next-generation clients.

EFG is working to create what Pradelli calls "the winning formula," combining the advice of the relationship manager and the right digital tools. "How you mix the ingredients is the challenging part." Those ingredients include a mobile application for accessing accounts and inputting trades and used also for digital onboarding. The bank also extensively uses video meetings, which now account for about three-quarters of client interactions with relationship managers and teams.

The bank is prioritizing giving its bankers the most modern digital tools for planning and advisory services. "The new generation will be more financially literate," says Pradelli. "The banker has to be able to keep up and to give a value-add." He believes the boundaries between institutional asset management and wealth management are disappearing, particularly as wealthy investors set up family offices run by former institutional managers. "They will want the same tools as institutional clients have to run simulations or do risk analysis and management," Pradelli says. "Either you can deliver this kind of digital solution in a simple way, or the client is going to do business with someone else."

# Firms will need to take digital experiences to next level…

Nearly 70% of investors expect digital experiences on par with those of leading born-digital companies—so wealth firms are pushing to digitize most aspects of the client experience. Yet many investors say their providers do not now offer these elements.

Over 6 out of 10 providers offer a consolidated view of accounts across providers, rapid communication with an advisor, and simple online account opening, transfers and identity checks. Slightly fewer offer video conferencing, on-call access to advisors, and real-time access to investment and performance data.

Over the next three years, elements less common today will grow the fastest. These include AI-enabled investment advice and chatbots as well as personalized financial tools and automated trading, rebalancing, and tax-loss harvesting.

"The client experience is likely to be significantly enhanced with the combination of AI for both text and voice," says Mark Smedley, Senior Industry Executive with Genesys. "AI will also improve authentication, identification, and recommendations, which will result in a more seamless investor experience."

This is what investors want, particularly younger ones. "Firms should implement AI-driven chatbots for instant customer support and assistance, helping clients with inquiries and basic account management tasks 24/7," says a 28-year-old Australian retail investor. Our research found that 52% of young investors want providers to offer chatbots/virtual assistants to answer queries. Some providers believe virtual assistants therefore will be transformative in the next few years.

PQ16. Which of the following elements of the client experience does your firm now offer and which do you expect it will offer or continue to offer over the next three years?

| Key elements of CX offered by firms | Now | In 3 years | Investors would like |
|---|---|---|---|
| Consolidated view of accounts across providers | 64% | 64% | 53% |
| Rapid communication with advisor (using voice, chat) | 64% | 63% | 48% |
| Simple, online account opening, transfers, identity checks | 61% | 62% | 52% |
| Video conferencing and messaging | 58% | 60% | 52% |
| Access to advisors when clients need them | 54% | 56% | 57% |
| Real-time access to investment and performance data | 54% | 59% | 45% |
| Seamless, personalized any-device digital access | 50% | 59% | 45% |
| Self-service digital platforms | 47% | 51% | 37% |
| AI-enabled investment and planning advice | 46% | 63% | 39% |
| Automated trading, rebalancing, tax-loss harvesting | 42% | 50% | 35% |
| Chatbots with AI-facilitated voice and text | 40% | 55% | 46% |
| Personalized, holistic financial planning tools | 40% | 52% | 43% |
| Immersive experiences through virtual reality/Metaverse | 7% | 14% | 11% |

**68%** of all investors and **74%** of Gen Y and Z expect their digital experiences to be on par with leading born-digital companies.

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# …and deliver them through mobile apps and video meetings

To give investors the experience they want, providers must scramble to catch up with their channel preferences. In recent years, investor preferences have moved away from first-generation digital channels, such as websites and email, to mobile apps and video meetings.

Generally, investors want to use mobile apps for administrative activities and video for advisor consultations and document sharing. These preferences are strongest for the youngest investors but remain largely consistent across age and wealth levels.

Unfortunately, investment providers are out of step with their customers, not focusing enough on mobile apps and underestimating the appeal of virtual meetings. Providers need to reinvent how they interact with investors, finding ways to make both mobile apps and video meetings more frictionless, effective, and secure.

> "The democratization of wealth will put experience in the palm of the customer's hand via an app with an engaging UI. The customer will be able to see their financial position in real time and the steps to take."
>
> **Dean Butler**
> Managing Director, Retail Direct and Advice, Standard Life UK

PQ21. For each of the following client activities, which will be the primary mode of engagement between your firm's clients and advisors over the next three years? IQ19. For the following key activities that you handle with your investment providers, which is the primary channel that you use today? Which one would you prefer to use in the future?

**Where mobile apps will be most used**

| Access account information | Investors prefer | Providers expect |
|---|---|---|
| Mobile app | 80% | 64% |
| Provider's website | 18% | 30% |
| Video meeting | 0% | 2% |

| Learn about products & services | Investors prefer | Providers expect |
|---|---|---|
| Mobile app | 69% | 40% |
| Provider's website | 16% | 30% |
| Phone call | 6% | 2% |

| Submit trading orders | Investors prefer | Providers expect |
|---|---|---|
| Mobile app | 67% | 26% |
| AI/chatbot | 13% | 13% |
| Provider's website | 13% | 4% |

| Open accounts | Investors prefer | Providers expect |
|---|---|---|
| Mobile app | 63% | 40% |
| Video meeting | 17% | 6% |
| Provider's website | 11% | 35% |

**Where video meetings will be most used**

| Financial planning | Investors prefer | Providers expect |
|---|---|---|
| Video meeting | 58% | 21% |
| Mobile app | 11% | 20% |
| Face-to-face | 8% | 12% |

| Interact with advisors | Investors prefer | Providers expect |
|---|---|---|
| Video meeting | 62% | 24% |
| Face-to-face | 12% | 16% |
| Phone call | 8% | 21% |

| Receive advice | Investors prefer | Providers expect |
|---|---|---|
| Video meeting | 47% | 26% |
| AI/chatbot | 12% | 21% |
| Face-to face | 12% | 5% |

| Allocate assets | Investors prefer | Providers expect |
|---|---|---|
| Video meeting | 41% | 16% |
| Mobile app | 31% | 36% |
| Face-to-face | 12% | 5% |

# Hyper-personalization will be a prerequisite

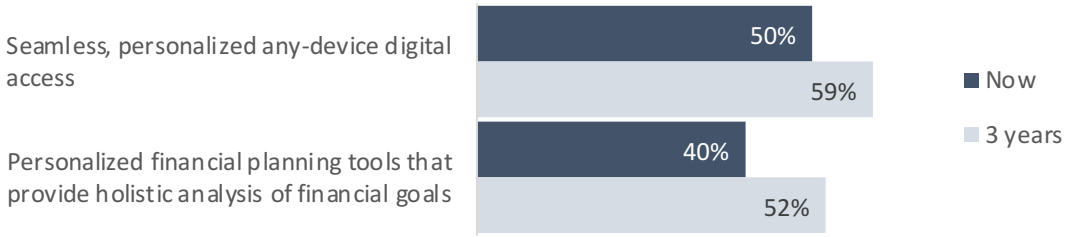
Personalization will be critical for providers to ensure that their products, services, and client experiences truly meet the needs of investors. Over 4 out of 10 investors said that digital apps, channels, and platforms, which can help drive personalization, are the most important criteria when picking an investment provider. Twenty-three percent cited frictionless customer experiences.

Providers have made considerable progress in personalizing investor experiences. Half offer personalized any-device digital access, and that percentage will rise to 59% in three years. Similarly, 40% offer personalized financial planning tools for holistic analysis, a share that will grow to more than half in three years.

Wealth firms that our study has designated as digital leaders take this further, using AI to analyze customer data and understand clients better. By personalizing offerings in this way, providers can boost their relationships and investor loyalty.

> "Personalization creates stickiness and differentiation. You're not just an asset manager meeting quarterly to talk about markets and performance, you understand a person's life circumstances. Knowing your client provides value in multiple ways and leads to growth and referrals."
>
> **Nathan Erickson**
> Principal, Financial Advisor, CAPTRUST

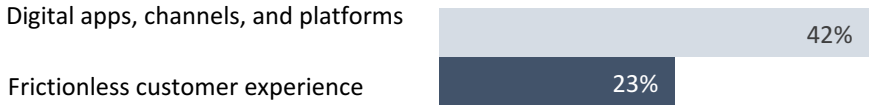
**Ways providers are personalizing the client experience**




**Digital leaders do more to differentiate through personalization**




**Most important criteria when selecting investment providers**




PQ16. Which of the following elements of the client experience does your firm now offer and which do you expect it will offer or continue to offer over the next three years? PQ15. Which of the following do you regard as the main ways that your firm can differentiate its products and services from competitors to attract and retain investors?

# How BBVA will bring high tech and high touch together



**Jaime Lazaro**
Head, Asset Mgmt.
& Global Wealth
BBVA

Several years ago, Spanish universal bank Banco Bilbao Vizcaya Argentaria (BBVA) launched BBVA Invest, an easy-to-use robo advisor that provides individuals with various investment options and tools to help them manage their investments. The algorithmic-enabled platform profiles the investor as conservative, moderate, or aggressive based on a simple questionnaire. Then, depending on the outcome and location of the investor, suggests different portfolios that align with their investment profiles. The platform offers a wide range of financial products for investors to choose from, including stocks, bonds, mutual funds, and exchange-traded funds (ETFs).

### From high tech to high touch

BBVA is now upgrading BBVA Invest to turn it into a hybrid solution that will allow the bank's huge network of personal advisors to offer more personalized services to a wider set of clients. "We will increasingly be able to bring more personalized solutions to more people, including the mass affluent segment, because we will be able to run thousands of portfolios simultaneously in a personalized way," says BBVA's Lazaro. "Now, along with much better profiling of clients, we will be able to offer more detailed personalized portfolios—or discretionary mandates—for each and every one of them, instead of one-size-fits-all," he says.

### Plans to scale advice

Lazaro explains that BBVA plans to use the platform to enhance both the advisory and client experiences. "Advisors will be able to have more relevant and more holistic conversations with clients regarding the life stage they are in or the different changes they are experiencing," he says. These conversations can go beyond wealth management and cover their broader financial needs which can be met by a full-service bank like BBVA.

Rather than discussing specific products, advisors can suggest strategies for capital preservation, income generation, retirement or other goals. "This new platform will give us scale—the opportunity to offer these services, not just to hundreds of clients, but to thousands of them," says Lazaro.

# 2.

# Make client diversity a business opportunity

Over the next three years, investors will become younger and more diverse by location, gender, wealth level, and lifestyle. Understanding their needs and behaviors—and tailoring solutions accordingly—will be vital for the future of wealth management firms.



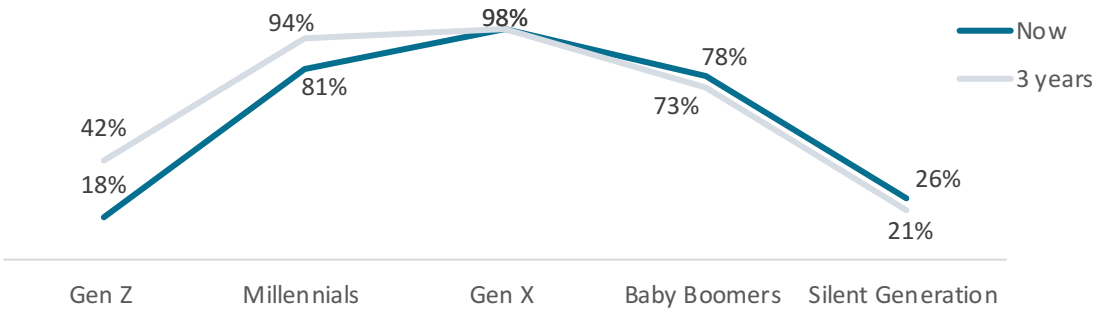
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# By 2027, the next generation will come into sharper focus

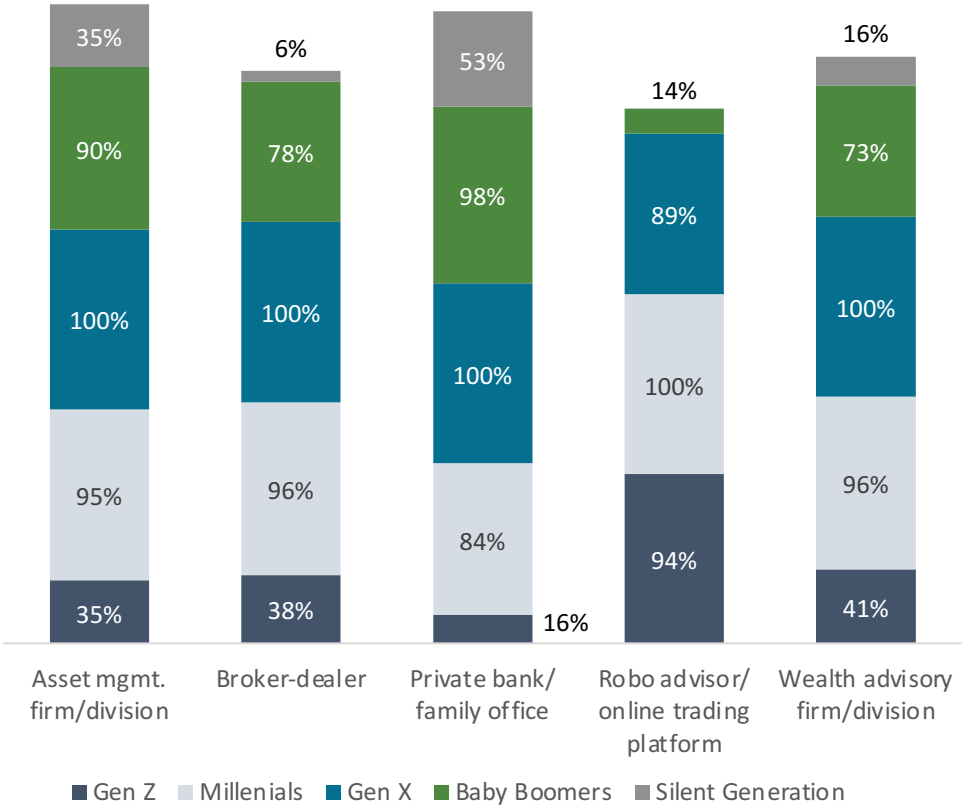
More than $15 trillion in wealth will transfer from older generations to younger ones by 2030, according to estimates from Wealth-X, a research firm. So, it is no surprise that firms will sharpen their focus on Generations X, Y, and Z, which will become dominant over the next three years. Smedley of Genesys believes Gen-Zers will be game-changers. “They are the first generation brought up exclusively on technology. They are challenging the status quo, and they have the data to do it—access to information that previous generations could only have dreamt of.”

Providers will need to adapt to the investing needs and behaviors of younger generations. Robo advisors, unsurprisingly, cater to the youngest demographic. Private banks and family offices, particularly, have been slower to respond and will need to catch up to retain the children of their current clients.

**Generational focus of wealth firms now and in 3 years**




**Generational focus of wealth firms over the next 3 years, by sector**




PQ6. Please tell us your organization's areas of focus now and over the next three years within each of the following investor categories.

# Appealing to younger generations

Globally, investment providers are adjusting their strategies to attract younger investors. “To enhance our client portfolio, we are launching new services specifically designed for the new generation of investors,” says a managing director in a Canadian universal bank. The CMO of a regional bank in Hong Kong added: “For the more tech-savvy generation, we intend to provide a technological self-service option of investing through AI technology in the coming years.”

