

Top 10 Trends in Wealth Management in 2016

What You Need to Know

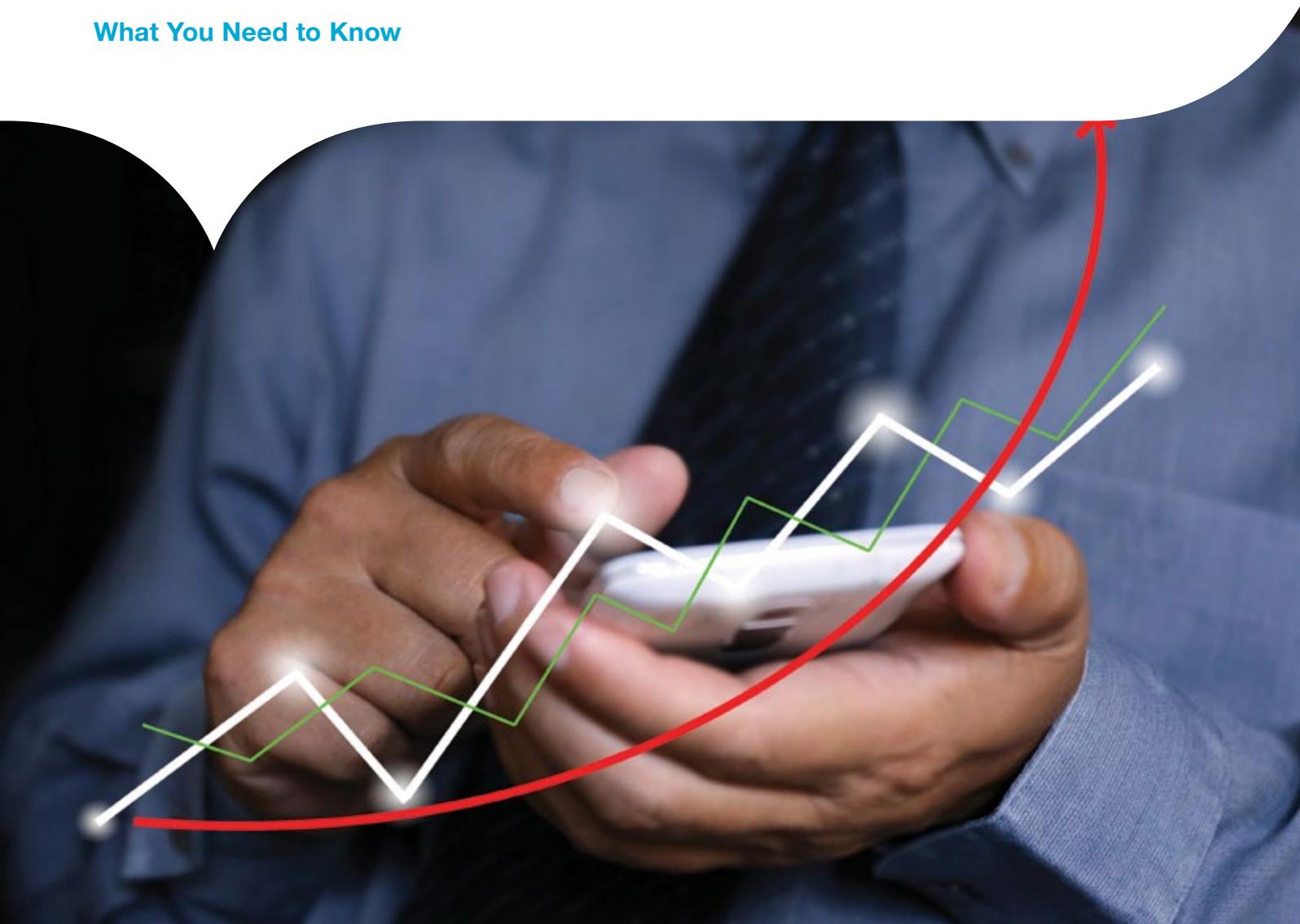


Table of Contents

Introduction	03
Wealth Management Trends	04
Trend 01: Focus on Lending Solutions	06
Trend 02: Emergence of Utility Models	08
Trend 03: Rise in Focus on Cyber Security	10
Trend 04: Usage of Cloud for Non-core Activities	12
Trend 05: Investments in Digital and Self-service Capabilities	14
Trend 06: Surge in Focus on Social Impact Advice	16
Trend 07: Rise of Automated Advisors and New Business Models	18
Trend 08: Increased Use of Predictive Analytics	20
Trend 09: Reassessment of International Operations	22
Trend 10: Investments in Financial Planning and Advice Tools	24
References	26

Introduction

Global High-Net-Worth Individual (HNWI) wealth has accelerated over the last couple of years, reaching US\$56.4 trillion in 2014. HNWI wealth is expected to grow at an average annual rate of 7.7% from the end of 2014 to 2017. The growth in the wealth around the world, coupled with demographical changes, has resulted in emergence of new avenues for growth and diverse HNWI behaviors and demands.

However, the wealth management industry has been facing a number of profound challenges after the financial crisis, making it difficult to serve the needs of HNWIs. A combination of structural and cyclical headwinds has put significant pressure on revenues, margins, and costs, leading to the emergence of trends aimed at augmenting revenues and controlling costs.

