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Trends in the Global Wealth Management Industry 2012: Business and Client Perspective

Key emerging technology trends in the wealth management industry

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Table of Contents

1. Highlights 3

2. Introduction 4

2.1. Financial Performance and Background 4

2.2. Key Market Trends and Challenges 5

3. Emerging Technology Trends in Global Wealth Management 6

4. Trend 1: Increased Use of HTML5 Technology 8

5. Trend 2: Social Media Used to Expand Market Presence 10

6. Trend 3: Increased Spending on Financial Planning, Advisor Tools, Client Reporting, and CRM 13

References 15

1. Highlights

Having just begun to recover after the 2008 financial crisis, financial markets again faced setbacks in 2011 and 2012, further hindering recovery. Economic conditions, such as low growth rates, high levels of unemployment, rising government debt, low U.S. interest rates, the ongoing sovereign debt crisis in Europe, as well as volatile equity markets in developing markets, such as Asia-Pacific, were key culprits.

In addition to these external constraints, the global wealth management industry also faces industry-specific challenges:

- Cost-to-income ratios of wealth management firms have been steadily rising, creating severe strain on profit margins.
- A dearth of skilled advisors is negatively impacting wealth managers globally.
- Increased regulatory focus is pushing up risk and compliance costs, while placing restrictions on their product and service offerings, directly impacting revenues.
- Wealth management firms are struggling to generate profits, while trying to match expectations of clients who are becoming risk-averse, more price-sensitive, demanding simple and transparent products, and are becoming more actively engaged in their wealth manager's activities.

Despite these challenges, there are opportunities for wealth management firms.

Emerging markets are driving the growth of both HNWI[1] wealth and HNWI population globally. In 2011, Asia-Pacific became the region with the highest number of HNWIs, overtaking North America for the first time. Continued HNWI growth in emerging markets is slowly shifting wealth management's center of gravity toward these regions, as more wealth management firms have begun offering their services to HNW clients there.

The second largest HNWI market in Asia-Pacific is among Chinese HNWIs. Despite a marginal drop in wealth due to losses in the real estate and equity markets, wealth managers expect an increased demand for wealth preservation services from Chinese HNWIs.[2]

If wealth management firms are to turn these opportunities into new business, they will need a focused strategy—the most important of which is scalability of operations. While large wealth management firms outperformed smaller ones by obtaining new clients and additional assets from emerging markets, smaller wealth management firms were unable to compete to scale. If this continues, the result will be more mergers and acquisitions and consolidation throughout the industry.

Driven by regulatory and business needs, wealth managers are likely to increase their IT spending as their companies strive to maintain compliance, while catering to increasingly tech-savvy clients. Moreover, digitization is a driving force, as wealth managers adapt to new channels, such as mobile phones and tablets to expand their reach.

1 HNWI refers to high net worth individuals with manageable assets over $1 million

2 Why China's Rich Getting Poorer Spells Profits For Private Banks, by Tara Loader Wilkinson, Wealth briefing Asia, 27 September 2012, http://www.wealthbriefingasia.com/article.php?title=Why_Chinas_Rich_Getting_Poorer_Spells_Profits_For_Private_Banks&id=49620

2. Introduction

Client trust in wealth managers and the wider industry remains fragile.

Continued economic instability has resulted in a volatile outlook for global wealth management. As several asset classes have under-performed, there seems to be no safe haven for investors, many of whom need a strong risk tolerance to hold on to profits in these volatile markets. Many HNWIs incurred severe losses during the past four years, and their trust in advisors, wealth management firms, and the industry remains fragile.

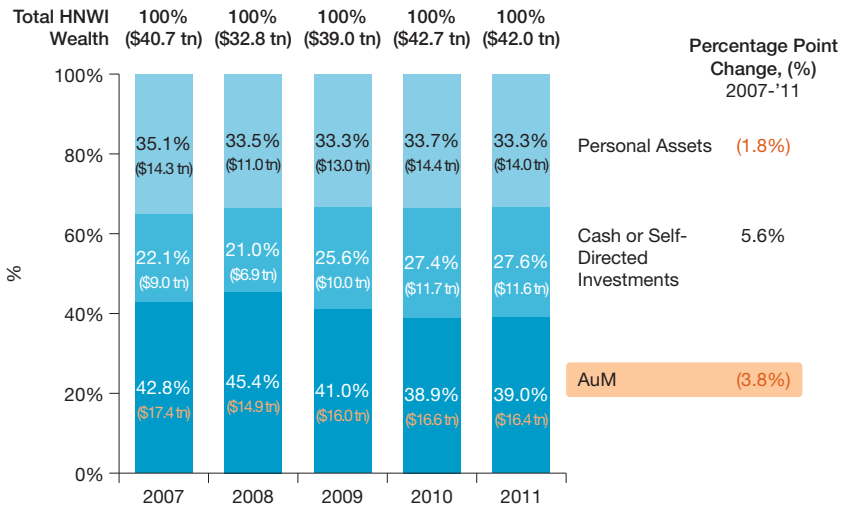
2.1. Financial Performance and Background