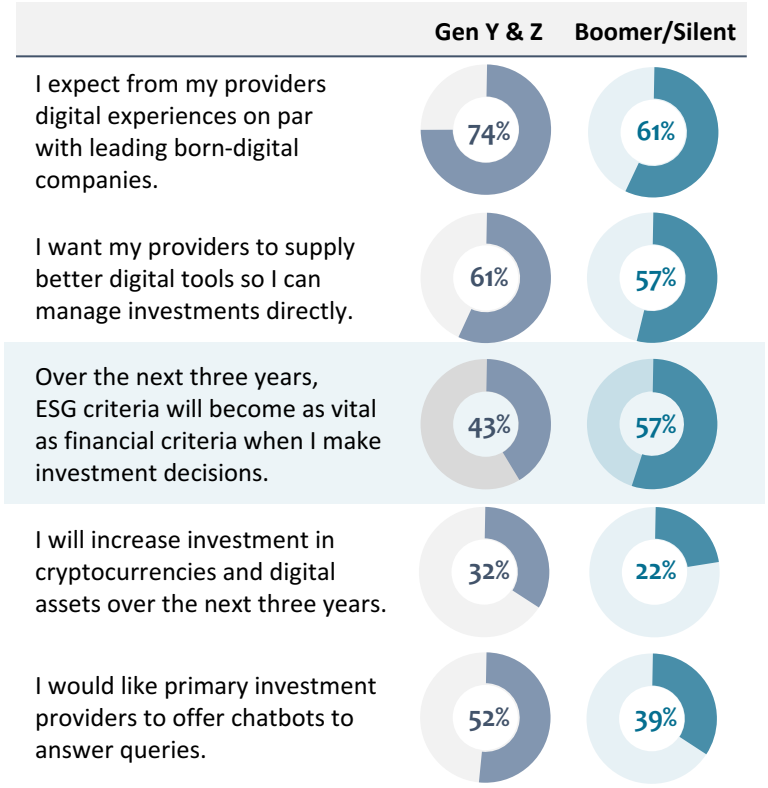
**Digital innovation holds the key**

Young investors have stronger expectations than older investors for digital experiences and tools. They are more interested in digital assets and open to using automated tools, such as chatbots. However, young investors are also aware that technology can expose them to greater data security and privacy risks, as well as increased financial fraud and scams.

**Are young investors ready for sustainable investing?**

Firms may be overestimating the interest of younger investors in sustainable investing. They are less likely than older investors to consider ESG when making investments over the next three years. Younger investors care more about income generation and lifestyle preservation, while older ones look more to legacy planning and philanthropic goals.

**Where generations differ in their views**




**Where generations differ in their goals**

| | Gen Y & Z | Boomer/Silent |
|---|---|---|
| Income generation | 70% | 40% |
| Tax optimization | 62% | 51% |
| Lifestyle preservation | 53% | 38% |
| Wealth accumulation | 46% | 57% |
| Education funding | 38% | 2% |
| Home ownership | 24% | 15% |
| Legacy planning | 10% | 40% |
| Philanthropic goals | 5% | 30% |

**Biggest investor concerns**

| | Gen Y & Z | Boomer/Silent |
|---|---|---|
| Data security & privacy | 48% | 42% |
| Financial fraud | 43% | 38% |

IQ11. Which of the following statements about your investment plans and behaviors do you agree or disagree with? IQ7. Which best describes your financial goals? IQ9. What are your biggest concerns about investing over the next three years?

# Building business across the wealth curve

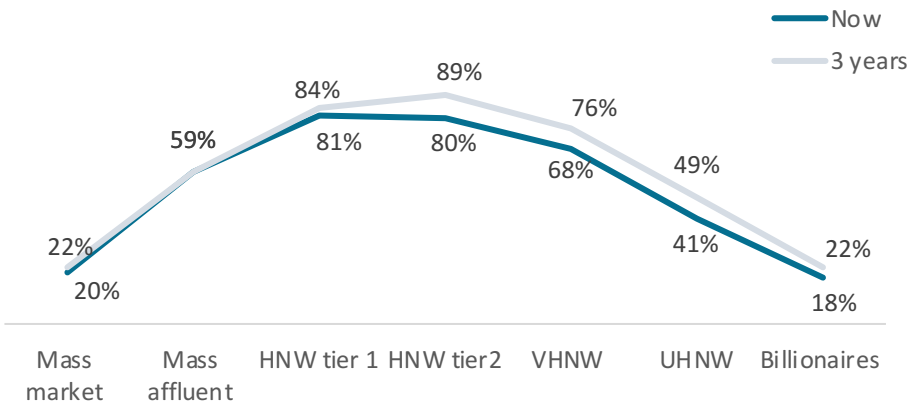
Over the next three years, providers will focus more on higher income groups—particularly high-net-worth, very-high-net-worth, and ultra-high-net-worth investors. Family offices and private banks are particularly focused on these wealth cohorts.

When asked about their business strategy going forward, 49% said they plan to go up-market—notably broker-dealers and independent firms. Few providers (15%) plan to go down-market to target mass market and mass affluent segments. But among robos, online platforms, and wealth advisory divisions of large universal and investment banks, the share going down-market is twice the average. For robos, the mass market and mass affluent are the mainstays of their businesses; for online platforms, it is their future.

Given the importance of building relationships early in investors' wealth journeys, providers may want to follow the lead of firms such as UBS, DBS, RBC, Charles Schwab, HSBC, and others that use hybrid advice and other digital techniques to engage with the mass market.

PQ6. Please tell us your organization's areas of focus now and over the next three years within each of the following investor categories. PQ20. What are the main ways your firm plans to change its business strategy over the next three years?

**Wealth level focus for wealth firms, now and in 3 years**




**49%** of firms are going **up-market** over the next three years. Highest for broker-dealers (56%) and independent advisory firms (55%).

**15%** of firms are going **down-market**. Highest for robo/online platforms and wealth divisions of large banks (both 30%).



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# Finding cross-border opportunities

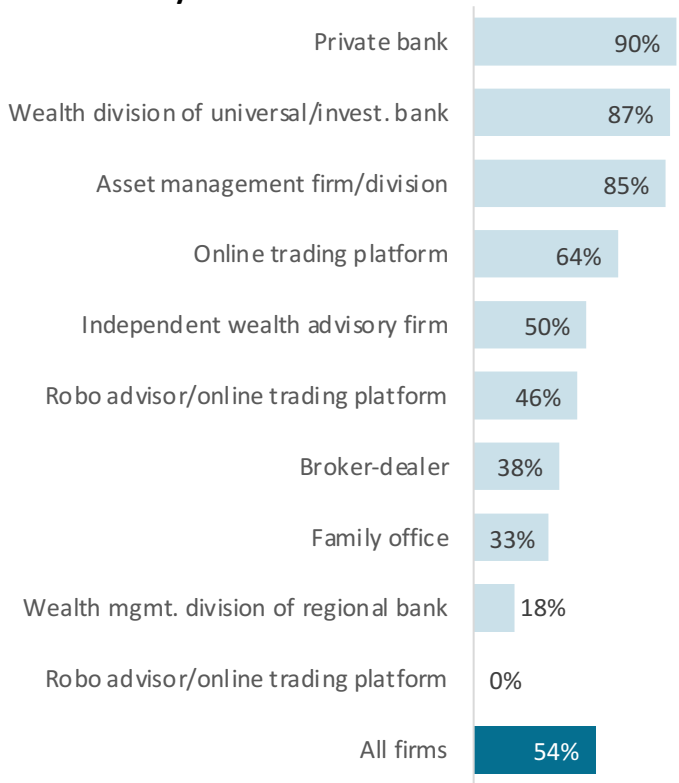
Global wealth is projected to increase by 38% by 2027, according to the Global Wealth Report 2023 released by UBS and Credit Suisse, thanks partly to the rise of emerging-market investors. The banks predict that global wealth will reach $629 trillion by that time.

It is no wonder, then, that 38% of firms will be expanding into new geographic markets over the next three years. Over half will focus on building business with overseas investors. Private banks, wealth divisions of universal and investment banks, and asset management firms and divisions will lead the international charge.

**38% of firms plan to expand across borders over the next three years**

When expanding internationally, providers should keep national differences in mind. For example, our survey indicates that lower fees are most important to investors in India, Japan, Spain, and Switzerland, while tax optimization tools are most important to those in France, Germany, Benelux, and Canada.

**Organizations focused on international clients over next 3 years**




**How selection criteria used by investors vary by country**

| Criteria investors use to select providers | World average | Where criteria is most important |
|---|---|---|
| Lower fees/simple fee structures | 58% | India (66%), Japan (64%), Spain (64%), Switzerland (64%) |
| Tax optimization tools | 43% | France (58%), Benelux (46%), Canada (46%), Germany (54%) |
| Digital apps, channels, tools, platforms | 42% | Nordics (60%), Saudi Arabia/UAE (58%), Australia (51%) |
| Trusted brand with reputation for integrity | 39% | Benelux (50%), Australia (48%), Switzerland (46%) |
| Innovative investment ideas and products | 34% | Germany (49%), Singapore (42%), France (40%) |
| Purpose-led firm with sustainability values | 14% | Saudi Arabia/UAE (34%), Australia (21%), Italy (19%) |

PQ6. Please tell us your organization's areas of focus now and over the next three years within each of the following investor categories. IQ16. Which of the following are most important to you when selecting investment providers?

# Going deeper and finding niches

Nearly two-thirds of investment firms are expanding within their main client segments, which includes finding new investor niches to develop as well as deepening their share of wallet with their most important existing investor groups.

Most providers understand that they need to see clients as individuals, not demographics. That is why many plan to focus on specific investor categories over the next three years as they look to expand their client bases.

63% of firms plan to expand in their main client segment over the next three years.

32% plan to deepen share of wallet with existing clients.

Topping their list are business executives, whether they work for a business or run their own. Not only are they typically in higher wealth brackets, but they also need wider financial support for their businesses.

Other niches that investment firms are exploring include employees of specific companies, professional athletes and entertainers, and technology professionals.

PQ6. Please tell us your organization's areas of focus now and over the next three years within each of the following investor categories.

**% providers focusing on specific investor groups over next 3 years**

| Segment | Average | Firms with greatest focus |
|---|---|---|
| Corporate executives | 86% | Investment bank (100%) |
| Financial market professionals | 81% | Investment bank, Robo (90%) |
| Entrepreneur/business owner | 80% | Asset mgmt. firm (90%) |
| High risk tolerance | 62% | Investment bank (80%) |
| Employees of specific companies | 50% | Investment bank (70%) |
| Retirees (or planning to retire) | 36% | Family office (87%) |
| Professional athletes/ entertainers | 35% | Private bank (53%) |
| Beneficiaries/children of clients | 33% | Family office (100%) |
| Technology/crypto professionals | 31% | Online trading (60%) |
| Women | 30% | Private, Universal bank (40%) |
| Specific religious groups | 21% | Robo advisor (30%) |
| Specific cultural/ethnic groups | 19% | Family office (33%) |
| Specific interest/opinion groups | 15% | Family office (33%) |

## Women: a growing industry force

Surprisingly, only 30% of firms will focus on women over the next three years, although they may control $93 trillion of the world's wealth by 2030. Our research shows that women care more about working with trusted brands than men. Lower fees, frictionless experiences, and ESG investing matter more to women.

Women are a growing force in the investment community, according to Danielle Skipp, Managing Director and Chief Legal Officer for Nicola Wealth, a Canadian wealth management firm.

"The imminent surge of wealth to women aged 40 to 65 underscores the importance of prioritizing wealth solutions tailored to their unique needs. As women continue to ascend to financial influence, it is critical to champion comprehensive planning and financial well-being conversations that resonate with them.

The best way to do this is to have more women advisors in our industry. As women naturally gravitate towards working collaboratively on holistic financial success, I foresee a growing demand for women wanting to work with other women. There is a remarkable opportunity to be realized when we empower women in wealth planning on both sides of the table."

# Data enables firms to see clients in technicolor

Personalization at scale requires the effective use of data analytics. “Wealth management providers really must invest in understanding their customers—and potential customers,” says Janet Yuen, Head of Digital Servicing and Journeys at HSBC. “This includes not only the data they already have on investor behaviors and trading patterns, but also external open-source data from social media. They can’t continue to use demographic data as a proxy for understanding what customers want.”

Indeed, more than 6 in 10 firms have made their biggest investments over the last three years in data analytics and two-thirds are in the advanced stage of implementing advanced data management systems. Adoption of AI will accelerate the ability to do micro-segmentation and advanced customer analysis. More than a third of firms see the use of AI and customer data to deepen intimacy and loyalty as an important way for their firms to differentiate from competitors and attract investors.

> To make more informed decisions, we intend to increase our use of data analytics to gain insights into client behavior.
>
> **Managing director, wealth management division, UAE retail bank**

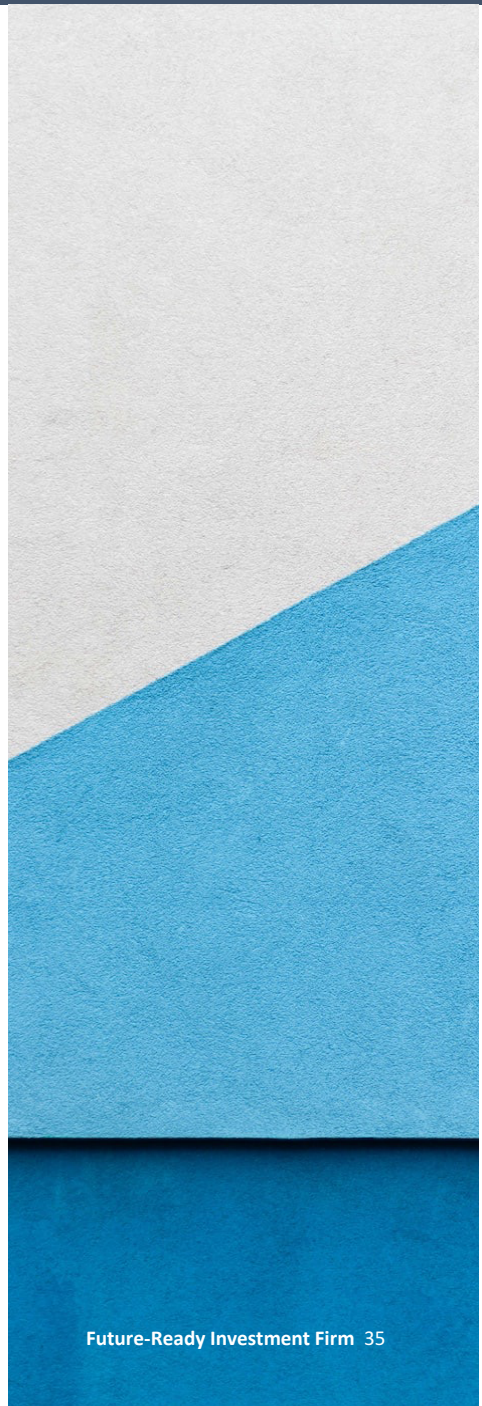
> Our artificial intelligence-powered approach helps us to gather, validate, and analyze customer data.
>
> **Director of client experience, Australian online trading platform**

**66%** of firms are in the advanced implementation stage in data management and analytics.

**62%** of firms have made their biggest investments over the last 3 years in data analytics.

**37%** of firms see the use of AI and customer data to deepen intimacy and loyalty as a differentiator.

PQ27. In which technologies has your firm made the biggest investments over the last three years, and in which are you planning to make the biggest investments over the next three years? PQ22. At what stage of development is your organization in the following areas of technology and process transformation now? PQ15. Which of the following do you regard as the main ways that your firm can differentiate its products and services from competitors to attract and retain investors?



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# What the experts say



## AI will enrich client engagement

**Jaime Lazaro**
Head of Asset Mgmt. and Global Wealth
BBVA

Advisors will rely more on technological tools, such as AI, to profile clients and have richer interactions with them. For example, instead of profiling a client with 10 rigid questions, AI will permit the client to have a broader conversation so that they can more clearly explain what they are planning to do with their money, as well as their expectations, attitudes, and goals.

Another use case revolves around the financial advisor. Thanks to AI, advisors can draw on prior client interactions to prepare for their next meetings, thereby improving the probability of a successful engagement.



## Servicing a diverse client base

**Nathan Erickson**
Principal, Financial Advisor
CAPTRUST

For many wealth advisory firms like ours, the goal is to develop relationships with the broader family, not just the asset holder.

Focusing on the next generation forces you to think in a more diversified way. Often, family members don't live in the same city or state as their parents. Next-generation family members may have different genders, socioeconomic backgrounds, and races. With wider access to information, they are more aware of market dynamics.

It is therefore crucial to build an advisor base that is sensitive to these differences and understand the challenges that these more diverse investors face.



## Meeting new expectations

**Mark Smedley**
Sr. Industry Executive, Financial Services
Genesys

Providers should plan to bring the best digital and digital voice-based services to the mass affluent market, paying special attention to Gen Z. They will likely behave differently than other generations. As digital natives, they will have very high digital and mobile desires and unprecedented access to data and technology. The challenge to advisors will be providing them with knowledge they can't find on their own.