With an aim to increase their top-line, firms are looking at the use of predictive analytics to get additional insights into behaviors of their clients in order to deliver customized and value added products and services. Also, taking into account the demand for credit and recent explosion of wealth, particularly driven by emerging markets, they are building their lending solutions to cater to the complex needs of HNWIs. Firms are also relooking at their international operations and focusing on markets with higher revenue and profit pools, while exiting markets where they lack scale. Disruption caused by automated advisors, is also leading to emergence of new business models – serving the mass-affluent and alternative low-cost options to serve HNWIs in lower wealth brackets.

From a cost perspective, firms are increasingly focusing on outsourcing their back-office activities in order to free their wealth managers' time from non-core tasks, so that they focus on developing and deepening relationships with their clients. Firms are also using cloud computing platforms for hosting their non-core applications and platforms with an aim to reduce costs.

Overall, a combination of difficult market environment, increased scrutiny by market regulators, increased pressure on revenues and margins, and rising cost pressure is reshaping the way wealth management firms operate. We discuss the top 10 trends that are and will be affecting the wealth management industry in the short-term.

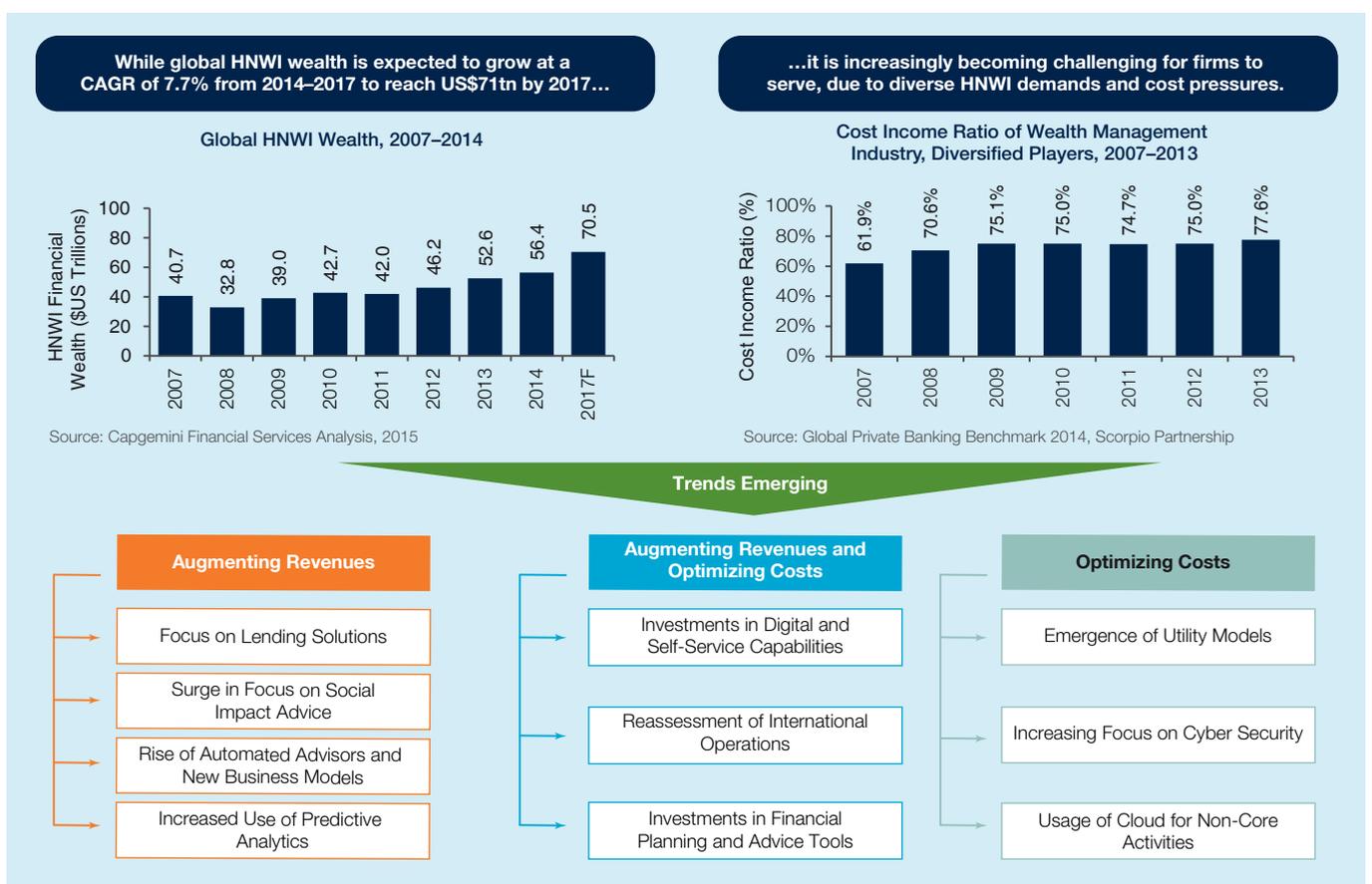
Below is the overview of the top 10 wealth management trends that will be strategic for firms in the near term.