With the number of HNWIs at 11 million by the end of 2011, the global HNWI population grew marginally that year, despite adverse economic conditions. The ongoing Euro crisis and struggling equity markets, however, had a debilitating impact on HNWI wealth, which decreased marginally from $42.7 trillion in 2010 to $42 trillion in 2011. While HNWIs in the upper wealth bands witnessed a decline in wealth, the number of millionaires in the $1 to $5 million range increased, resulting in an overall growth of HNWI numbers.

Although market conditions have improved since 2008 and total HNWI wealth has crossed pre-crisis levels across all regions, the percentage of assets under management (AuM) dropped by 3.8 percentage points during the period from 2007-2011. This seems a clear indication that client trust in wealth managers has not completely returned, as many HNWIs are opting to self-manage a larger portion of their portfolio.

The following exhibit shows that an increasing number of HNWIs are now opting for self-directed investments, rather than trusting advisors with their wealth. Investors have become more risk-averse, shifting to relatively conservative asset classes, such as cash, or managing their own wealth, making it difficult for wealth managers to generate income in the form of fees and commissions, as had been common in the past. As a result, wealth management firms witnessed a marginal drop in 2011 revenues from 2010 levels.

Exhibit 1: Share of Personal Assets, Self-Directed Investments, and AuM to Total HNWI Wealth, 2007–11



Note: AuM numbers from Scorpio Report, while the HNWI numbers are from Capgemini WWR 2012; Total HNWI wealth in 2011 was $42 trillion, while AuM was $16.4 trillion
Source: Capgemini Analysis, 2012; Capgemini-RBC World Wealth Report, 2012; Private Banking Benchmarking Report, 2012, Scorpio Partnership

Large banks, on the other hand, were able to ride out uncertain, volatile economic conditions by expanding their overall offerings and diversifying their revenue streams across different geographies. As a consequence, their average revenue showed a marginal improvement.

Increasing regulatory costs contributed to an elevated cost-to-income ratio for wealth management firms in 2011. The ratio reached an industry average of 80% in 2011 and remains a cause of concern for both small and large wealth management firms. High cost-to-income ratios for large firms were driven largely by pressures on income structures and investments in their expansion strategies to reach new markets, since it would take several years before they begin to generate profits on the investments. Smaller wealth management firms, on the other hand, were burdened by slowing net new money growth, margin compression, and declining income.

2.2. Key Market Trends and Challenges

The wealth management industry is witnessing several trends such as a shift in focus towards emerging markets. Some trends, such as fee structures and portfolio compositions, could alter the wealth management landscape. Others are trending around efforts to improve operational efficiencies. The majority of these trends are either HNW client-specific or firm-specific, as outlined below.

HNWI-Specific Trends

- Risk-averse HNWIs are demanding simple and transparent products from advisors.
- As a result of lower profit margins, wealth management firms are reducing service levels offered to clients who do not meet the required investment thresholds.
- Wealth managers are increasingly employing new client segmentation strategies.
- HNW clients, specifically those from developing regions, such as Asia-Pacific, are increasingly demanding succession planning and next generation services from wealth managers.

Firm-Specific Trends

- Wealth management's center of gravity is shifting toward emerging markets.
- Singapore and Hong Kong are emerging as prominent offshore wealth centers, as the HNWI population and wealth of Asia-Pacific continue to grow over the long term.
- The number of UHNWIs[3] opting for family office services vs. private banks is on the rise.
- Scalability is becoming a major criteria for expansion and is paving the way for increased consolidation in the wealth management industry.
- Scarcity of skilled advisors continues to exist, as retaining advisors is becoming more costly and challenging.
- There is continued pressure on commission-fee based models and increased focus on advice-fee based business models.
- Passively managed funds are receiving more focus than actively managed funds.