Because of their environmental and social values, Gen-Zers will want measurable social investing outcomes as well as financial returns. The expectation bar is likely to continue to rise, requiring savvy advisors and technology-enabled providers to take full advantage of AI and data.

# How BMO is revamping its advisor network for diversity



**Kevin Barnes**
Head of Private Wealth, North America
BMO

Bank of Montreal (BMO) believes that to connect with and understand a more diverse investor base, it needs a more diverse, and younger, advisor base. "We need to continue to be relevant by having an advisor population and a value proposition that is relevant for the client of the future," says Kevin Barnes, Head of Private Wealth, North America.

He says the bank's private wealth division is focused on promoting and sourcing the next generation of advisors—particularly young female advisors, whom he says are massively underrepresented. "While we have done a reasonable job of sourcing and prioritizing advisor diversity in the last 10 years, we haven't moved the needle as much on female advisors." To boost the number of younger, and especially female advisors, the bank is not only actively recruiting from colleges and business schools, but also is transferring and promoting employees from the retail banking side. But to do that, it has had to rethink its advisor compensation structure and the advisor experience.

"In days gone by, advisors were paid 100% on commission. But that system doesn't necessarily work for new employees, especially young female employees who want to build the rest of their lives—including leaving employment for a year or two to have children," Barnes explains. "People aren't coming to work for you unless you are able to accommodate that."

**New rewards and work arrangements**

To make this accommodation—while continuing to deliver top-notch client service—BMO is studying alternative compensation models, including salary plus profit sharing. It isn't always easy to balance contributions and rewards within each team, but the bank is working through the kinks, says Barnes. It is also creating more flexibility for part-time, hybrid, and remote working arrangements for advisors.

Technology to support advisors working remotely is making this possible, especially since investors are embracing virtual meetings. "We thought clients wanted face-to-face meetings, but they would rather save the time, trouble, and cost of coming to an office, even for an account opening," Barnes says. "We thought that opening accounts would be the last bastion—that clients needed to meet advisors in person for the first time and shake hands. But it turns out that could be a thing of the past."

# HSBC: Harnessing data to personalize at scale



**Janet Yuen**
Head of Digital Servicing and Journeys
HSBC

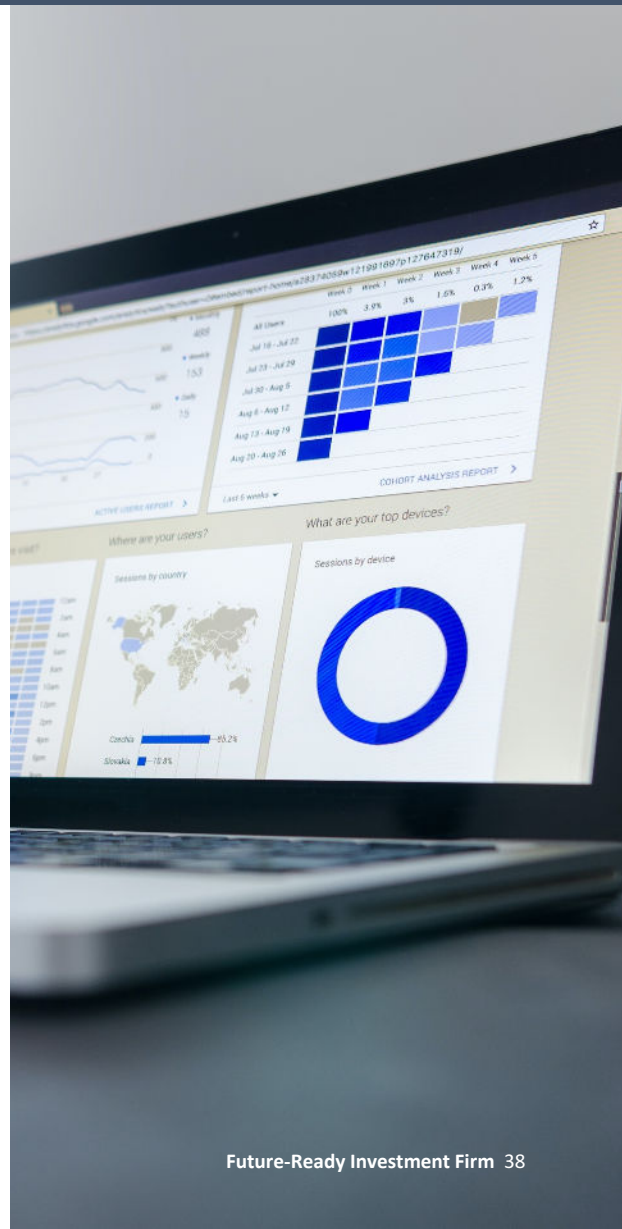
Providing personalized, holistic advice to a diverse set of clients with a unique blend of investment goals, attitudes, and lifestyles is no easy task for an institution as large as HSBC. That is why the bank has moved to a hybrid advisory approach that provides wealth advisors with a data-powered, digital solution to support holistic financial planning.

As Janet Yuen, Head of Digital Servicing and Journeys at HSBC, explains: "The problem with financial planning is that discussions often focus on just one goal, with different plans for each goal. But the reality is that a person's goals are interconnected. For example, a client may want to prepare their finances for retirement. But they may also want to buy a property and then take a dream trip to Antarctica, while planning for their child's future education. So, they need a holistic plan that can account for all of that."

**Enter Future Planner**

HSBC's new financial planning tool, Future Planner, enables advisors to provide investors with a holistic view of their financial journeys. "The idea is for customers to input a few details about themselves into their mobile devices and then meet with their financial planners to review the results," says Yuen. "The tool draws on the customer information held by our bank, avoiding the onerous process of entering tons of data. It is designed to be omnichannel and integrated so that an advisor can guide the investor through potential outcomes and options."

Future Planner not only shows the investor's ability to meet their short- and long-term goals; it also assesses the impact of various financial scenarios and different products on achieving those goals. Using advanced algorithms and graphics, the tool provides users with a clear visualization of potential outcomes for various life events, helping them understand whether they are on the path to financial success.



# 3.
# Drive performance through AI and digital innovation

Wealth management firms have made huge progress over the past few years in laying the digital foundation for growth, particularly in data management, AI, and cloud. They are digitizing their middle and back offices and using technology to deal with regulatory change. Their biggest investments have been in AI, which will be a game-changer for the industry—with cautious approval from clients. Most firms are seeing high returns on their investments.



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# Firms are rapidly advancing in digital

Wealth firms have made enormous strides in digital innovation. Nearly 9 in 10 are either in mid-implementation or advanced in nearly all areas of technology and process transformation. This represents tremendous progress compared with our last study, in 2021, which showed 40%-50% of firms at the mid- or advanced stage in most areas.

Firms have moved furthest ahead in laying down the digital foundation for growth, including advanced data management, AI-enabled automation, and modernized, end-to-end, cloud-powered platforms. They have done less on the people side of digital transformation, in areas such as experience and culture.

Most firms are also relatively behind in middle- and back-office optimization—a perennially problematic arena where the advent of next-day settlement will likely prompt swift changes.

PQ22. At what stage of development is your organization in the following areas of technology and process transformation now?

**Firms' stages of development in technology and process transformation***

| | Planning | Early | Mid | Advanced | Weighted avg.* |
|---|---|---|---|---|---|
| Data management & analytics | 2% | 6% | 27% | 66% | 90 |
| AI-enabled automated activities | 1% | 8% | 44% | 48% | 85 |
| Modernized IT/cloud platform | - | 9% | 41% | 50% | 85 |
| Innovation mindset | - | 10% | 38% | 51% | 85 |
| Use of latest technologies | 1% | 5% | 52% | 42% | 84 |
| Advanced data security/privacy | - | 12% | 37% | 50% | 84 |
| Digital customer experience | - | 6% | 54% | 40% | 84 |
| Purpose-led organizational culture | 2% | 14% | 38% | 45% | 81 |
| Mid-, back-office optimization | - | 14% | 50% | 36% | 81 |
| Digital employee experience | - | 17% | 46% | 37% | 80 |

*Figures may not add up to 100 due to rounding.

**Definitions of stages**

Planning—developing plans and building internal support and business case; Early—starting to pilot in some parts of the business; Mid—implementing solutions in key parts of business and seeing performance gains; Advanced—scaling digital and process solutions across multiple functions across the enterprise.

* Weighted average assigns greater weightings for advanced stages. Highest score = 100.

> "The race is on to see who can modernize in the most compelling and efficient way. The winners will be firms that enhance the customer experience while reducing the cost of service and scaling advice for investors."
>
> **Kendra Thompson**
> National Wealth and Investment Management Leader
> Deloitte Canada

ThoughtLab

# Technology is becoming a core competence for providers

Investment providers are making technology a core competence, with 9 out of 10 midway or advanced in implementing a modernized, cloud-based IT platform. Increasingly, these are end-to-end platforms that help firms manage all aspects of a client's needs and integrate solutions seamlessly.

"Adopting an end-to-end wealth platform is a transformative approach that integrates modern technology, business, and investment operations, all in a regulated financial institution. Financial organizations are advised to consider such platforms as strategic partners for their future transformation," says Din Mustaffa, Group Chief Strategy Officer, FNZ.

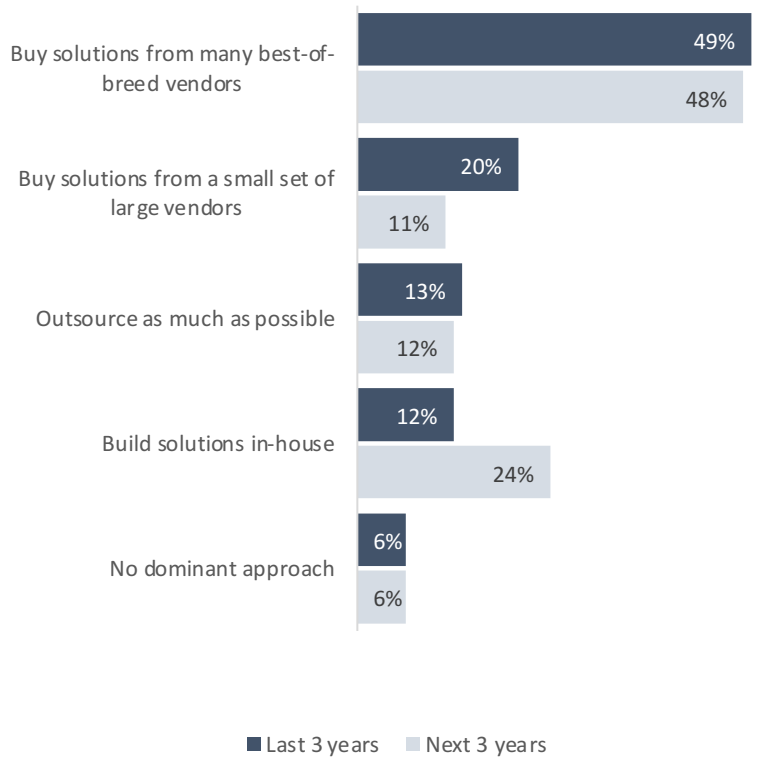
Over the next three years, most firms plan to build on these modern IT platforms by purchasing vendor solutions. To avoid tech lock-in, firms are moving away from buying from narrow sets of large vendors. Instead, just under half of firms bring in solutions from many best-of-breed vendors, and over the next three years this will continue.

**Advances in technology will make it easier to build in-house solutions**

Over the same period, almost a quarter of firms will build proprietary solutions in-house, twice the number that do so now. This is a dominant strategy for online trading platforms and robo advisors that differentiate themselves through highly customized platforms.

Peyman Pardis, Head of Wealth Management, Deloitte Canada, believes that the rise of AI-powered, low-code development tools will make it possible to develop proprietary solutions in-house. "We see investment providers leveraging these technologies to build custom applications at a fraction of the cost, upending the traditional pricing models of narrowly focused SaaS companies," he says. "Exorbitant seat fees and monopolistic market dominance will slowly give way to a more democratized and affordable software landscape that will support lower costs to serve clients," he adds.

**Dominant technology philosophy**




PQ25. Which of the following best describes your firm's dominant technology and operations philosophy over the last three years and which do you expect to best describe its dominant philosophy over the next three years?

# Outsourcing will continue to play a key role

While outsourcing as much as possible is not typically a dominant strategy, firms will continue to rely on it to drive efficiencies in specific areas over the next three years. Call centers will be the top area, followed by key middle-office and operational activities, such as tax preparation and reporting, cybersecurity, IT, and compliance.

**"**Outsourcing middle-office and operations functions allows firms to gain operating leverage and focus more internal resources on core activities," says FNZ's Carl Robertson. "Wealth and asset managers see benefits ranging from serving more end-clients to operating direct-to-consumer models at low cost**."**

**Outsourcing IT functions**

Digital leaders are more likely to outsource more peripheral activities, such as call centers, tax preparation, trust administration, and accounting and bookkeeping. Given their digital expertise, they are less likely to outsource cybersecurity and, particularly, IT functions.

However, some firms will continue to do so. "Instead of having in-house IT functions, we have outsourced majority of our tech operations to save costs," says a senior executive at an Australian broker-dealer.

| Areas outsourced next 3 years | Leader | Other | All |
|---|---|---|---|
| Call centers | 69% | 62% | 63% |
| Tax preparation, reporting | 51% | 45% | 46% |
| Cybersecurity | 41% | 46% | 45% |
| IT functions | 23% | 41% | 38% |
| Legal/compliance | 33% | 36% | 36% |
| CRM/customer admin | 26% | 30% | 29% |
| Trust administration | 28% | 21% | 22% |
| Accounting and bookkeeping | 28% | 19% | 21% |
| Custody and trust services | 8% | 20% | 18% |
| Fees and billing | 15% | 18% | 17% |
| Trading and brokerage | 13% | 18% | 17% |

PQ26. Which of the following activities will your firm be outsourcing or making use of a partner's services over the next three years?

# Firms are digitizing their middle and back offices…

As they face ever-growing risks and evolving regulations, wealth management providers are boosting their spending on risk management and compliance technology in the middle and back office. Cybersecurity is the top priority now and will continue to be for the next three years. “In order to secure our clients' information and financial funds, we are spending more on cybersecurity process and systems,” says a managing director at a Canadian family office.

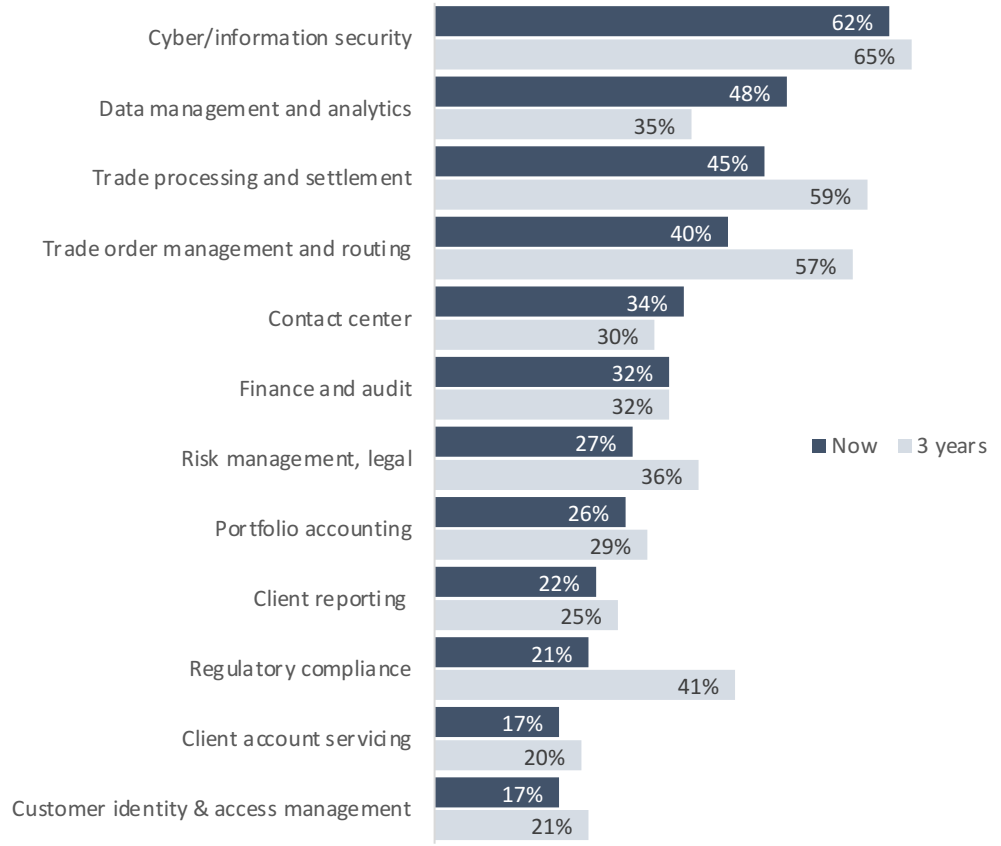
More firms are investing in risk management, and the percentage of those making significant investment in RegTech over the next three years will nearly double. “With the changing regulatory environment, we are continuously evolving our data protection and risk management tools,” says a senior IT executive at a Canadian online trading platform.