Wealth Management Trends

Acceleration in global HNWI wealth since the crisis, accompanied by rising operational costs (result of stringent regulations as firms need to pay for legal and regulatory expertise as well as build and maintain technology infrastructure, rising personnel costs due to talent scarcity, and higher settlement costs of lawsuits related to firms aiding clients to evade taxes) and evolving HNWI preferences is leading to emergence of new trends in wealth management on the revenue and cost front (see Exhibit 1).

Exhibit 1: Emerging Trends in Wealth Management



Source: Capgemini Financial Services Analysis, 2015

We have analyzed the following most important trends that are affecting the wealth management industry:

- Firms are increasingly building on their **lending solutions and integrated banking experience** with an aim to drive growth and cater to the complex needs of HNWI's.
- Wealth management firms are increasingly adopting **utility-based models** for their middle- and back-office functions in order to optimize operations and reduce costs.
- Identity thefts and personal financial crimes are increasing at a faster rate, resulting in **higher spending on cyber security**.
- Wealth management firms are increasingly using **cloud computing** (for non-critical tools and applications) to reduce infrastructure costs.
- Enhanced use of technology by younger generations is leading to increased focus on, and investments in, **digital and self-service capabilities** by firms.
- Wealth management firms are increasingly focusing on **social impact** advice as social impact investments by HNWI's are gaining foothold across the globe.
- Rise of **automated advisors** is leading to the emergence of new business models.
- Firms are increasingly using **predictive analytics** to process vast amounts of structured and unstructured data, with an aim to better understand their clients and enhance client experience and loyalty.
- Global wealth management players are **reassessing their international operations** in the light of increasing regulations and challenges facing the industry.
- Firms are investing in **financial planning and advice tools** as a means to enable and empower wealth managers to provide personalized and relevant recommendations, and free up their time for value add activities.

Trend 01: Focus on Lending Solutions

Firms are building their lending solutions to cater to the strong HNWI demand for credit and to enhance performance.

Background



- Several years on from the financial crisis, firms are adjusting to the new environment of rising competition, lower margins, higher cost-income ratios, and increased regulatory scrutiny.
- Universal banks are scaling back investment banking operations and focusing on their wealth management business (especially through lending solutions), which is less capital-intensive and provides annuity-type cash flows.
- The heightened focus on lending can be attributed to the explosion of HNWI wealth, the complex needs of HNWIs, and the higher demand for credit by HNWIs, especially from younger HNWIs (below 40 years of age) and those in emerging markets.

Drivers



- Enable cross-sell opportunities to generate additional revenue streams and to increase the share of wallet by having other areas of the firm engage with HNWI clients.
- Provide holistic financial planning services and increase the stickiness of the HNWI relationship.
- Business ownership as a source of wealth to HNWI assets, especially in emerging markets is high and hence the higher demand for credit.

Trend Overview



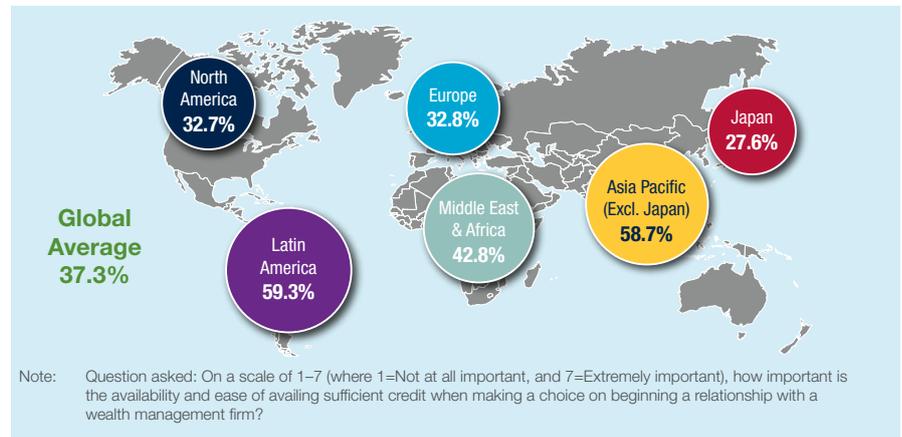
- Driven by heightened competition, firms—in a bid to boost revenues and profitability, as well as to increase relationship stickiness—are providing holistic financial planning and developing lending solutions:
 - UBS, for example, increased lending in its non-U.S. wealth management business by 30% from 2012–2014.¹
- An increased focus on lending is also evidenced by widespread use of credit in portfolios (17.8% of assets globally in Q1 2015) and the use of credit is highest in the emerging markets of Latin America (28.6%), followed by Asia-Pacific (excl. Japan) at 25.5%:
 - 37.3% give high importance to the availability and ease of availing credit while beginning a wealth management relationship (see Exhibit 2).²
- HNWIs use credit mostly to grow their portfolios and for investment in their own businesses:
 - 40.2% indicated they use credit for investment opportunities, followed by 22.1% who use it for real estate.³
- Firms are viewing lending as key to expanding business with HNWIs, with Lombard Lending⁴ and mortgages often the primary approaches.⁵