While many of these trends are global in nature, there are certain trends that are more region-specific to Europe or Asia-Pacific. Many small wealth management firms in Europe, specifically Switzerland, are either exiting the market or being acquired as they are unable to cope with rising compliance costs stemming from regulations such as Markets in Financial Instruments Directive (MiFID) and the Foreign Account Tax Compliance Act (FATCA). Wealth management firms entering Asia-Pacific and other emerging markets are challenged with building scalable business models.

3 UHNWIs are defined as those clients with US$30 million or more at their disposal for investing

3. Emerging Technology Trends in Global Wealth Management

Many wealth management firms are looking at technology as a key differentiator and growth driver, and are making significant investments to provide fast and efficient service to their clients.

Driven by regulatory and business needs, global IT spending is likely to grow rapidly over the next few years. Many wealth management firms are looking at technology as a key differentiator and growth driver, and are making significant investments to provide fast and efficient service to their clients. This focus on technology is driving the growth of IT spending. HNW clients are increasingly becoming tech-savvy and demand more sophisticated tools and services which can help them view their portfolio performance on the fly. They are also demanding tools which can provide the latest research reports and market indicators, which can help HNW clients make well informed investment decisions, as they continue to be more involved in how advisors manage their assets.

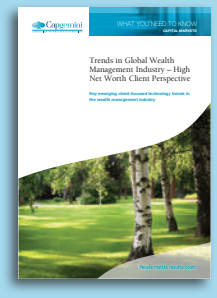
These changes have led to the emergence of three key technology trends in the wealth management industry:

1. Increased use of HTML5[4] technology, as it can support multiple devices through a single technology platform.
2. Increased use of social media platforms by wealth management firms to expand their market presence.
3. Increased spending on financial planning, developing advisor tools, client reporting, and customer relationship management (CRM).

Note that several trends already covered in *Trends in Global Wealth Management 2011* are still relevant and not highlighted in this report:

- Increased focus on outsourcing non-core activities to professional service providers.
- Increased use of SaaS as a cost-effective and easily adaptable solution to changing business needs.
- Focus on internet and mobile offerings to cater to the more tech-savvy customer.
- Increased investment in IT, as regulations become an operational challenge.

Trends in Global Wealth Management 2011: A Business Perspective



Trends in Global Wealth Management 2011: A Client Perspective

4 HTML5 is the fifth version of the hypertext markup language used for structuring and presenting content for the world wide web. Still under development, the core aim of HTML5 aim is to provide support for the latest multimedia devices

4. Trend 1: Increased Use of HTML5 Technology

The key advantage of HTML5 technology is cross-platform compatibility, making it a potential candidate for developing cross-platform mobile applications.

Wealth Management Perspectives, February 2012

4.1. Background and Key Drivers

Traditionally, native mobile applications[5] are targeted for each mobile device, such as cell phones and tablets. Readily available in the marketplace, these applications are preferred because of the compatible functionality to both mobiles and tablets. However, the browser-based alternative offered by the evolution of HTML5 is gaining ground. Using the HTML5 standard provides an opportunity for wealth management firms to build applications that target multiple mobile and tablet devices via a single technology.

Traditionally, HNW clients were content to allow their advisors guide them in their investments and track portfolio performance on their behalf and provide regular updates. However, client expectations have changed significantly. Today's clients want access to market information, research, and analysis 24/7. To meet this anytime, anywhere expectation, financial advisors need real-time access to market data, financial and analytic tools, and client information in order to interact with clients over multiple channels, including the web, mobile devices, and social media.

4.2. Analysis

HTML5 is currently in a nascent stage, with a testing phase anticipated in early 2014. Even so, mobile application and website developers have already begun to use this technology extensively and are introducing new applications regularly. Numerous smart phones and tablet PCs from manufacturers, such as Apple, Google, and Microsoft come equipped with HTML5 mobile web browsers. Since each technology firm is rapidly adding new features, HTML5 is likely to see high adoption rates among wealth management firms. By 2016, the number of mobile devices having HTML5 browsers is expected to increase to 2.1 billion from just 109 million in 2011[6]. The newest smart phones boast of applications, such as YouTube and Facebook that have been developed using HTML5. Another instrument in the wealth management domain includes Chaikin Power Tools from Chaikin Stock Research offering investors and traders real-time Wall Street research and analysis for 5,000 U.S. stocks.

While many wealth management firms are likely to favor HTML5 standard, the new applications using HTML5 are unlikely to replace current native applications, indicating that they are likely to co-exist in the future.