“We are leveraging RegTech to simplify our regulatory operations and navigate the complicated regulatory ecosystem,” agrees a senior investment office executive at a Japanese broker-dealer.

As they prepare for implementation of T+1 settlement in the US and Canadian securities markets in May 2024—another major regulatory development—more firms are also ratcheting up their investment in trade processing and settlement, order management, and routing.

PQ28. In which middle- and back-office areas has your firm made significant technology investments and in which is it planning to make the most significant technology investments over the next three years?

**Where firms are investing most in middle- and back-office technology**



# …and using technology to deal with regulatory change

In line with investments in RegTech, providers are taking steps to improve their compliance and regulatory response. This includes automation and optimization of compliance procedures and processes. Digital leaders are prioritizing automation, particularly of KYC/AML checks, compliance controls in business systems, and oversight controls.

Improving cybersecurity and data privacy is again at the top of the list for most firms. Applying AI to ensure compliance is another imperative. Pardis of Deloitte considers this a top AI use case. "AI analyzes advisor behavior and investment strategies to identify non-compliant behavior and generate alerts for risk and compliance teams," he says.

Mustaffa of FNZ sees another AI compliance use case in interpreting the sheer volume of client and counterparty communications. "AI clearly lends itself to extracting the relevant information, monitoring for compliance, and keeping a record for all of what was said, and is becoming integral to ensure adherence to compliance standards while minimizing operational risk. Advisors are now freed up from much of their administrative burden, to build more personalized end-investor experiences."

| Areas digital leaders will prioritize more over next 3 years | Leader | Other |
|---|---|---|
| Automate KYC/AML checks and processes | 56% | 45% |
| Automate compliance controls in business systems | 49% | 42% |
| Automate oversight controls | 46% | 44% |

PQ9. Which of the following does your firm plan to prioritize over the next 3 years to respond to changing regulations and compliance policies?

**Areas firms are prioritizing in response to changing regulations**

| | |
|---|---|
| Improve cybersecurity/data privacy systems | 54% |
| Apply AI/machine learning to ensure compliance | 49% |
| Automate KYC/AML checks and processes | 47% |
| Automate oversight controls | 44% |
| Improve compliance breach detection and response | 44% |
| Digitize and automate compliance controls in business systems | 43% |
| Develop agile systems for quick response to regulatory changes | 38% |
| Increase frequency of regulatory and compliance training for staff | 28% |
| Expand first line of defense monitoring (business assurance) | 28% |
| Conduct more frequent third-party audits | 28% |
| Expand compliance staff headcount | 22% |
| Outsource operational processes to specialized firms | 20% |

# Providers will invest in more specialized technologies

Over the last three years, firms have made large investments in the ABCD technologies (AI, blockchain, cloud, and data analytics) to lay the foundation for their digital futures. While they will continue to invest in these technologies over the next three years, they plan to shift their focus to more nuanced digital solutions.

For instance, providers are moderating their investments in blockchain, where they have already spent considerable amounts to develop use cases. But with industry-wide solutions and regulations still evolving, many plan to hold back on blockchain investments over the next three years.

**AI will remain the top investment**

Providers will continue to invest heavily in AI. Although not new to the industry—wealth management firms have relied on machine learning and natural language processes for years—the rapid evolution of the technology offers new opportunities. "Our investments are directed heavily towards digital technologies like AI and machine learning to enhance customer experiences," says a managing director at a US private bank.

They will also boost spending on more specialized technologies, such as robo-advisory solutions, open platforms, and API architecture, which will allow firms to innovate more rapidly using plug-in solutions, as First Abu Dhabi Bank has done (see page 56). Another area where investment will increase is virtual reality and the Metaverse—although very few firms are doing anything in that arena now.

| Biggest technology investments | Last 3 years | Next 3 years | |
|---|---|---|---|
| Artificial intelligence | 64% | 58% | ▼ |
| Data analytics | 62% | 42% | ▼ |
| Cloud infrastructure | 54% | 44% | ▼ |
| Blockchain | 40% | 22% | ▼ |
| Digital collaboration tools | 37% | 42% | ▲ |
| Customer relationship systems | 28% | 27% | ▼ |
| Internet of Things/sensors | 25% | 8% | ▼ |
| Financial planning and analysis tools | 24% | 29% | ▲ |
| Workflow automation/RPA | 21% | 11% | ▼ |
| Digitized wealth management platforms | 15% | 22% | ▲ |
| Biometrics (including voice) | 15% | 8% | ▼ |
| Compliance technology/RegTech | 14% | 17% | ▲ |
| NLP/speech recognition | 14% | 17% | ▲ |
| Robo-advisory platforms | 11% | 24% | ▲ |
| Open platforms/API architecture | 10% | 17% | ▲ |
| Crypto/digital asset infrastructure | 7% | 8% | ▲ |
| Augmented/virtual reality/Metaverse | 1% | 10% | ▲ |

PQ27. In which technologies has your firm made the biggest investments over the last three years, and in which are you planning to make the biggest investments over the next three years?

# AI is a game-changer for the wealth industry

Most executives surveyed believe that AI—the top area of investment for wealth management firms—will transform wealth management over the next half of the decade. Providers have already proven the business case for AI, reinventing many areas of wealth management, from investment management and client service to risk management and compliance. AI is now helping financial advisors make better decisions for their clients, while boosting their productivity.

Industry leaders see the rise of generative AI as a watershed moment for the technology, making it more accessible, accurate, and user friendly.

**Regulatory headwinds**

However, regulation could slow down development. The EU, for one, has taken a shot across the bow with its proposed Artificial Intelligence Act, which will create a comprehensive regulatory framework for AI systems.

“We're in a regulated industry, so we need to be clear on how AI is making decisions so we can explain it both to consumers and regulators,” says FNZ’s Robertson.

| % | What the data says |
|---|---|
| 69% | of wealth management firms believe AI will significantly change the way their organizations work over the next three to five years. |
| 52% | of industry executives think that advances in AI and related technologies will have a greater impact than any other trend over the next three years. |
| 48% | of providers are showing significant performance gains from scaling AI and automation across multiple functions. |
| By 2027 | The use of AI will grow:<br>**60%** for servicing investors<br>**55%** for portfolio management |

**AI will transform customer interactions**

Janet Yuen, Head of Digital Servicing and Journeys at HSBC, foresees that the influence of generative AI will transform traditional dialogue-driven interactions with advisors to a streamlined process driven by actionable prompts.

She believes that in this rapidly approaching era, customers will bypass the step-by-step guidance traditionally provided by advisors and instead directly command AI to execute complex financial strategies.

“Generative AI tools like Chat GPT will have a profound impact on the industry, redefining human-machine interactions. Looking ahead, I anticipate a shift where such interactions will evolve beyond basic dialogue. Instead of seeking a simple conversation, customers will issue more complex, precise commands to the chat interface,” she says.

# Industry experts see AI as a major disruptor



**Chris McDonald**
Industry Specialist, Capital Markets
AWS

The most significant disruptors the industry faces today stem from developments in AI and machine learning. The focus now is on potential of generative AI, a type of AI that can create new content and ideas, including conversations, stories, images, videos, and music. GenAI is poised to drive change and innovation, particularly in personalization, customer interaction, education, and customer insights for advisors.

While generative AI's full potential is unexplored, one major impact likely in the near term is increased advisor efficiency. For example, generative AI can enable advisors to use text from various touchpoints to automatically create customized investment insights, recommendations, and educational content. This would free up time spent on admin tasks, allowing advisors to focus on high-value work and customer service. Once firms start to deploy generative AI use cases, we can expect a substantial shift in the way the wealth management industry conducts business.



**Yoni Assia**
Founder & CEO
eToro

Just as Uber took advantage of inefficiencies in travel and AirBnB in hotel stays, AI will squeeze out investment inefficiencies and take care of elements where humans don't add as much value, such as portfolio construction.

At eToro, work is already underway to see how generative AI can be deployed to our employees and customers, for example for our Copy investor capabilities. We are also looking at how generative AI can help users slice and dice the information in our social feed more deeply and creatively.

We've been using AI to enhance our customer service experience, empowering rather than replacing our customer service agents. But as with any new technology, we need to ensure that it is a force for good and that we have the necessary checks and balances in place.



**Vinod Raman**
Chief Product Officer
Asia-based fintech

I look forward to the impact of AI on investment advice over the next few years, when it gets us to a point where you are almost interacting with a personal advisor. You will be able to share your personal situation and get very unbiased top-notch advice on how to invest, how to save, and how to manage your personal finances. This has already started, but I see it accelerating in the coming years as incumbents and wealthtech firms start to leverage AI.

We already use ChatGPT internally to help our teams quickly and efficiently answer questions from our clients about products, suitability, and performance trends. We already have seen tremendous improvement in productivity.

We hope that as we continue to learn and iterate the code, and put in the learnings and constraints, for example so it cannot offer financial advice, we may be able to offer it directly to our clients next year.

# AI will transform customer service

Wealth firms have made major headway in using AI to support different aspects of service. Almost half draw on AI's ability to extract insights from huge volumes of data to assess investment opportunities. Slightly fewer use AI to analyze a client's goals and risk tolerances to provide tailored investment decisions. Almost 4 out of 10 apply AI to power financial planning and portfolio management.

**Other ways AI can improve client service**

Over a third of firms have implemented use cases that enable them to provide more personalized customer service and improve the quality and timeliness of performance analysis. About 20% now execute trade orders faster and more efficiently by using automated and algorithmic trading techniques. AI-enabled robo advisory is less common, except among robo advisory firms.

By 2027, AI will become a foundation stone in client servicing. It will play a major role in investment research and planning activities for most providers and in portfolio management, customer experience, and performance analysis for a large minority.

| | Investment research | Investment advisory | Financial planning | Portfolio management advisor support |
|---|---|---|---|---|
| **Now have use cases** | 46% | 44% | 38% | 38% |
| **Major role in 3 years** | 51% | 56% | 50% | 45% |
| | "Investment research and decision-making have become incredibly easy with AI." **Swiss asset mgmt. firm** | "We have greatly improved customer satisfaction through personalized AI advisory tools." **French private bank** | "Our AI-driven forecasting systems analyze investing impacts and help clients with financial planning." **US broker dealer** | "Portfolio management has become simplified and hassle free after integrating AI into it." **Australian broker dealer** |

| | Customer service and experience | Performance analysis and reporting | Trade execution | Robo advisory |
|---|---|---|---|---|
| **Now have use cases** | 35% | 35% | 19% | 10% |
| **Major role in 3 years** | 41% | 37% | 25% | 8% |
| | "AI has helped to personalize CX, offering recommendations aligned to investor goals." **US private bank** | "AI facilitates automating processes linked to data handling and performance reporting." **French family office** | "Trade executions have been seamless with the implementation of AI." **Japanese broker dealer** | "AI-based robo advisors bring significant value to investing advice and portfolio management." **Canadian universal bank** |

PQ23. In which of the following areas has your firm implemented AI use cases? In which will AI play a significant role over the next three years?

# Investors are open to AI, if it doesn't take full control

As providers harness machines, they should keep investors' views on top of mind. Overall, investors see the value of AI for researching products and services, receiving advice, preparing investment plans, and conducting risk analysis. They are open to using AI to handle admin tasks, supporting advisors in managing portfolios, and reviewing their financial positions and aims.

Yet most investors do not want AI to take full control of their money. Over half are not willing to have AI run their portfolios. They are more divided on using AI to reduce their dependence on advisors. One executive notes that investors may be less comfortable with AI using their personal data if they don't know where it is going and how it will be used.

> Financial portfolio analysis requires close monitoring with the aid of AI.
>
> **VHNW investor, Japan**

> Investment providers should make robo advising available to investors of all income levels and account sizes, making it more accessible to all clients.
>
> **Retail investor, Australia**

> I don't want to be totally reliant on AI-driven investment suggestions, which are most common these days. I want my providers to be available for personal advice.
>
> **HNW investor, UAE**

> I would like to see greater adoption of innovative technologies to optimize the overall customer journey, such as AI-powered chatbots and virtual assistants.
>
> **HNW investor, US**

**Where investors are most open to use AI to save time and money**

| | Not at all willing | Somewhat willing | Willing |
|---|---|---|---|
| **Most open** | | | |
| Research products and services | 7% | 59% | 33% |
| Receive investment advice | 19% | 50% | 31% |
| Prepare plans suited to my needs | 21% | 55% | 24% |
| Conduct risk analyses | 23% | 53% | 24% |
| **Fairly open** | | | |
| Handle administrative tasks | 26% | 50% | 23% |
| Review my financial position/aims | 25% | 53% | 22% |
| Help advisor manage my portfolio | 20% | 61% | 19% |
| **Least open/divided** | | | |
| Manage my portfolio directly | 54% | 32% | 14% |
| Ensure data privacy and security | 33% | 39% | 27% |
| Reduce my dependence on advisor | 32% | 42% | 25% |

IQ22. If it saved your time and money, to what extent would you be willing to use AI-enabled processes for the following tasks?

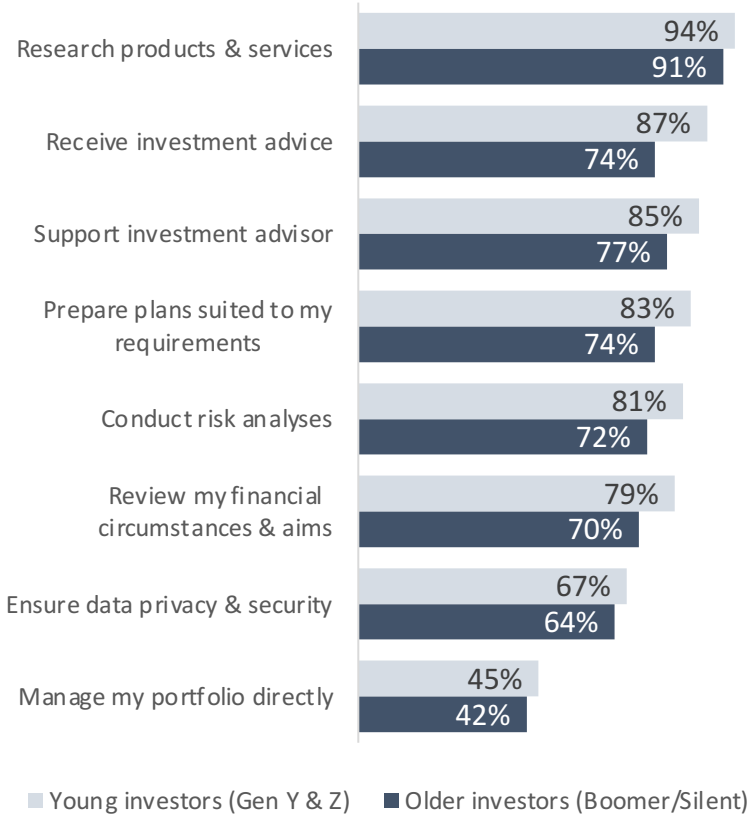
# AI attitudes vary by generation and location

Attitudes toward using AI vary by generation. On average, younger investors are more willing than older ones to use AI for a range of tasks. There is a big difference in the use of AI for receiving investment advice, preparing plans suited to financial requirements, conducing risk analysis, and reviewing financial circumstances.