1 Company Annual Reports

2 Capgemini and RBC Wealth Management Global HNWI Insights Survey, 2015

3 Capgemini and RBC Wealth Management Global HNWI Insights Survey, 2015

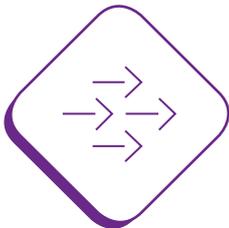
Exhibit 2: HNWI Importance of Availability of Credit When Selecting a Firm
(% of Respondents), Q1 2015



Source: Capgemini and RBC Wealth Management Global HNWI Insights Survey, 2015

Implications

- The current generation of HNWIs has more complex needs than in the past, and since lending is a pre-requisite service for a significant percentage of HNWIs (37.3%) for beginning a relationship with a wealth management firm, lending solutions can go a long way toward nurturing long-term relationships.
- Lending solutions position wealth management firms as capable of addressing both sides of the HNWI's balance sheet, enabling them to acquire additional leverage to earn above-average returns.
- Organizational structure and strategy will play a key role in the way firms will go about in building credit capabilities:
 - Wealth management firms housed within universal banks are likely to form specialized teams that include experts from investment banking, corporate finance, and business banking. For example, one firm in Asia-Pacific formed a 50-person team to originate and structure investment-banking solutions, such as initial public offerings and securities-based loans, for ultra-HNWIs.
 - Pure-play wealth management firms, which have built up their presence on the back of niche products and services, are more likely to team up with domestic financial institutions to bring lending solutions to market.
- Lending creates deeper relationships by developing the client's connections with other segments of the firm.
- Firms can also create additional value through collateral and liquidity management.
- While lending solutions are effective in increasing the stickiness of the relationship, firms need to be cautious and balance the opportunity with proper risk assessment.



4 A Lombard Loan is a loan that is secured by securities held by a client in a custody account.

5 Loans help build relationships with private bank clients, FT, June 2014

Trend 02: Emergence of Utility Models

Firms are increasingly adopting utility-based models for their middle- and back-office functions in order to improve operational efficiencies.

Background



- Growth in HNWI wealth over the last few years has not translated into strong profits for the wealth management industry.
- Firms are facing challenges that include rising operating costs, compliance with stringent regulations, and rising pressure for fee transparency; consequently margins are under pressure and they must become more efficient.
- Firms are transitioning towards 'utility model', in a bid to improve profitability by reducing operating costs.

Drivers



- Cost-income ratio is elevated and has risen since the crisis, so the adoption of utility model can help firms in reduction of fixed costs.
- Compliance with a high-volume and breadth of regulations requires a significant amount of investment in technology and operations.
- There is a desire to reduce significant amount of time that wealth managers spend on unproductive activities such as client reporting, compliance with regulations, and client on-boarding.

Trend Overview



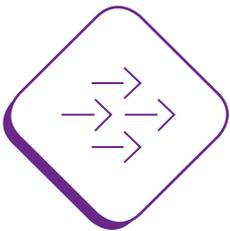
- Adoption of a 'utility model' in wealth management will help in improved efficiencies as well as reduced operational costs and risks, as it involves sharing of costs with other banks on joint platforms for various front-office functions like client on-boarding, KYC/AML or back-office related processes such as corporate actions, statements, reporting, and account aggregation.⁶
- Wealth managers are spending a significant amount of time on non-client facing core activities such as client reporting and compliance-related tasks, resulting in reduced focus on providing value-added services to clients:
 - Due to focus on non-core functions, there is lack of service differentiation and this is leading to commoditization of services.

⁶ 'Utility model' is a concept where an entity is created by various industry participants to generate efficiencies by collectively performing a set of non-differentiating functions that are similar across different firms.

- Firms have begun processes that involve careful identification and outsourcing of activities that are repetitive in nature and are of non-strategic importance.
- Firms are streamlining their on-boarding activities to deliver an enriching experience to clients by adopting utility models for some back-end operations in regulatory norms relating to know your customer and anti-money laundering:
 - One leading North American wealth management firms is investing in more efficient account opening procedures to avoid frustrating new clients, as well as deliver a highly positive experience.⁷
 - For example, Morgan Stanley, HSBC, Citi, and Deutsche Bank—in partnership with Markit and Genpact—have launched a centralized client on-boarding solution, which standardizes and centralizes collection and management of KYC data for financial institutions in order to streamline client on-boarding.⁸
- Firms are also using it for back-office functions such as post-trade processing and corporate functions.

Implications

- Transition to a utility model is not only about reducing costs, but its adoption will help free up resources (personnel as well as infrastructure) that could be used for core activities of the firm.
- Utility models generally involve minimal upfront cash investment, while giving benefits of scalability on an on-demand and pay-as-you-go basis, helping in reduction of costs that are involved in running the back-office functions.
- System and technology costs involved in complying with regulations can be reduced; firms are relieved of updating systems to be in compliance with regulations, as these are done by the utility provider.
- Utility model leverages standardization, outsourcing, and economies of scale, and this is beneficial for firms that are too small to spread the costs of state-of-the-art IT platforms and related expertise across a limited asset base.
- Utility models enable wealth managers to focus on value-add activities of financial planning and will also help allocation of resources to activities that are of critical and strategic importance to the firm and clients.