5 A native application is an application program that has been developed for use on a particular platform or device, often used in the context of mobile computing, since these applications were created to work on a specific platform

6 HTML5 adoption on the rise, allowing developers to create richer mobile sites, Bill Siwicki, http://www.internetretailer.com/2011/07/28/html5-adoption-rise-allowing-richer-mobile-sites

Key Advantages of HTML5 Standards[7]

- Apps work cross-platform and support all mobile platforms.
- Wealth management firms do not have to depend on the platform provider (such as Apple Store) for support.
- Offers strong visualization interface that supports native user experience.
- Can be instantly deployed and updated in real-time.
- HTML5 mobile apps are just as powerful as native apps.
- Provides the ability to post images and access local contact lists.

Despite these advantages, however, wealth management firms will need to ensure that the utmost security is in effect before full-fledged adoption commences. Security challenges include lack of protection for intellectual property on any client-side component, and risk of cross-site scripting exploits with regard to sensitive financial and personal information.

4.3. Implications

Wide-scale expansion and adoption of HTML5 technology is likely to significantly impact wealth management firms. Accordingly, they would need to take steps in order to leverage emerging technologies, such as HTML5 and adapt to market changes by empowering their advisors to better meet the needs of their clients.

Depending on client age, tech-savvy nature, and other characteristics, advisory firms should continue to explore innovative ways of interacting with clients through their preferred communication channels.

7 Capgemini Analysis, 2012; Ovum: "Tablet Adoption in Corporate Banking and Wealth Management", Rik Turner, 27 January 2012; HTML5 Offers Enhancements for Desktop Users, Supports Cross-Platform Web Applications, http://www.interactivedata.com/special/11-128/in-site/, accessed on 31 August 2012

5. Trend 2: Social Media Used to Expand Market Presence

Wealth management firms are utilizing social media platforms for building brand identity and for reaching out to a larger client base.

5.1. Background and Key Drivers

As more and more people access networking sites such as Facebook and Twitter, social media is becoming exponentially more prevalent, both for personal and professional interaction. Driven by the need to regain client trust, build brand loyalty, and enhance visibility in the market, wealth management firms are following their clients onto social media platforms. There is also a growing demand from financial advisors, themselves, to engage in social media to help cultivate more prospects and increase business by creating additional touch points with clients and referral sources.

In response to these demands and drivers, wealth management firms are gradually introducing their financial advisors to social media. While the current adoption of social media is in its early stages, social media is increasingly becoming an important communication channel for wealth management firms to leverage.

5.2. Analysis

Utilizing social media is relatively new to wealth management firms. Yet in the next two to three years, social media will likely become an integral part of their digital marketing strategy. Morgan Stanley was among the first wealth management firms to offer financial advisors a compliant solution to use key social networking sites, such as LinkedIn and Twitter. Other firms, such as Prospera Financial Services, Dallas, Texas (USA) have made good use of social media tools to improve client interaction[8].

As with any new endeavor, there are enablers and disablers. Those that are most notable are outlined in the following exhibit.

Exhibit 2: Key Enablers and Disablers to Adopting Social Media[9]

Enablers	Disablers
Wealth management firms are looking to improve communications to increase the confidence and trust of their clients	Wealth management firms lack the skill-set and capabilities required to have an all-round social media strategy
An increase in broadband penetration and smart phones/ tablets has forced firms to increase communications through these channels	Many wealth management firms are struggling with tracking the return on investment and matching social media efforts to business outcomes
Wealth management firms have realized the power of building an extended, dedicated community around the firm to enable faster, quicker resolution	The ability to differentiate through content is a challenge that many wealth management firms and advisors currently face
Social media has been accepted as a channel, not only for marketing and support, but also for generating sales opportunities	With more advisors using social tools, the uniqueness of being on a social network is waning

8 Celent: "Social media in wealth management," Isabella Fonseca, Sreekrishna Sankar, January 2012

9 Capgemini Analysis, 2012, How Wealth Managers Can Stay Relevant in a World of Social Media, Lauren Foster, http://blogs.cfainstitute.org/investor/2012/05/23/how-to-stay-relevant-in-a-world-of-peer-generated-content. Acessed 29 Aug 2012

In an effort to expand their presence via social media, there are certain strategic principles wealth management firms are using to help navigate through this important journey.