Younger investors are only slightly more willing to use AI for basic tasks, such as researching products and services, or higher-value activities, such as managing portfolios directly.

By geography, investors in Singapore, the Middle East, and North America are the most willing to use AI, while those in Italy, Spain, the UK, India, and the Nordic countries are least willing. Nordic investors are particularly concerned about using AI for data security and privacy, with 60% unwilling.

**Willing or somewhat willing to use AI to save money or time**




**Ranking by % of investors most willing to use AI**

| | | | |
|---|---|---|---|
| 1 | Singapore | 9 | Japan |
| 2 | Saudi Arabia/UAE | 10 | Australia/NZ |
| 3 | United States | 11 | Switzerland |
| 4 | Canada | 12 | Nordics |
| 5 | France | 13 | India |
| 6 | China/HK | 14 | United Kingdom |
| 7 | Germany | 15 | Spain |
| 8 | Benelux | 16 | Italy |

Q22. If it saved your time and money, to what extent would you be willing to use AI-enabled processes for the following tasks?

# AI will make internal operations vastly more effective

Providers are already super-charging operations through AI. On average, they have implemented two use cases, with more on the way over the next three years.

The main internal use cases revolve around risk management, fraud, and compliance, where AI can help spot patterns and anomalies across huge data sets in real time. Many firms also use AI to improve client administration and strategic planning.

**Missed opportunities**

But there are missed opportunities. Only 18% of firms now use AI to streamline tasks for advisors, and fewer for sales, product development, back-office processes, and scenario analysis.

By 2027, AI will play a significant role in many of these areas, particularly risk management, fraud detection, client administration and analysis, and compliance and regulatory matters.

| | Risk & cybersecurity | Fraud detection | Client admin & analysis | Strategic planning | Compliance & regulatory |
|---|---|---|---|---|---|
| Now have use cases | 37% | 32% | 31% | 24% | 19% |
| Major role in 3 years | 45% | 47% | 39% | 24% | 29% |

"We lowered the expense and complexity of our cyber operations with our AI security platform."
**Dutch private bank**

"In the last year, our AI intrusion detection system has stopped 99% of fraudulent traffic."
**Swiss investment bank**

"AI helped us segment customers and personalize portfolios and advice for each group."
**Singaporean broker-dealer**

"We have used AI for strategic planning to find new market possibilities and develop novel offerings."
**French regional bank**

"Our AI solution for monitoring operations for compliance infractions has yielded valuable benefits."
**Swiss regional bank**

| | Streamlining tasks for advisors | Sales & business development | Product development | Middle- and back-office processes | Sentiment analysis |
|---|---|---|---|---|---|
| Now have use cases | 18% | 14% | 10% | 7% | 4% |
| Major role in 3 years | 18% | 15% | 18% | 14% | 6% |

"We use AI to perform cognitive activities such as report analysis, which allows advisors to focus on more critical work."
**US family office**

"Our AI-powered sales and business development enable our teams to focus on leads with the best conversion possibilities."
**Australian universal bank**

"We use AI in product development to generate new and beneficial solutions for our clients."
**Australian investment bank**

"Our back-office processes have become much easier after the implementation of AI."
**Chinese regional bank**

"AI-powered predictive analytics helps us to understand and forecast client preferences."
**Chinese private bank**

PQ23. In which of the following areas has your firm implemented AI use cases? In which will AI play a significant role over the next three years?

# Putnam Investments: Using generative AI to stay ahead of the competition



**Sumedh Mehta**
CIO, Putnam Investments

As a leader in creating and managing ETFs and mutual funds, Putnam Investments is always looking to maintain its competitive edge. "We want to continue innovating and releasing new products into the market," says Sumedh Mehta, the firm's Chief Information Officer. "Our lens for applying technology is to help improve the delivery of those products, help our investment professionals gain better insights into the markets, and improve investment decision-making."

The firm believes that generative AI can help it do just that, which is why it is currently bringing in the ability to run its own AI models, Mehta explains. "We will be using GenAI to gain insights into the data we already have—in a way that improves the productivity of our associates," he says. "Instead of going through 10 hours of prep with the data, they will have all that at their fingertips." Getting good results, however, is an iterative process, and the firm is still experimenting with the technology. "It will be a while before it is able to hit the mark," Mehta says.

**Other use cases**

Mehta says that Putnam is looking at other GenAI use cases—such as in his own IT group, to generate automation scripts and testing scripts. "We are playing with ideas that would help accelerate our time to market for individual products and services, by improving productivity for our technology professionals," he says. "Generative AI can potentially do that in all aspects of our world, not just technology or investments."

In setting up its models, Mehta explains, governance, access to data, and ensuring data transparency are the biggest challenges. To oversee governance and risk management, the firm has formed a committee run by its chief risk officer that includes members from the risk management and internal audit groups. "They have to approve all the potential use cases and must have visibility into the data we are using to generate the answers we want, to provide some transparency into the work that we are trying to do before we go do it."

# The limitations of AI



**Nathan Erickson**
Principal, Financial Advisor
CAPTRUST

"I don't see AI having the ability yet to fully understand a client's entire picture and to take that into account when tailoring a solution. How does AI take 'maybe' into account for developments that may or may not happen for a client who's an executive at a mid-stage startup? If the firm does well, he will have $15 million in three years. If it doesn't do well, he'll have $3 million.

An advisor can plan for both scenarios and make decisions based on likely outcomes—and on information from the investor that can be difficult to convey to an AI."



**Mark Smedley**
Senior Industry Executive,
Financial Services, Genesys

"AI readiness requires comprehensive visibility and control over data—the importance of AI's dependency on the right data cannot be overstated. Firms evaluating and implementing AI software often lose sight of data: they may believe the systems that come out of the box are enough. But good data is a determining factor in the effectiveness of any AI deployment—they are interdependent."



**Peyman Pardis**
Head of Wealth Management
Deloitte Canada

"AI, especially generative AI, may revolutionize wealth management by driving cost savings, revenue growth, and improved client experiences. However, to address the potential risks of AI, firms will need to establish robust governance policies. Such policies should ensure transparency, accountability, and responsible use of the tech, while at the same time prioritize data security and privacy."

# Digital innovation is key to driving performance

Providers are already gaining juicy benefits from investing in digital technology. They see stronger financial performance, with costs decreasing and shareholder value and revenue rising. Their strategic positions have improved, thanks to new business models, greater innovation, and stronger reputations. And they have seen operational dividends, from improved customer experience and analysis to enhanced risk management and employee productivity.

Over the next three years, firms expect many benefits to continue, and several to grow. A greater percentage of firms expect revenue to increase as their digital strategies kick in. Firms will also leverage digital innovation to improve their profitability, lowering their cost to serve clients. In addition, firms expect greater operational benefits from enhanced customer analysis, accelerated time to market, and faster creation of new and improved products as they apply new technologies, like AI.

PQ29. What are the main benefits your firm is seeing from its tech investments now and what main benefits does it expect to see over the next three years?

**Current and future benefits of digital innovation**

| Operational | Now | 3 years |
|---|---|---|
| Improved customer experience and retention | 34% | 35% |
| Enhanced customer analysis and micro-segmentation | 33% | 39% |
| More effective risk management and compliance | 30% | 28% |
| Improved employee engagement and productivity | 27% | 24% |
| Accelerated time to market | 21% | 27% |
| Faster creation of new and enhanced products | 20% | 24% |

| Strategic | Now | 3 years |
|---|---|---|
| New business models and channels | 38% | 35% |
| Greater innovation | 30% | 26% |
| Stronger reputation | 29% | 26% |
| Improved planning and decision-making | 28% | 24% |
| Greater market share/expanded client base | 23% | 23% |
| Global expansion and ability to scale business | 11% | 9% |

| Financial | Now | 3 years |
|---|---|---|
| Decreased costs | 45% | 44% |
| Greater shareholder value | 41% | 38% |
| Increased revenue | 40% | 42% |
| Improved profitability | 24% | 37% |
| Greater AUM | 19% | 17% |

**52%** of wealth advisory firms or divisions expect revenue to rise over the next 3 years from digital innovation.

**50%** of C-level executives plan to use digital innovation to reduce costs over the next 3 years.

# Firms see high returns on major tech investments

Wealth management providers are getting good returns on many of their biggest investments in digital technology. More than half of those investing in them report high or very high returns from a range of technologies, including cloud, digital collaboration, data analytics, blockchain, AP architecture, and AI. A large proportion of firms have been investing for many years in these technologies, giving them time to produce returns.

“The convergence of these technologies is what will fundamentally reshape the wealth management value chain. Separately, these technologies are powerful. Together, they will change the face of wealth management as we know it,” says Matthew McWhirter, Strategy Leader, Wealth Management, with Deloitte Canada.

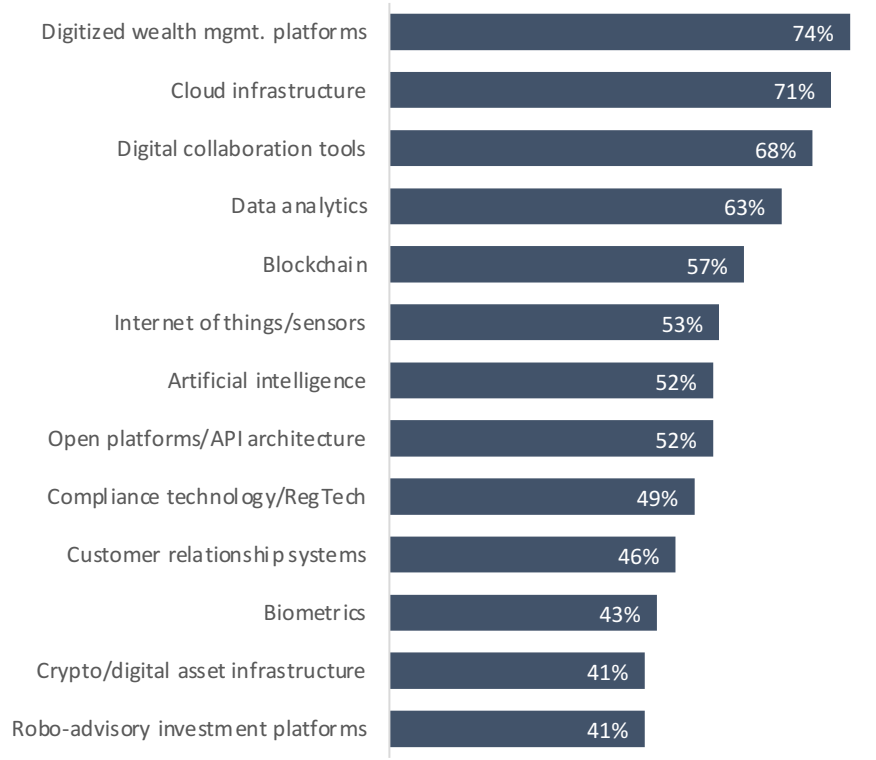
**Missed opportunities**

Our analysis shows missed opportunities. For instance, only 15% of firms have so far made major investments in digitized wealth management platforms, even though these investments are showing the highest returns in our survey. API architecture is another area where the returns suggest investment should increase.

Fewer firms, on the other hand, have seen good returns from robo-advisory platforms. “Robos have proven unprofitable,” argues Tony Wood, Asia Pacific Banking Leader, Deloitte Hong Kong. “They eat into your own revenue base, especially in the higher end of the mass affluent market, and it’s very difficult to move clients over to an advisor-led service.”

PQ27a. Based on early indications, how would you rate the likely ROI that your firm has achieved on these investment areas?

**Percentage of firms investing that report high or very high returns**



# First Abu Dhabi Bank: Using fintech solutions to match the competition



**Michel Longhini**

Head of Global
Private Banking
First Abu Dhabi Bank

With more than 30 years of experience working with top banks like Edmond de Rothchild and BNP Paribas, Michel Longhini has a unique view of the evolution of the wealth management industry from a banking perspective. "For years, banks held the role of a global player offering all the services from the client relationship to the custodian to transaction and wealth management services," says Longhini. "Today, the main risk to this model is that it is being fragmented into more efficient offerings through new players, which can be partners that banks can use to offer better services or disrupters that can take part of the business away from banks."

So, when Longhini was tapped to lead First Abu Dhabi Bank's private banking division in early 2023, one of his main demands was that the bank have an API-enabled banking platform flexible enough to take advantage of fintech innovation. "My challenge was to create a proper investment offering with a digital experience competitive with international standards. I needed to be able to bring in a layer of digital solutions to fill the gaps in products and services that I could put into place in all our private banking locations." Longhini says that in the past, he needed to have internal solutions built on legacy systems. "You end up with multi-year projects that are impossible to do," he says. "The difficulty is much, much lower to plug in solutions though APIs on a core banking system."

### Streamlining processes before digitizing them

Yet to ensure that this API approach was workable, he first had to redesign key processes and workflows. "These include client onboarding, advisory, and discretionary management processes," Longhini explains. "If you try to digitalize a process that isn't working, you just recreate problems in a different form." He worked to streamline processes—when necessary, negotiating with legal and compliance departments. "I wanted to make our processes more client focused and client friendly," he says.

When it comes to choosing solutions, Longhini takes a best-of-breed approach. "To select the right partners, we go through a very wide-ranging assessment of which players are the best providers," he explains. Using some purchased and some external solutions in partnership with fintechs, he expects to complete much of what he needs in a few months. "That efficiency allows us to expect immediate revenue gains, by filling gaps with solutions that are state-of-the-art today," says Longhini.

# 4.

## Rethink offerings for the next investment era

The democratization of wealth is giving retail and mass affluent investors more options for growing returns and managing risks. It is also providing them with more personalized services and advice traditionally reserved for the wealthy. Despite short-term challenges for ESG products, sustainable and impact investing will grow in the longer term.

ThoughtLab



# Investors want more product choices

Investors at all wealth levels are buying a broader range of products, and they will expand their investments further over the next three years. While traditional investments, such as mutual funds, stocks, and bonds will continue strong, investors plan to increase their investments in index-based mutual funds/ETFs and direct and customized indexes.

Some of the fastest-growing products will be ESG and charitable investments—but from a low base of users. Products to fund retirement, including pensions and annuities, will also grow, particularly for older investors.

"In the face of a global looming retirement crisis, it's crucial to prioritize risk management within portfolios," says Deloitte's Pardis. "Annuities offer a valuable solution by reducing exposure to longevity, market returns, and inflation."

Other growing segments include more exotic products, such as derivatives and commodities. Retail investors, who invest in these products much less, are playing catch up with wealthier segments. Growth in cryptocurrencies and digital assets will be flat. While demand from richer, older investors will slip, young investors in the retail and mass affluent segment will invest more.

| Products used by investors | Now | 3 years | % pt. difference |
|---|---|---|---|
| Actively managed mutual funds | 80% | 78% | -2 |
| Alternative investments | 60% | 62% | +2 |
| Core investments (stocks, etc.) | 44% | 50% | +6 |
| Tax-efficient products and services | 42% | 43% | +1 |
| Annuities/life insurance | 39% | 50% | +11 |
| IPOs and venture capital | 28% | 31% | +3 |
| Pensions and retirement funds | 20% | 27% | +7 |
| Cryptocurrencies and digital assets | 27% | 26% | -1 |
| Index-based mutual funds and ETFs | 26% | 32% | +6 |
| Direct and customized indexes | 21% | 25% | +4 |
| Commodities | 13% | 17% | +4 |
| ESG investments | 12% | 22% | +10 |
| Charitable investments | 12% | 18% | +6 |
| Options, forwards, and swaps | 10% | 14% | +4 |

Q23. Which of the following products or assets do you invest in now, and which will you start to invest in or continue to invest in over the next three years?

## What investors want

"I want my investment provider to provide numerous options for investing beyond just standard stocks and bonds."
**Mass affluent investor, Japan**

"Increased accessibility to global investment options."
**High-net-worth investor, France**

"I expect to get access to unique investment opportunities from my investment provider."
**Very-high-net-worth investor, UK**

"Investment providers should make tax-efficient investing products and services accessible to people of all income levels."
**Retail investor, Sweden**

"Access to IPOs and pre-IPOs opportunities for investors looking to invest in early-stage companies."
**Retail investor, Canada**

"I would like strong emphasis on innovative investment concepts, products, and strategies."
**Retail investor, Belgium**

# Firms are democratizing products to meet investor needs

Wealth management firms have already widened their product portfolios to meet investor needs for more innovative, specialized, and customized investment options. This trend will continue over the next three years: 44% of firms plan to add new products and 42% plan to add more depth and sophistication to their existing product offerings. The percentage adding new products is even higher for asset management firms or divisions (65%) and robo advisors (60%).