⁷ Executive interviews from World Wealth Report 2015

⁸ Markit and Genpact launch KYC services, Genpact, May 2014

Trend 03: Rise in Focus on Cyber Security

Cyber threats are increasing at a faster rate, resulting in rise in focus on cyber security by wealth management firms.

Background



- With increasing digitalization and proliferation of digital channels, data breaches are on the rise:
 - Of the Registered Investment Advisors surveyed during the period April 2015–May 2015, fifteen percent reported they have been victims of a cyber security breach in the past 18 months, up from 11% last year.⁹
- Firms are facing challenges of protecting their systems against data theft and ensuring security and privacy of client information, as well as providing their clients with secured access for interacting and transacting purposes.
- The consequences of data breach for firms cannot be understated (see Exhibit 3):
 - Average cost of data breach incident increased by 23% to US\$3.8 million from 2013 levels.¹⁰

Drivers



- Proliferation of digital channels among HNWIs requires heightened security to prevent leakage of sensitive customer information.
- Consumer-driven demand for security is due to an increasing number of data theft instances.
- Firms need to protect their brand reputation and gain the trust of clients.
- Securities and Exchange Commission (SEC) and Financial Industry Regulatory Authority (FINRA) require wealth managers to have necessary procedures and systems that keep cyber threats in check.

Exhibit 3: Threats Facing Wealth Management Firms due to Failure to Address Identity Theft/Personal Financial Crime



Source: Capgemini Financial Services Analysis, 2015

⁹ Cybersecurity Continues to Top 'Hot' Compliance Concerns, New Survey Finds, ACA Compliance Group, June 2015

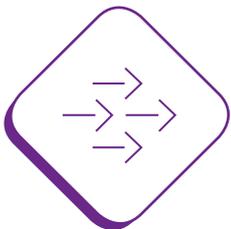
¹⁰ Cost of Data Breaches Rising Globally, Says '2015 Cost of a Data Breach Study: Global Analysis', Security Intelligence, May 2015

Trend Overview



- There has been a rapid rise in the use of digital channels by HNWI's, as they would like to access their portfolios in a real-time scenario and transact based on market developments.
- Investment in new digital technologies to serve customer needs has resulted in an increased susceptibility to cyber attacks:
 - For example, in December 2013, a leading universal bank reported that 647 of its wealth management clients had their monthly statements stolen from a server.¹¹
- Increasingly, HNWI's have their business operations spread across the world and also hold multiple wealth management relationships, making them increasingly visible targets for cyber criminals:
 - 51% of the HNWI's globally rate identity theft/personal financial crime as one of their top-most concerns.¹²
- Data thefts at firms have also resulted in tax investigations, fines and loss of brand reputation, resulting in firms being focused on improving their cyber security measures:
 - As a result, security costs could end up representing about 30% of private banks' technology budgets.¹³
- Firms are implementing robust practices to beef up their cyber security efforts:
 - For example, a leading wealth manager in the U.K. uses voice biometrics to securely and automatically confirm the identity of clients over the telephone.¹⁴

Implications



- Wealth management is primarily a relationship-based business and therefore firms must have a mitigation plan for cyber threats, which result in damage to reputation, fines, legal suits, and loss of revenues.
- With cyber threats on the rise, firms need to invest in sophisticated software to help in detection and monitoring:
 - For example, firms can adopt biometric technology for accessing accounts and transacting purposes
- Cyber security has to be a corporate-wide endeavor and all employees must understand the sources of threats, preventative measures, and potential damages.
- Regular and robust training by cyber security experts will alert staff as to where the organization is vulnerable to attacks and the crucial part they play in protecting the organization from threats.
- Firms need to have strong internal control processes as they are also at risk from internal security lapses by current and former employees.

11 Standard Chartered Says Bank Client Data Stolen in Singapore, Bloomberg, December 2013

12 Capgemini and RBC Wealth Management Global HNWI Insights Survey, 2015

13 Wealth managers look online to bolster advisory services, Reuters, June 2014

14 Barclays to offer voice recognition, The Telegraph, June 2014

Trend 04: Usage of Cloud for Non-core Activities

Cloud computing is transforming the IT landscape of the wealth management industry as firms leverage cloud platforms to provide convenient solutions to HNWIs and reduce their IT costs.



Background

- With the increase in demand for digitization and IT-cost control, cloud computing is transforming the IT landscape of the wealth management industry.
- Three characteristics of cloud computing—agility, flexibility, and scalability make it an important option that wealth management firms must consider in order to succeed in today's changing business environment.



Drivers

- Significant cost-benefit by replacing fixed cost investments with variable-cost investments.
- Cloud computing provides an additional lever to control cost by enabling firms to scale down infrastructure as necessary.
- Cloud computing minimizes the waiting period for application deployment.