- **Enhance Customer Experience:** Wealth management firms are investing to understand how new touch points from social media networks affect the customer experience and influence the customer journey.
- **Set New Guidelines:** Allowing advisors to use social media requires a new set of guidelines and procedures. These should include processes to create new online content, moderate dialogue, and manage compliance and risk.
- **Develop Capabilities and Improve Required Skills:** Wealth managers are educating their advisors to understand new risks, learn how to use new tools, adopt new processes for content development, and follow guidelines for operating within social networks.
- **Focus on Content:** As wealth management firms realize that the development and delivery of relevant content are likely to be a key to long-term success and differentiation, they are developing content themes, style, and specific supporting display outcomes.
- **Add Analytical Tools:** Analytics is going to be key if advisors are to maximize the return on investment. Using analytics, proper data can be collected and distributed across applications. Firms can then begin to attribute social interactions to business outcomes.

5.3. Implications

There are a number of things wealth management firms must consider before increasing their social media footprint:

- Mapping out a strategy to determine how to best utilize social platforms for business growth and customer service.
- Focusing on the quality of the content displayed on the social media sites.
- Developing capabilities to understand client needs from the medium.
- Understanding and reviewing compliance concerns before devising social media strategies.

6. Trend 3: Increased Spending on Financial Planning, Advisor Tools, Client Reporting, and CRM

CRM including timely client reporting is one of most important criteria affecting customer satisfaction and ultimately client trust.

6.1. Background and Key Drivers

The platforms used by wealth management firms often lack the scalability to support large amounts of data and are not completely integrated with other systems, such as client reporting systems. Timely and easy access to information is essential to build customer trust and loyalty, which is especially relevant during periods of severe market volatility.

Key drivers to increased spending on financial planning, developing advisor tools, and CRM include:

- Regaining client trust.
- Customer retention and acquisition.
- High regulatory pressure.
- Wealth firms' desire to enable advisors to meet business goals.

Wealth management firms are focusing on improving front-end systems that help their advisors acquire, maintain, and retain clients, monitor portfolios, and perform reporting. They are also increasingly looking to enable their advisors to grow business using integrated platforms and tools.

6.2. Analysis

In addition to providing tools for advisor support and client servicing, wealth management firms are also paying close attention to compliance issues. Focus areas include front office systems, such as CRM, financial planning, portfolio monitoring and management, as well as middle/back office systems, which can include client reporting, portfolio administration, workflow management, compliance and risk management, and document management.

These services are being offered across multiple channels, including advisor desktop, call center, branch, mobile, and online portal. Additional channels, such as online portal and mobile, have been added with an increased focus on targeting tech-savvy HNW clients.

Wealth management firms' spend on CRM tools, client reporting, and risk and compliance has increased in recent years. For example, TD Armitrage, a U.S.-based advisory firm, has helped their advisors map their business processes by fully automating their CRM tool's workflow capabilities.

Wealth management firms are trying to integrate different components of their front, middle, and back office systems, while updating the technology of individual components. These platforms are designed with an open architecture, which offer the ability to integrate with third-party solutions, thereby providing options to add a broad range of features and functionalities. They are also supporting their platforms with advanced analytical tools to guide advisors' decision-making processes.

Exhibit 3: Key Focus Areas for Wealth Management Firms[10]

CRM-Focused Applications	• CRM features adapted for wealth management include contact management, lead generation, contract management, document storage and alerts • This will likely lead to increased customer retention, cross-selling and advisor productivity
Compliance & Risk Profiling	• Overall, more transparency and risk management is needed given the use of highly sophisticated products • Compliance functions such as risk profiling and more in-depth processes to capture client information must be embedded into key processes
Financial Planning Systems	• Financial planning solutions now provide advisors and end user clients with full support of the advisory process • Financial planning systems should now support some risk and analytics functionalities and rebalancing features, which are typically middle office functions
Client Reporting	• Firms are providing tools not only for report rendering and production. They are focusing on client-facing functionality, providing online portals and mobile device applications for end investors • There has been an increased focus on Global Investment Performance standards (GIPS) and Association of Investment Management and Research (AIMR) compliance

6.3. Implications

Increased spending on these activities could have a significant impact on the way wealth firms are likely to operate.

Wealth firms need to equip their advisors with tools and platforms that have the ability to integrate with third-party solutions, adding a broad range of features and functionalities. They must enable clients and advisors by providing them with state of art client reporting tools. Today, embracing the latest technology tools and services is an imperative for wealth management firms who want to maintain a competitive advantage and retain and attract clients.

10 Capgemini Analysis, 2012; Celent: "The European Wealth Management Market – Strategies and Technology in 2012," Alexander Camargo, Isabella Fonseca, March 2012

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