While robo advisors/online trading platforms will continue to be the predominate providers of cryptocurrencies and digital assets over the next three years (86%), more broker-dealers (38%) and asset management firms/divisions (30%) plan to get into the act. Robo advisors/online trading platforms will also lead the charge in direct and customized indexes (40%), although most other firms will follow suit.

Private banks/family offices will jump out front with specialized, alternative products (85%) and charitable investments (42%). Asset management firms/divisions will continue to offer the richest array of products over the next three years, leading in pensions/retirement funds (70%), ESG investments (65%), and annuities/life insurance (35%).

Deloitte's Pardis sees more disruption ahead: "Rising competition will elevate the significance of alternative and exclusive investment products as the key differentiator among wealth managers, with partnerships playing a vital role as enablers."

**44%** of firms are adding new products.

**42%** of firms are adding sophistication to existing products.

| Products offered by providers | Now | 3 years | % pt. difference |
|---|---|---|---|
| Core investments (bonds, stocks, etc.) | 78% | 78% | 0 |
| Index-based mutual funds and ETFs | 78% | 80% | +2 |
| Specialized and alternative investments | 62% | 64% | +2 |
| Actively managed mutual funds | 48% | 52% | +4 |
| IPOs and venture capital | 48% | 53% | +5 |
| Tax-efficient products and services | 47% | 52% | +5 |
| Pensions and retirement funds | 45% | 49% | +4 |
| Commodities | 41% | 47% | +6 |
| Options, forwards, and swaps | 38% | 40% | +2 |
| Direct and customized indexes | 28% | 29% | +1 |
| ESG investments | 28% | 39% | +11 |
| Cryptocurrencies and digital assets | 26% | 35% | +9 |
| Annuities/life insurance | 25% | 25% | 0 |
| Charitable investments | 13% | 23% | +10 |

PQ12. Which of the following investment products or assets does your firm now offer, and which will it start to or continue to offer over the next three years? PQ20. What are the main ways your firm plans to change its business strategy over the next three years?

# Across cohorts, investors seek a wider range of services

Premium services such as private banking, discretionary investment, and family office administration will be the fastest-growing services for investors over the next three years. High- and very-high-net-worth investors are taking up private banking at the highest rate, while an even greater percentage will start to use discretionary investment. The fastest increase in the use of discretionary services will come from younger and less wealthy investors—albeit from a low base of current users.

This embrace of discretionary will likely contribute to the shortage of personal investment advisors in the shorter term. However, in the longer term, use of discretionary investment may flatten as AI becomes better equipped to carry out advisory functions needed by younger investors. Our survey shows that 60% of younger investors don't believe they will need a personal advisor by 2030 due to technological advances.

Advice on sustainable investing is also growing—particularly for young investors. The oldest investors, however, will continue to use this service the most. "I want my provider to provide expert advice on the environmental and financial advantages of green investments," says a US-based VHNW investor, age 70.

At the same time, retirement planning is on the rise, particularly as Gen-Xers reach middle age. Currently, 41% of Gen X respondents engage in retirement planning, a share that will climb to almost half in three years. Estate planning is also increasing among Gen-Xers, but, not surprisingly, the main push is coming from Boomers/Silent generation.

| Services used by investors | Now | 3 years | % difference |
|---|---|---|---|
| Day-to-day financial management | 49% | 49% | 0 |
| Discretionary investment | 47% | 60% | +13 |
| Personal financial budgeting/planning | 43% | 42% | -1 |
| Legal advice and tax planning | 40% | 44% | +3 |
| Advice on specialized investing | 38% | 41% | +4 |
| Financial education | 36% | 38% | +2 |
| Planning and services for businesses | 30% | 32% | +2 |
| Healthcare and insurance support | 27% | 30% | +3 |
| Advice on sustainable investing | 24% | 32% | +8 |
| Private banking | 24% | 41% | +17 |
| Retirement planning | 24% | 31% | +7 |
| Philanthropic planning | 19% | 20% | +1 |
| Family office administration | 17% | 28% | +11 |
| Estate planning (including trusts) | 15% | 20% | +5 |
| Concierge services | 15% | 16% | +1 |

Q26. Which of the following advisory services do you use now, and which do you plan to start using or continue using over the next three years?

**3%** of retail/mass affluent investors are using discretionary investing now.

**25%** expect to do so in three years.

Over the next three years, the percentage of young investors using discretionary investment services will double from **18%** to **36%**.

Over the next three years, the use of private banking services will grow most in the high/very-high-net-worth segment, from **30%** to **51%**.

ThoughtLab

# Service requirements are evolving

"Investment products are turning into commodities, making value-add services and broader wealth offerings crucial for fee preservation and differentiation," according to Deloitte's McWhirter.

To set themselves apart and meet growing investor needs, providers will continue to offer a more diverse set of services over the next three years. With clients seeking to invest with purpose, philanthropic planning and advice on sustainable investing will grow the most, particularly among private banks and family offices.

Financial education will also rise over the next three years, with 67% of family offices and 60% of private banks planning to offer it. Providers are likewise gearing up to offer more legal advice and tax planning services, with family offices (73%) and private banks (55%) in the lead.

**Providers crossing swim lanes**

Our research reveals that investment providers plan to expand into new service areas. For example, 40% of robo advisors plan to offer discretionary investing in three years, 45% of private banks are preparing to offer family office administration, and 55% of asset management firms will offer estate planning. Differentiation through services may become less effective in the future as more investment firms get into the act.

| Services offered by providers | Now | 3 years | % pt difference |
|---|---|---|---|
| Discretionary investment | 75% | 76% | +1 |
| Personal financial planning/budgeting | 64% | 66% | +2 |
| Advice on specialized investing | 60% | 61% | +1 |
| Planning and services for businesses | 60% | 62% | +2 |
| Retirement planning | 54% | 58% | +4 |
| Day-to-day financial management | 50% | 52% | +2 |
| Legal advice and tax planning | 44% | 54% | +10 |
| Advice on sustainable investing | 39% | 52% | +13 |
| Estate planning | 38% | 48% | +10 |
| Financial education | 33% | 45% | +12 |
| Private banking | 28% | 32% | +4 |
| Philanthropic planning | 17% | 32% | +15 |
| Family office administration | 15% | 21% | +6 |
| Healthcare and insurance support | 11% | 12% | +1 |
| Concierge services | 10% | 12% | +2 |

PQ13. Which of the following personal services does your firm now offer and which will it start to or continue to offer over the next three years?

**30%** of robo advisors now offer discretionary investing and in three years **40%** expect to do so.

**25%** of private banks now offer family office administration and in three years **45%** plan to do so.

**40%** of asset management firms now offer estate planning and in three years **55%** plan to do so.

# What the experts say

"Democratizing wealth management is only possible if you can bring down the cost to serve through technology. Research shows that end-to-end, third-party technology platforms can alleviate pressures along the value chain, reduce costs, achieve meaningful impact, and create competitive advantage."

**Hanspeter Wolf**
Chief Technology Officer, FNZ

"There should be better access to the private markets, because right now, you must be either an accredited investor or for some investments, even a qualified purchaser, with higher regulatory financial requirements. It's possible to make hedge funds more accessible by creating pooled funds with monthly rather than semi-annual withdrawal periods and minimum investments of $100,00-$200,000, instead of $5 million. But that doesn't solve for the people that have less than that."

**Executive Director, Investments**
**Large US-based investment bank**

"Investment products and their accessibility are so much better than 10 years ago. We can all log on to our provider's app and buy and sell stocks. We can rebalance our retirement portfolios while we're on a conference call. This is all great.

But the industry has a terrible habit of ignoring people's 'finance phobia.' The industry is building great products and tools—but not helping clients understand the basics or educating them on the best way to building a portfolio. So, the industry has both an education and a brand and marketing opportunity."

**David Porter**
Managing Director, Financial Services
Genesys

"Wealth managers are scrutinizing the plethora of products offered by asset managers more closely than ever. Asset managers operate numerous funds, frequently launching new ones focused on current hot topics to attract client capital. Wealth managers recognize that such products, though potentially lucrative in the short term, can carry significant risks. It is ultimately the investors who face the consequences. Wealth managers, acting in the best interest of their clients, are increasingly viewing such providers with skepticism, opting instead for asset managers who consistently provide long-term stability and performance."

**Henning Stein**
Fellow, Cambridge University Judge Business School

# Short-term headwinds for ESG, but greater growth longer term

Two-thirds of firms agree, at least to some extent, that sustainable investing will grow significantly in the years ahead—up from 36% in our 2021 survey. More than half expect clients to consider sustainability when investing across a range of asset classes, and more than 4 in 10 say their clients expect them to understand sustainable investing and are looking for reliable ESG data and products.

Yet, in the shorter term, the challenges are formidable. More than half of providers cite conflicts between sustainable investment goals and fiduciary standards. Almost as many see a lack of client interest in sustainable investing and an unwillingness on their part to sacrifice returns. Perhaps most worrying, 43% believe many sustainability funds and ETFs do not do a good job picking the right firms. "The stark reality is that outcome measures are either non-existent or nascent at best. Better outcome tracking or certification may improve investor confidence," says Genesys's Smedley.

**ESG headwinds**

As a result, not all wealth management executives are believers. Just over a quarter in our survey do not encourage sustainable investing for reasons such as greenwashing and performance concerns. A smaller but significant share (22%) take a more contrarian view, that sustainable investing will decline—and in North America, where the term "ESG" has become politicized, the percentage is closer to a third.

While ESG interest is still strong in Europe, where providers have a more optimistic view of the future of sustainable investing, the backlash in the US has resulted in some institutional investors and wealth managers pulling back and playing down the term "ESG." ESG funds are seeing net outflows in the US, especially after unfavorable performance. Advisors in the US, wary of the problems, are often reluctant to suggest ESG investing.

**Sustainable investing trends (% providers that agree or somewhat agree)**

| | |
|---|---|
| Sustainable investing will grow significantly in the years ahead. | 66% |
| Clients will consider sustainability when investing across a range of asset classes. | 58% |
| Clients expect investment providers to understand sustainable investing. | 47% |
| Clients want reliable ESG data and products that meet industry classifications. | 43% |
| Interest in sustainable investing will decline as clients see it as bad for business. | 22% |

**Sustainable investing challenges (% providers that agree or somewhat agree)**

| | |
|---|---|
| Conflicts between sustainable investment goals and fiduciary/suitability standards | 51% |
| Many clients are not asking for sustainable investments. | 48% |
| Clients expect to make sustainable investments without sacrificing returns. | 47% |
| Many sustainable funds/ETFs do not do a good job selecting companies. | 43% |
| Clients lack knowledge about sustainable investing. | 43% |
| Our firm does not encourage sustainable investing due to greenwashing/ performance concerns. | 28% |

PQ14. To what extent do you agree or disagree with the following statements about sustainable investing?

# For investors, it is still early days

Investors are still warming up to sustainability. Only 12% surveyed have already made investments in specific products, such as ESG funds or green bonds. A larger share, 25%, have used sustainable investing advice when picking stocks. Nearly a quarter consider sustainability when making most investments, and a handful use their voting rights. But 46% consider it only for a few investments; 30% do not take it into account at all.

Client interest in ESG has been tepid, according to one wealth advisor. “In the last 10 years, I only remember two clients asking about ESG. One said I don’t want to own cigarette stocks and another didn’t want oil stocks.” CAPTRUST’s Erickson agrees: “You need to have an ESG solution for the clients that want it, but there aren't a lot of clients that want it. And it doesn't help that it's come heavily under fire over the past year.” However, the wealthier the investor, the more sustainability-minded. Only 10% of retail/mass affluent investors look at sustainability for many or most investments, vs. 29% of those with high/very high net worth and 43% of the ultra rich and billionaires.

**What investors want**

Clients have many of the same concerns as providers about sustainable investing. They fret about inadequate sustainability knowledge, and obstacles such as a lack of reliable data, standards and metrics, and greenwashing. “Investors are getting smarter,” says Cambridge’s Stein. “They are tired of being sold ESG-screening ETFs that have zero impact. They want to make a real difference.”

Despite the challenges, only 14% of investors see sustainable investing as a fad and not a genuine issue for the future. They want providers to address the challenges by helping them understand the sustainability impact of their investments. For example, a mass affluent investor in Australia believes that “investment providers should offer clear and consistent information regarding the ESG performance of the assets in their portfolios, allowing investors to make better informed, value-aligned decisions.”

**Investor approaches to sustainable investing**

| | |
|---|---|
| I consider sustainability for a few investments. | 46% |
| I consider sustainability for many investments. | 19% |
| I consider sustainability for most investments and use voting rights. | 5% |
| I do not consider sustainability in my investment strategy. | 30% |

**Sustainable investing challenges from an investor perspective**

| | |
|---|---|
| Lack of knowledge about sustainable investing | 44% |
| Lack of standards and metrics | 32% |
| Worry that sustainable investments will lower financial returns | 26% |
| Limited sustainable investment options | 25% |
| My advisor lacks knowledge about sustainable investing. | 24% |
| Lack of reliable sustainability and ESG data on companies | 24% |
| My advisor does not recommend sustainable investing. | 21% |
| ESG funds do not do a good job selecting companies. | 21% |
| Concerns about greenwashing | 19% |
| Sustainable investing is a fad, not a genuine issue for the future. | 14% |

IQ24. Which best describes your approach to sustainable investing? IQ23. Which of the following products do you invest in now, and which will you start to invest in over the next three years? IQ25. What prevents you from investing with sustainability considerations more? IQ26. Which of the following advisory services do you use now, and which over the next three years?

# Investor interest in sustainability will rise as barriers fall

Interest in sustainable investing will become more prevalent as barriers fall and investor and consumer consciousness grows. Over the next three years, 51% of investors think that ESG criteria will become as important as financial criteria when making investments. Most providers (58%) agree that investors will consider sustainability when investing across asset classes—and may exclude equity investments in companies in industries that run counter to sustainability goals.

The share of investors buying sustainable products will almost double from 12% now to 22% in three years. Use of sustainable investing advice will expand from 25% of investors now to 32% in three years. For older generations, the figure will be higher, 38%. The percentages are also greater in certain countries, such as Saudi Arabia, where ESG concerns are aligned with sharia principles, or in Canada, a resource-rich country with environmental goals.

**Regulation will help**

The rise in social impact investing will be driven partly by regulation, as ESG standards develop globally, and regulators demand better reporting and assurance. That will help alleviate the problem of a lack of reliable ESG data about firms. According to Longhini of First Abu Dhabi Bank, government tax breaks and incentives will help by boosting the financial performance of firms that develop sustainable products (such as EV vehicles) and follow sustainable practices (such as decarbonization). “Once impact investing generates a greater financial result, more investors will jump in,” he says.

**Back to the drawing board**

CAPTRUST’s Erickson thinks that the industry “may need to go back to the drawing board because people are questioning whether what they thought was ESG really was ESG.” But he is optimistic about the future: “ I do think there's going to be growing demand and conscientiousness from investors, particularly the next generation.”

IQ11. Which, if any, of the following statements about your investment plans and behaviors do you agree or disagree with? IQ23. Which of the following products do you invest in now, and which will you start to invest in over the next three years? IQ26. Which of the following advisory services do you use now, and which over the next three years? PQ14. To what extent do you agree or disagree with the following statements about sustainable investing?

**58%** of providers believe that investors will consider sustainability when investing across asset classes.

**51%** of investors say that, over the next 3 years, ESG criteria will become as important as financial criteria when making investments.

**32%** of investors plan to use sustainable investing advice; 38% of Baby Boomers and beyond do so.

**22%** of investors plan to use ESG products over the next 3 years.

# How impact investing can make its mark



**Henning Stein**
Fellow, Cambridge University Judge Business School

Despite challenges to sustainable investing, the practice is finding greater appeal in some regions, supported by global events like COP28, which emphasize the urgency for innovation to drive sustainability. Henning Stein, Fellow at Cambridge University Judge Business School, notes that emerging markets like Sub-Saharan Africa, Latin America, Southeast Asia, and China are becoming hotbeds for impact investing focused on natural capital (the world's stock of natural resources).