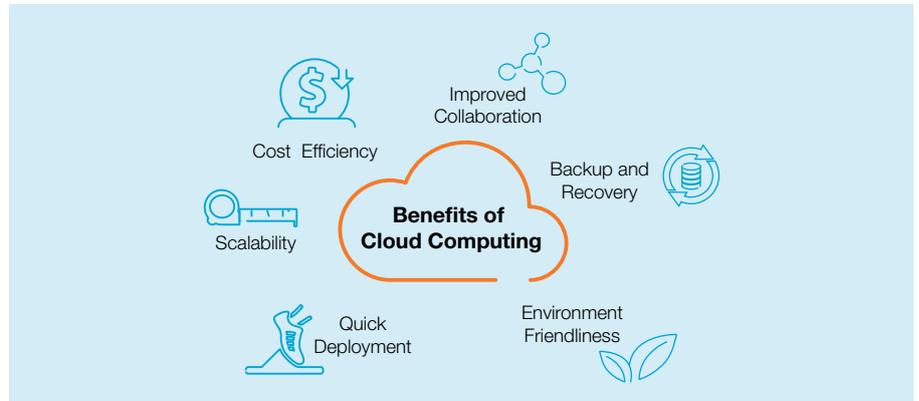
Trend Overview

- With the increase in regulations, firms are experiencing an increase in their compliance costs and are exploring options to manage these costs.
- One of the best options is the use of cloud computing (see Exhibit 4 for benefits of cloud computing), which enables firms to convert fixed costs to pay-per-use expenses; to increase data reliability with multi-location backup options; to increase accessibility; and to optimize operating despite fluctuations in IT demand:
 - For example, a financial planning firm in the U.S. has shifted majority of its applications (i.e. portfolio system, email, invoice, and customer relationship management applications) to a cloud platform, resulting in considerable cost reduction for the firm.¹⁵
- Firms are shifting non-core applications to the cloud rather than hosting them locally:
 - For example, a U.K. based wealth management firm has moved its entire IT infrastructure to a cloud platform in order to focus more on its core business processes.¹⁶
- Majority of the wealth management firms are currently running their private clouds in the light of security concerns around clients' data.
- Although many firms have already shifted—or are in the process of shifting—to cloud computing, security concern is the biggest hindrance in its adoption:
 - Firms, which will be able to overcome this concern and use the cloud-based technology to offer tailored solutions will be the winners in the future.

¹⁵ Financial Advisors Putting Client Data in "The Clouds", wealthmanagement.com, August 2011

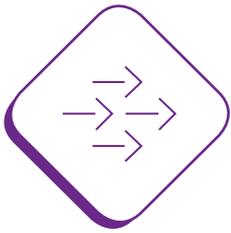
¹⁶ Wealth management firm St James's Place migrates to AWS cloud to meet scalability demands, Computerworld UK, April 2015

Exhibit 4: Benefits of Cloud Computing for Wealth Management Firms



Source: Capgemini Financial Services Analysis, 2015

Implications



- Cloud computing will help improve collaboration and facilitate the sharing of resources.
- Firms will save on IT infrastructure investment, paying based on usage, and avoiding the cost of building different applications for the different onsite operating systems.
- For wealth managers and clients, cloud computing offers better access to information from any geographical location, further improving client-wealth manager relations.
- With cloud technologies in place, firms will be able to effectively realize benefits of digitalization. For example, wealth management firms can analyze huge sets of unstructured data in the cloud itself (rather than transferring data) through analytical programs, resulting in gaining faster insights.

Trend 05: Investments in Digital and Self-service Capabilities

Wave of digital revolution is transforming the industry with the rise of new entrants and technological innovations, creating a mandate for firms to enhance their digital capabilities in order to meet client needs.



Background

- Traditional wealth management firms are vulnerable as new-age firms (e.g. automated advisory firms, online only banks, and peer-to-peer advice platforms) cause traditional firms to recalibrate their business models.
- The digitally superior new-age firms are attracting the younger HNWI who demand more transparency, convenience, and more control over their investments.

Drivers

- Changing customer demographics and expectations due to four fundamental forces in the wider landscape that serve as digital tailwinds—Google driving the information age, Apple driving the customer experience, Amazon delivering the sales-focused digital value proposition, and Facebook spreading the digital social integration.
- Increasing competition from FinTech firms (which are typically more nimble and faster to market) requires traditional firms and banks to take a proactive approach to develop innovative offerings.

Trend Overview

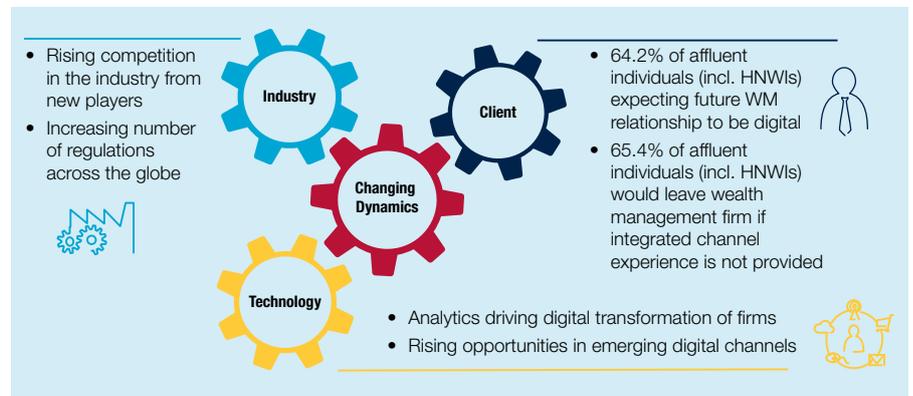
- With the rapid proliferation of smartphones and tablets, tech-savvy HNWI are expecting a richer and more dynamic user experience via mobile applications.
- Younger HNWI are interested in accessing research on their apps, and they want to be updated about their portfolios, market commentary, news, and transactions on a real-time basis.
- The demand for mobile app services is so acute that 80% of HNWI under 40 years of age indicated they would leave their wealth management firm if it fails to provide a integrated-channel experience.¹⁷
- Firms are developing self-service capabilities for clients and are also turning to mobile apps and tablets to deliver a compelling experience:
 - For example, State Street has a mobile application (Springboard) that enables portfolio managers to view their portfolios, including risk-exposure analysis, net asset value summaries, and fund flows.¹⁸