"Among leaders in global asset and wealth management, there is both excitement and caution regarding APAC, especially given US-China relations on climate action," he says. "China's advancements in green taxonomy [classification catalogues of green industries, products, etc.] and ESG disclosures make APAC more attractive for sustainable investing, although geopolitical strains could disrupt investment flows."

### Leading in sustainable investing

According to Stein, only a few asset managers, like Manulife and JPMorgan, lead in areas such as timberland management and forest carbon offset markets. "These strategies acknowledge the link between natural capital and sectors like longevity, viewing sustainable timber as a resilient investment with stable returns and environmental benefits," he says.

Leaders in this field, says Stein, "are outcomes-oriented, set expectations of investee companies on major ESG issues, clearly communicate this to their own clients, and persist through escalation to drive progress toward these goals." For example, he says such firms may engage with companies to improve climate-related reporting, net-zero transition plans, and firm-wide diversity initiatives. If progress is slow, firms may escalate by voting against board directors, filing or co-filing shareholder proposals, or divesting or refusing to purchase new securities. "Done well, this is a very dynamic and nimble process: pre-disclose your priorities for investee companies, promptly publish rationales for proxy-voting decisions, and provide case studies so that your clients understand your approach."

Still, Stein believes that sustainable investing will not flourish until regulators step in decisively: "The asset management industry seeks legal clarity to combat greenwashing, desiring clear regulations for the benefit of clients who are skeptical about ESG."

# 5.
# Adapt business models and market positioning

The wealth management industry will continue to see disruption over the next three to five years from changing investor expectations, new entrants, convergence within financial services, and growing internal competition. Investor churn—amid dissatisfaction with performance and fees—will add to the disruption. The resulting consolidation may mean a shakeout among mid-size players, particularly as investors favor larger firms.



ThoughtLab

# A new playing field is emerging

Providers see tumultuous times ahead. The majority believe that born-digital firms will remake the industry and that most investment products will become commoditized. Almost half believe blockchain and related technologies will eliminate the need for intermediaries. Thirty-nine percent expect the lines between wealth management, banking, and insurance to blur as investors demand more holistic products and services.

These trends will likely cause industry upheaval, but executives are divided on how extensive it will be. One-third foresee a dramatic shakeout, but slightly more do not. Tellingly, most digital leaders expect a dramatic shakeout.

Market consolidation is already remaking the playing field, as firms take steps to drive scale, efficiency, and competitive advantage. One area of consolidation is within the independent advisory/RIA subsector, where providers are acquiring small advisory businesses that have owners reaching retirement age. Institutions also are snapping up online trading and robo firms to extend their digital capabilities. Morgan Stanley's acquisition of eTrade, BlackRock's purchase of FutureAdvisor, and Invesco's takeover of Jemstep are just a few examples.

**Is the future of wealth management modular?**

Embedded finance—the integration of investment capabilities into the platforms and applications that people regularly use, such as banking apps, e-commerce platforms, social media networks, or retail channels—has the power to revolutionize the way people invest, making wealth management more seamlessly integrated into their everyday lives.

One recent example is Central Bank in the US. Drawing on an embedded wealth solution, the retail bank has introduced Digital Investor, an online investing experience seamlessly integrated with its Central Bank Mobile Banking App and Online Banking. This new service enables Central Bank customers to embark on their investing journeys by selecting investment portfolios based on their financial goals.

## Providers anticipate seismic shifts

**52%** say most investment products will become commoditized, forcing providers to offer value-added services to defend their fees and differentiate themselves.

**51%** of digital leaders believe that there will be a dramatic shakeout in the industry as traditional players are eliminated or transformed.

**47%** think blockchain and related technologies will reduce the need for intermediaries, such as custodians and clearing houses.

**39%** expect the lines between wealth management, banking, and insurance to be blurred as investors demand more holistic products and services.

PQ10. As you look out to the next 3-5 years, which statements about the future of the wealth management industry do you agree with?

# What the experts say

"This market remains highly fragmented and served by many local and pan-regional competitors, mainly characterized by online platforms, high-growth fintechs, and large, traditional financial institutions, such as retail banks, private banks, and wealth management firms.

In 2019, the total global wealth invested in stocks was $78 trillion, with digital platforms accounting for about 20%. Online multi-asset platforms, particularly, have been able to capitalize on the secular trend towards self-directed investing. We expect this growth to continue, and we anticipate continued consolidation."

**Yoni Assia**
Founder & CEO, eToro

"There is a potential 'hollowing-out of the middle'—where new entrants carve out pockets of the market with differentiation, innovation, and agility, and where super-scale incumbents further entrench their market leadership positions."

**Kendra Thompson**
National Wealth and Investment Management Leader, Deloitte Canada

"We have confidence in incumbents, as they have consistently demonstrated their ability to adapt. New entrants have primarily served as catalysts for change and have showcased what is possible. Ultimately, this is a capital-intensive industry, and those with an established investor base and large balance sheet are likely to come out on top. However, the true winners in our industry's modernization will be the end-investors and their families, and that should be the primary metric by which we measure our future success."

**Jean-Francois Lagasse**
Global Wealth Management Leader, Deloitte Switzerland

"The market will evolve, and disruption will happen. Incumbents will need to embrace new technology capabilities and the opportunity to engage with customers in a digital/hybrid environment. They will need to rapidly evolve both their customer and advisor proposition set—connected to an end-to-end aligned technology platform. Many incumbents are married to legacy platforms, and it will take bold leadership to first define and share the vision and then take action."

**Dean Butler**
Managing Director for Retail Direct and Advice, Standard Life UK

# What the experts say

"I see bank and wire-house wealth management as growing channels as investors seek stability and brand strength. Regional players that can demonstrate security and community will grow. Smaller singular providers will struggle, so consolidation in the RIA market will speed up. Self-serve models can easily be incorporated and offered by large institutions so they can serve clients' preferences, however they want to be served and from various entry points."

**April Rudin**
Founder & CEO, The Rudin Group

"A partnership model is emerging where institutions build their product offering, their client experience, their businesses, and their advisors' productivity with efficient technical solutions provided by fintechs. The winners will be those incumbents that have the flexibility to integrate these types of solutions within their processes, so that they are at the same technology level as new entrants."

**Michel Longhini**
Head of Private Banking, First Abu Dhabi Bank

"The emerging market trends will lead to a significant change in the way wealth management is undertaken. The day-to-day role of the advisor and wealth manager, as well as the economic and the industry landscape, will be different.

Whether the transformation is disruptive or evolutionary, wealth management firms will need to have the right end-to-end digital foundation in place to take advantage of events. They should avoid sitting on multiple legacy systems, with operational complexity and yesterday's solutions that will hold them back."

**Tim Neville**
Chief Executive Officer, Asia Pacific, FNZ

"While technology and business model innovation have greatly impacted incumbents, they have largely not been replaced. That said, properly capitalized new entrants remain a threat as well as an opportunity. All providers owe it to themselves and their shareholders to maintain a keen awareness of emerging technologies and new business processes. Coupled with a mature understanding of how and when to deploy them, it will remain a key competitive differentiator."

**Mark Smedley**
Financial Services Industry Executive, Genesys

# A fintech's view on the future of wealth management



**Vinod Raman**
Chief Product Officer
Asia-based fintech

With experience at both large incumbent institutions and fintech startups, Vinod Raman, Chief Product Officer at an Asia-based wealthtech, has a wide-ranging perspective on the wealth management industry. He sees a new business model emerging that combines technology and human advice. He argues that the purely technology-driven, low- or no-cost approach that many fintechs take is becoming less viable as interest rates have risen and market returns have fallen. Venture capital funds are no longer pouring money into fintech startups. "Unless you are able to scale to nine or 10 million users, it's hard to make enough revenue to be sustainable in the long term."

One way to go would be to attract wealthier customers, but this is often difficult for fintechs. "The level of sophistication and the complexity changes," he says. "Wealthier clients already get five-star treatment from private banks and fees are not as much of a criterion for them." Another way is to charge higher fees for more value-added services—as his firm is doing. His firm, which operates in Southeast Asia and has more than $5 billion in AUM, offers a range of curated third-party investment funds plus its own portfolios. It recently moved to a hybrid approach, adding personalized financial advice, plus the ability to speak to a human advisor. "There is an opportunity to operate in the hybrid space offering an additional layer of value with really personalized services and human advice at scale, which creates a higher margin," explains Raman.

The firm also offers cost-effective access to a wider set of investment products, particularly in the private markets. It has developed pooled funds with exposure to well-known private equity, hedge, and private credit funds, but with much lower buy-in levels—of $25,000 to $50,000, rather than $10 million. However, investors must be accredited, with income and assets meeting regulatory minimums of $1 million.

### Adding GenAI

The wealthtech is harnessing generative AI to improve the productivity of its teams, and in the future, plans to use it to elevate the customer experience. While just starting to experiment with the technology, Raman believes AI has the potential to replace human advisors in the future. "Large language models (LLMs) can be game changing when it comes to replicating the human advisor," he says. He notes that some bigger players are considering using GenAI to feed information and analysis to their financial advisors, who add a layer of human judgment before delivering advice to clients. "But as these LLMs start to become more advanced, it'll be interesting to see like whether you need that layer."

# Investor churn could add to the disruption

As competition among investment providers heats up, investors are more likely to stray. Fifty-six percent of investors say they are considering changing providers over the next three years, up from 35% that have done so over the last three years. Online trading platforms, family offices, robo advisors, and trust companies may be most at risk.

The main reasons investors are switching is to attain lower fees or connect with a more trusted brand. Tax optimization and superior returns are also important considerations, as are superior reporting and access to digital tools. Around a third of investors cite a desire for digital apps, channels, and platforms, or more innovative ideas and products.

**Fees and performance**

When our last survey was conducted in 2021, investors were far less concerned with fee structures (just 23%) and far more concerned with investment performance (53%)—the top reason cited then for switching. However, lower fees and more transparent fee structures offered by robo advisors and online trading platforms have made investors more aware of investment costs. Poor stock market performance in 2022 added to investor dissatisfaction, as investors paid fees without seeing the returns they expected.

**% of investors considering switching over the next 3 years, by current primary provider**

| All providers | Online trading platforms | Family offices | Robos advisors | Trust company | Broker/ dealer |
|---|---|---|---|---|---|
| 56% | 71% | 66% | 65% | 63% | 62% |

| Asset mgmt. firm | Wealth advisory firm | Alternative | Private bank | Wealth mngt division |
|---|---|---|---|---|
| 57% | 56% | 54% | 48% | 26% |

**10 main reasons why investors switch**

| 2023 survey | | 2021 survey | |
|---|---|---|---|
| Lower fees/simple fee structures | 64% | Better investment performance | 53% |
| Trusted brand/reputation | 47% | Broader range of products and services | 42% |
| Tax optimization tools | 46% | Access to better wealth management advice | 38% |
| Superior returns geared to my risk tolerance | 39% | Access to advice on investment matters | 34% |
| Superior reporting | 38% | Better digital experience | 34% |
| Digital apps, channels, platforms | 35% | Better personal service | 31% |
| Innovative investments ideas, products, approaches | 32% | Access to holistic financial planning | 28% |
| Access to personal financial advisor | 23% | Personal contact or advisor whom I trust | 24% |
| Alternative investment opportunities | 20% | Fee structure that better meets my needs | 23% |
| Ancillary services | 19% | Desire to manage my assets directly | 19% |

IQ16a. For which of the following have you or might you switch providers? IQ15. Have you switched from one investment provider to another over the last three years? Are you considering making such a change over the next three years?

# Dissatisfaction with fees is growing

Only 41% of investors are happy with the fees they pay and just over a third with their advisor's fee structures. With robo advisors and discount brokers driving fees down, and investors willing to switch to reduce investment costs, wealth providers are moving to reduce their fees or provide greater value to justify them.

Unhappiness with fees should be of concern to providers, particularly in an environment of higher living costs and dissatisfaction with returns. "The industry doesn't give money back even if they show consistent underperformance of the benchmark," points out Cambridge's Stein. "They are still making money on the assets, even if they vastly underperform the benchmark."

**More education on fees is needed**

Moreover, most investors don't understand how their advisors are compensated. This confusion could damage investor trust, a key ingredient in a wealth management relationship.

"Comprehension of investment product fees—and fees in general—is low even among those working with an advisor," says Williams of State Street Global Advisors. "This underscores how much work our industry has to do when it comes to price transparency and investor education."

Williams points to a finding in a 2022 survey conducted by the firm that shows that 47% of investors believe the management costs of investments like mutual funds and ETFs are already included in the fees they pay to advisors.

| % | What the data says | What investors want |
|---|---|---|
| 41% | I am happy with the fees my advisor charges for managing my assets. | "Tools that allow investors to easily see the impact of fees on their portfolios and compare fee structures across products." **Ultra HNW Millennial in Singapore** |
| 38% | I understand how my advisor is compensated. | "Greater clarity and transparency in understanding fees and expenses." **Mass affluent Silent Gen investor in Hong Kong** |
| 36% | I am happy with the fees I pay when managing my assets directly. | "Accessibility to affordable portfolio management through robo-advisory services." **Mass affluent Gen X investor in UK** |
| 35% | I am happy with my advisor's fee structures. | "Lower fees and simple fee structures." **VHNW Baby Boomer in Japan** |
| 16% | I worry that advisors who receive commissions may not act in my best interest. | "Advisors should be open and truthful about the costs and fees." **HNW Millennial investor in Singapore** |
| 16% | I worry about hidden costs when investing with my provider. | "Investment providers should provide more clarity on all transactions and hidden costs." **Gen-X mass affluent investor in New Zealand** |

IQ28. Which of the following statements about investment fees do you agree with?

# Young investors seek performance-based fees

Most older investors—and those using discretionary investment services—are happy to continue paying fees as a percentage of AUM. More than half of older investors would switch providers to retain that fee structure.

Younger investors, and those not using discretionary services, favor fixed and performance-based fees. A third of non-discretionary investors—and almost as many young investors—would switch providers to get performance-based fees. This pricing formula, common with hedge funds, is gaining traction among active mutual funds to compete with low-cost passive funds.

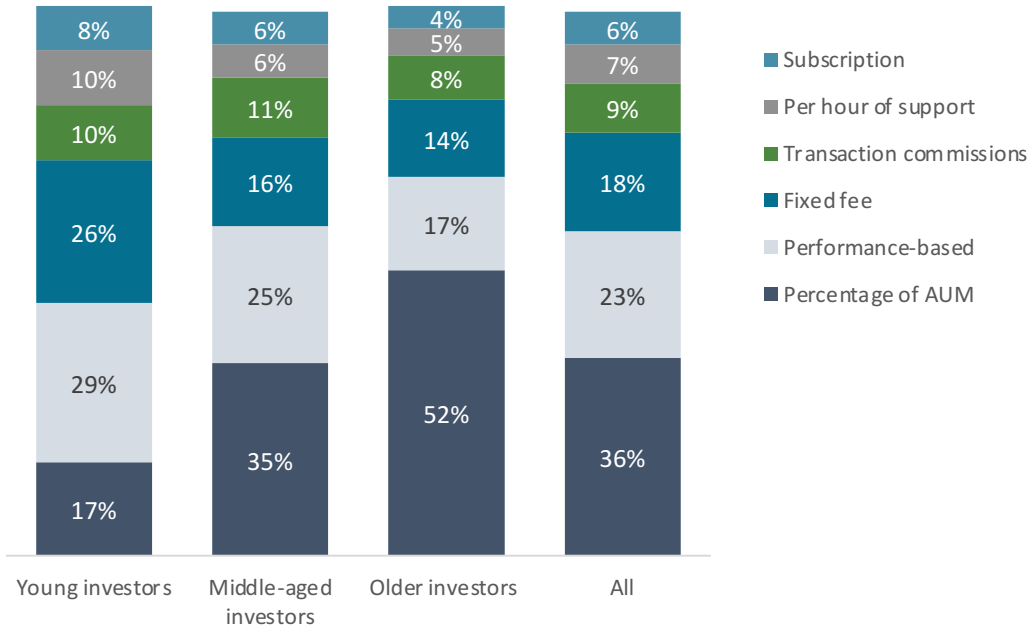
"The notion of performance-based fees is very real," according to Raman of the Asia-based wealthtech. "One of our customers made an interesting comment: 'If I am paying 50 basis points to a managed portfolio, I'm going to expect the performance to be a lot better than for an S&P 500 ETF.'" Raman reports that performance-fee models are emerging, but regulatory compliance barriers need to be crossed.