¹⁷ World Wealth Report 2014, Capgemini and RBC Wealth Management

¹⁸ State Street to roll out iPad app, Financial Times, June 2011

Exhibit 5: Trends Highlighting the Relevance of Self-Service in Wealth Management

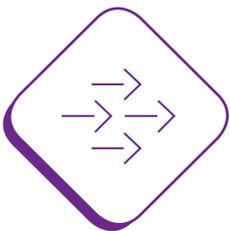


Source: Capgemini Financial Services Analysis, 2015; Capgemini and RBC Wealth Management Global HNW Insights Survey, 2014

- Advances in technology, client demand for digital services, and the increase in regulations are creating an environment conducive to the development of self-service capabilities (see Exhibit 5).
- The development of self-service capabilities at many firms is in the nascent stages and is continuously evolving, as most wealth management firms now provide self-service capabilities using website and mobile channels. Firms are gradually increasing the use of analytics to support the continuous improvement of these services.

Implications

- Wealth management firms need to adopt a transformative mindset that ingrains digital throughout the experience.
- Building a digitally enabled company will require wealth management firms to explore new ROI methodologies, assess the implications of acquiring or nurturing digital capabilities in-house, and extract meaningful intelligence from customer-derived big data.
- Individual wealth managers also stand to benefit from digital technology as digital devices let them meet clients away from the office without sacrificing anything in the way of information or visualization, usually even enhancing what is shared.



Trend 06: Surge in Focus on Social Impact Advice

HNWIs are increasingly looking forward for support from their wealth managers in driving social impact, as they desire to contribute to the society.

Background



- Majority of the HNWIs, while managing their wealth, seek to achieve more than monetary returns.
- HNWIs want to make a positive impact on society through thoughtful investments of time, money or expertise.
- Desire to be true to family or personal values and to instill those values in children are the key drivers of social impact for HNWIs, followed by responsibility to give back to society.

Drivers



- Strong desire among HNWIs to be true to personal or family values and to instill those values in children.
- Ninety-two percent of the HNWIs ascribe some level of importance to driving social impact and it is extremely or very important to over 60% of HNWIs.
- HNWIs desire support from their wealth managers in fulfilling their social impact goals; currently there is 14.6PP shortfall between the support HNWIs currently receive and what they say would like to have.

Trend Overview



- HNWIs use a wide variety of mechanisms to meet their social impact goals—ranging from charitable giving and volunteering to investing and business-decision making that contribute to the welfare of society.
- While no single social-impact mechanism dominates, choosing investments that have social impact as a clearly defined goal and giving to charity on an ongoing basis stood were the top HNWI choices.
- Around 54% of HNWIs currently advised on social impact say they would like more social impact advice (key areas where HNWIs seek advice on driving social impact advice are shown in Exhibit 6) from their primary wealth managers.¹⁹
- As HNWIs continue to explore ways of aligning their social impact goals with the way they manage their wealth, firms are viewing this as an opportunity to guide, educate, and support them through a range of approaches (outlined below), with each approach featuring its own set of principles and investment dynamics, with some focusing more on financial return on investment (ROI) and others more on social ROI:
 - **Social Responsible Investing (SRI):** SRI has the aim of achieving financial return along with social good by encouraging upstanding corporate policies and it avoids investments in ethically questionable businesses like tobacco and gambling.

¹⁹ World Wealth Report 2015, Capgemini and RBC Wealth Management

- **Impact Investing:** These investments are made in companies, organizations, and funds with the intention to generate measurable social and environmental impact alongside a financial return. Contrary to traditional investing, the intent of investors is to allocate capital to investments they expect to receive both a financial return and a defined social impact.
- **Traditional Philanthropy/Donations:** Philanthropy is focused solely on achieving social impact rather than a financial return, though it often serves estate and tax planning purposes for HNWIs.

Implications

- Firms and wealth managers need to address challenges at each stage of the social impact decision process and these include the lack of clarity and consistency on social impact; lack of highly qualified expertise; the need for specialized products and solutions, and the absence of standard metrics.