**Firms prefer percentage of AUM**

More than a quarter of younger investors and those not using discretionary services would switch for fixed fees. CAPTRUST's Erickson believes a fixed-fee model may suit less-wealthy investors, although the majority of his firm's client pay a percentage of assets. He notes that it's hard to run a profitable advisory business based on performance or fixed fees. "A fixed fee allows people to access advice at a more attractive price point. But once you get into larger asset bases, the advice needs to evolve, and that costs more."

He adds that performance fees, while workable for riskier hedge funds, may result in misaligned incentives that would prompt an advisor to take more risk than appropriate—especially for an unaccredited investor, which would run afoul of regulations.

**Fee types for which investors would switch providers, by age***




*Young = Gens Y and Z; Middle aged = Gen X; Older = Boomers and Silent

IQ27. How do you currently pay for services from your investment provider or advisor, and how would you prefer to pay in the future? Which, if any, fee structures would you switch providers or advisors to obtain?

# Firms should reconsider value propositions

Firms have options to address investor concerns about fees. One is to lower, negotiate, or cap fees for services like discretionary management—which many robo advisors, banks, and discount brokers have done.

Another is to offer more value by adding holistic planning services under the percentage of AUM. “Rather than fee compression, firms are seeing pressure to deliver more for the AUM fee percentage they are already paid,” says CAPTRUST’s Erickson. “If you're not offering comprehensive planning, estate planning, and building a balance sheet, someone else will step in and do all that at the same fee.”

RBC is one firm taking that path. “We provide a lot of financial planning support and estate planning,” says RBC’s Kagedan. “We bring in coaching and guidance around elder care, as well as insurance service. We provide consolidated reporting and family office services for our larger clients. Health and wellness, elder care, and business succession planning are absolutely key to our value proposition and our strategy.”

**Holding down fees**

Capping AUM percentage fees is another alternative, according to Erickson. “If a client's asset base continues to grow, there's a point at which you say, we're getting compensated fairly for the value we're providing. If your assets double from here, it's not going take us more work, so we're just going to cap our fee.”

Another advisor has a contrarian view on downward pressure on fees, which he believes is coming to an end. “I think fees should stay where they are, or even go up a little bit as the value increases,” he argues.

| Where firms most often charge % of AUM | Now | 3 years |
|---|---|---|
| Discretionary investment services | 38% | 40% |
| Non-discretionary investment | 32% | 30% |
| Financial planning for HNW clients | 25% | 30% |
| Financial planning for VHNW and above clients | 18% | 27% |

| Where firms most often charge performance fees | Now | 3 years |
|---|---|---|
| Financial planning for HNW clients | 28% | 37% |
| Financial planning for mass market/affluent clients | 20% | 23% |
| Financial planning for VHNW and above clients | 19% | 17% |

| Where firms most often charge fixed fees | Now | 3 years |
|---|---|---|
| Custody services | 35% | 40% |
| Discretionary investment | 19% | 19% |
| Non-discretionary investment | 18% | 19% |

PQ19. How does your firm charge clients for the following services?
How do you expect to charge in three years?

# Core revenue streams will continue to perform

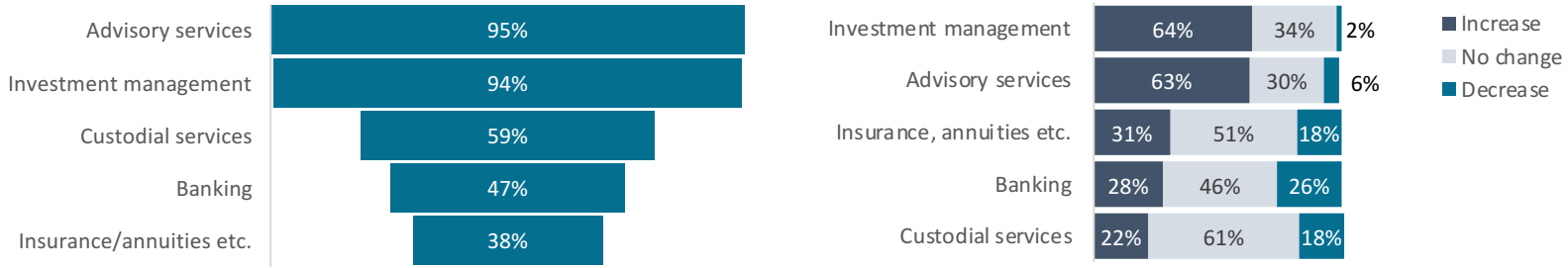
Over the next three years, nearly two-thirds of wealth managers expect to bolster revenue streams from their core investment management and advisory services. Many will add value with holistic financial planning and new investment products and services as they expand and deepen their client bases.

As part of this effort, many wealth managers aim to boost revenue from adding or increasing insurance and, to some extent lending services. “Value-added services and broader wealth offerings are crucial for fee preservation and differentiation,” says Pardis of Deloitte.

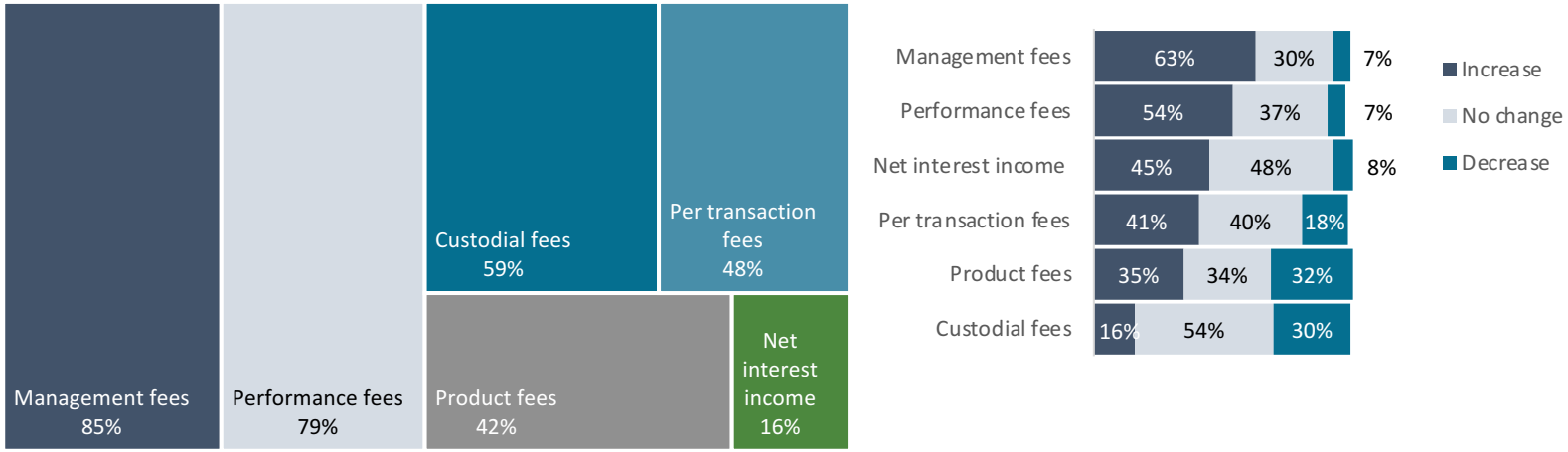
However, fees from custodian services are under pressure, and related revenue streams are expected to decline in importance. Custody margins are small, and some players are likely to outsource, or even exit their custody businesses, which increasingly require scale for profitability, says FNZ’s Robertson.

PQ17. From which of the following business areas and fee types does your firm derive revenue today across your wealth management products and services?
PQ17a. How do you expect your firm's focus on each of these categories to change over the next three years?

**Areas from which firms derive revenue now, and expected changes over next 3 years**




**Fee types from which firms derive revenue now, and expected changes over the 3 years**



# Who will be the winners and losers?

On average, investors use four providers, and 45% will add more over the next three years. Our survey reveals that as investors diversify their relationships, some popular types of providers—including broker-dealers, online trading platforms, and independent firms—may fall out of favor. Others, especially wealth management divisions and robo advisors, may grow their investor bases.

Winners may also include private banks and family offices, which are poised to see gains in market share as high-, very-high-, and ultra-high-net-worth investors trade up. Asset management firms also may come out ahead as more investors, particularly the young and affluent, graduate from online trading platforms. Potential losers could be independent advisory firms and online trading platforms, which may continue to be swallowed up by larger institutions.

To boost their prospects, incumbents need to embrace new digital capabilities to engage with customers in a hybrid environment. "Many technologies, including artificial intelligence (and its many forms), will play a pivotal role in enabling advisors to scale their services without sacrificing the personal touch and behavioral guidance crucial to financial advising," say Neville of FNZ.

> "Newer entrants have largely proven that change is possible. Yet, given the capital-heavy nature of the business, those with an installed base of investors and strong balance sheets will be well-positioned to win."
>
> **Matthew McWhirter**
> Strategy Leader, Wealth Management, Deloitte Canada

**Types of firms that investors plan to work with over next 3 years**

| | % of investors | | % growth |
|---|---|---|---|
| **Provider type** | **Now** | **In 3 years** | **In 3 years** |
| Wealth mgmt. division of a retail or regional bank | 18% | 33% | 83.3% |
| Robo/hybrid advisors | 16% | 28% | 75.0% |
| Wealth mgmt. division of large financial firms | 15% | 23% | 53.3% |
| Private bank | 24% | 34% | 41.7% |
| Family/multi-family office | 17% | 24% | 41.2% |
| Asset management firm or division | 29% | 37% | 27.6% |
| Trust company | 18% | 20% | 11.1% |
| Alternative asset manager or division | 33% | 36% | 9.1% |
| Independent investment/ wealth advisory firm | 32% | 30% | -6.3% |
| Online trading platforms | 54% | 49% | -9.3% |
| Broker-dealer/wire-house | 58% | 51% | -12.1% |

IQ12. Which of the following types of investment providers do you work with now? Which do you plan to start working with over the next three years? IQ12a. Which of these investment providers is now your primary relationship (the one that manages most of your assets)?

# Calls to action

1. Develop tech-enabled advisors to provide higher value support
2. Take digital customer experiences to the next level
3. Gear your strategy to the new face of investors
4. Unlock value through digital and process transformation



5. View your business through an AI lens
6. Rethink offerings for the next era of investing
7. Think about sustainable investing as a practice, not a product
8. Preserve a place in the new playing field
9. Recalibrate pricing and business models

ThoughtLab

# Calls to action

In five years, the wealth management industry will look very different. AI, blockchain, and related technologies will spark a reinvention of how work gets done. Many products and services will be commoditized, requiring new pricing and value propositions. Market convergence, fintech innovation, and digitally empowered firms will reorder the playing field, opening the door to non-traditional entrants. At the same time, the demand for holistic services will remake and reenergize the role of the personal financial advisor, while blurring the lines between wealth management, banking, and insurance.

The stakes have never been higher. To prepare, investment providers will want to take decisive action to thrive in the unfolding era of industry disruption. Our research reveals nine critical steps that firms should take now to become future ready:

1. **Develop tech-enabled advisors to provide higher value support.** Technology is transforming the role of advisors. As advisors retire, firms will need to use technology to fill talent gaps and boost the number of investors that advisors can manage. Firms must relegate mundane investment tasks to machines, thereby freeing up advisors for what they do best—provide trusted, specialized, and holistic advice. The winners will be firms that implement cost-effective hybrid approaches that blend high tech with high touch as a seamless experience to clients.
2. **Take digital customer experiences to the next level.** Nearly 70% of investors expect digital experiences to be on par with those of their favorite born-digital company. To keep investors happy and stay abreast of competitors, wealth management firms will need to offer consolidated views of accounts across providers, simple online account opening and transfers, AI-facilitated voice and text chatbots, and rapid communication with advisors using voice and chat. Investors will expect highly personalized experiences in the palm of their hands and video engagement to provide remote support.
3. **Gear your strategy to the new face of investors.** In the future, investors will be even more diverse by age, location, gender, wealth level, and lifestyle. It will be vital for firms to harness technology and data to better understand investor needs and behaviors, find market niches, and personalize solutions—while building an advisor base that is sensitive to investor differences. To do this, firms will need to gather data from both internal and external sources, including social media. And, because investors like to work with people with similar profiles, investment firms will want to make sure their advisors are as diverse as their clients.

# Calls to action

4. **Unlock value through digital and process transformation.** Firms have made huge progress in laying the digital foundation for transformation—and are already seeing large returns on these investments. In the years ahead, firms will need to double down on their AI and cybersecurity investments, while investing in other digital solutions, such as cloud infrastructure and services, robo advisors, open API platforms, end-to-end platforms, video collaboration systems, and financial planning tools. That will allow firms to unlock the greatest value, by scaling personalized, holistic investor experiences and advice across their businesses at the lowest cost. To ensure success, firms will need to triage between tech capability, business viability, and customer needs and create clear business cases that can be continuously tracked.
5. **View your business through an AI lens**. About 7 out of 10 firms surveyed believe that AI will revolutionize the way their organizations work over the next five years—and those using it now are seeing outsized returns. Firms should look at their businesses through an AI lens, embracing it to support a range of client-facing activities, such as investment advisory and management and financial planning, and to supercharge their internal operations, particularly cybersecurity, fraud detection, and client analysis. For AI to work best, firms need to ensure that underlying data is accurate, integrated, and available in real time, as well as secure and free of unwanted bias. Quality control will be required on both the data going in and coming out of AI models, which will need to be trained to deliver trustworthy results.
6. **Rethink offerings for the next era of investing.** Democratization of products and services will increase as firms give investors across cohorts more options to grow returns and manage risks. High-valued added products and services—from alternative investments, IPOs, and customized index funds, to discretionary investment, tax planning, and private banking services—will all be on the menu. But to ensure the effective use of these new offerings, firms will need to provide investors with the financial education to understand these offerings, as well as advisors with the required tools to assess them. To democratize their offerings, firms will need to use digital solutions to drive down the cost to serve.

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# Calls to action

7. **Think about sustainable investing as a practice, not a product.** In the years ahead, as ESG data standards emerge and business incentives grow, sustainability considerations will become as important as financial ones for most investors. Recommending ESG-minded funds will not be enough. Advisors will need to keep investors' sustainable goals top of mind when managing their investments across asset classes. This will require advisors to truly know their clients—as well as to be sensitive to language, especially in the US where the term ESG has become a political football. Forward-looking firms will offer theme-based investing in specialized areas of sustainability.
8. **Preserve a place in the new playing field.** As Millennials move to center stage and high-speed digital innovation becomes the norm, digitally empowered entrants from inside or outside the industry will upend the playing field. The winners will be investment firms with open, API-enabled platforms that allow them to integrate fintech solutions quickly and seamlessly. Meanwhile, firms caught between new digital entrants and super-scale incumbents may be squeezed out or engulfed by the next wave of consolidation. The solution for many may be partnerships, rather than competition, between newer and established players.
9. **Recalibrate pricing and business models.** Our research shows that lower fees and simpler payment structures will be the top reason investors will switch providers over the next three years. To retain clients—and attract new ones—investment firms will need to rethink pricing and business models. That can mean reducing, capping, or renegotiating fees for services like discretionary management—or justifying percentage of AUM fees by adding holistic planning services. Firms will need to consider incorporating performance-based pricing into their products and services to meet rising demand, particularly among growth-oriented Millennials.

# Acknowledgements

ThoughtLab would like to thank our sponsors for their support and advice on this study, which could not have been possible without them. We would also like to thank our external advisors and interviewees for their time and valuable insights.

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# ThoughtLab

ThoughtLab is an innovative thought leadership and economic research firm providing fresh ideas and evidence-based analysis to help business and government leaders cope with transformative change. We specialize in analyzing the impact of technological, economic, and demographic shifts on industries, cities, and companies.

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