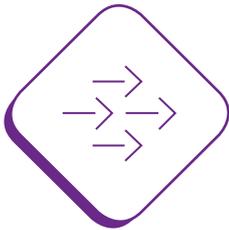
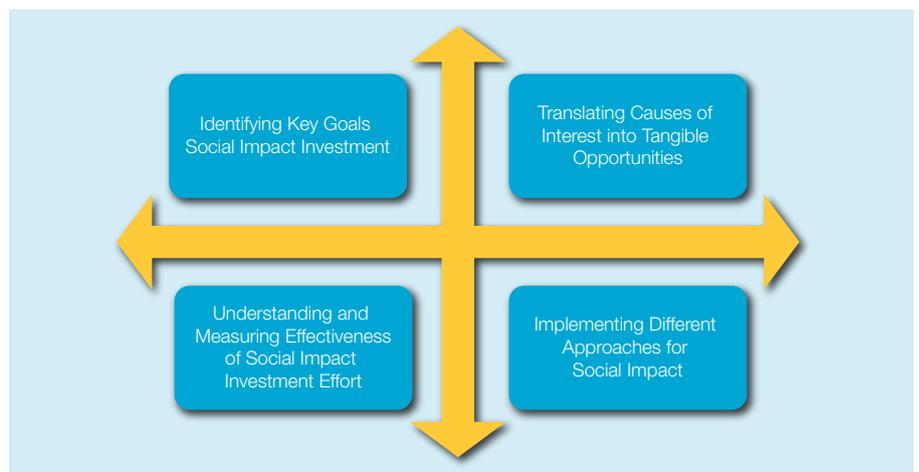


Exhibit 6: Key Areas Where HNWIs Seek Advice on Driving Social Impact



Source: Capgemini Financial Services Analysis, 2015

- Firms must seek to embed social impact discussions and advice into an overall-goals based planning approach.
- To help overcome the lack of industry infrastructure, wealth management firms should seek to build in-house capabilities to support wealth managers.
- Having a core team of experts on social impact, including tax and philanthropy specialists, will aid in improving and scaling social impact initiatives, as well as help wealth managers plug their own knowledge gaps

Trend 07: Rise of Automated Advisors and New Business Models

Converging demographic and technological trends together with changing HNWI demands are driving the adoption of automated-advisor functionality. As a result, new technology-driven and advisor-assisted business models are emerging.



Background

- The industry is facing one of its biggest disruptive challenges since the 2008 financial crisis.
- Clients are changing the way they interact with their wealth managers to have their wealth needs met.
- Firms face the task of differentiating their services, which makes it imperative to develop strategies that best take advantage of the advance of automated-advice functionality.



Drivers

- Younger generation's desire to interact digitally with firms.
- Automated advice offers firms the advantage of lower costs, lower thresholds for attracting new clients, and greater transparency in their operations.
- Enables firms to offload basic back-office and commoditized investment management tasks.



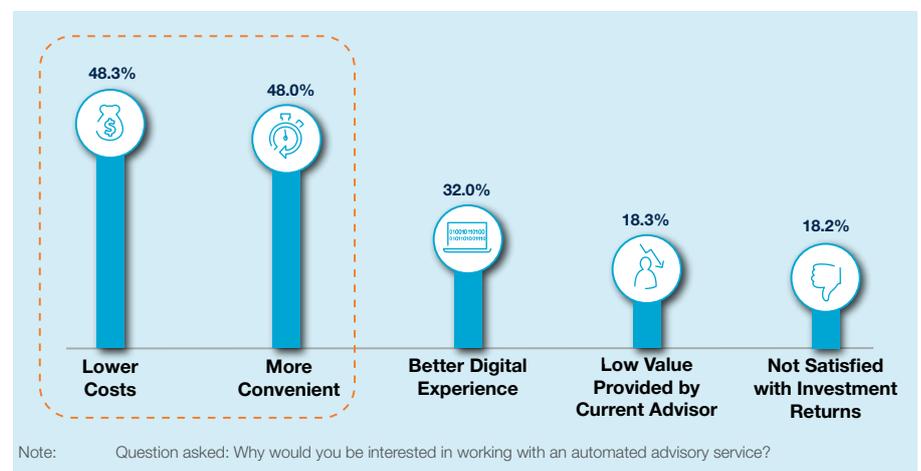
Trend Overview

- Automated advisors are quite prevalent in the U.S. and now have started to grow in other regions such as U.K. and Asia-pacific as well.
- Globally, 48.6% of HNWI's say they would consider using automated advisors for a portion of their portfolio:
 - Of these HNWI's, close to 50% consider lower costs and higher convenience as the primary reasons (see Exhibit 7).²⁰
- While automated advisors currently capture only a small share of the market, they are growing at a rapid pace.
- These advisors provide a limited set of service offerings primarily targeted at clients in the lower-wealth bands.

²⁰ Capgemini and RBC Wealth Management Global HNWI Insights Survey, 2015

- The entry of new players leveraging technology to improve the efficiency of providing wealth management services has led to the emergence of new business-operating models:
 - Pure-technology driven models currently restricted to investment management but growing at a fast clip.
 - Advisor assisted models combine technology with advisor discussions and are growing at a more moderate, but still healthy, pace.
- The new players are offering simpler products based on technology, while the traditional players are more inclined to offer the advisor-assisted operating models.
- The industry presence of automated-advisory services still remains small compared to the traditional wealth-management advisor service model.
- However, the future potential of this market is vast. By 2017, we expect U.S. HNWI's alone to be willing to allocate assets amounting to an estimated US\$1.5 trillion to automated advisor models. The market potential in the U.S. is even greater—US\$3.3 trillion to US\$4.2 trillion—when mass-affluent individuals are taken into account:
 - Given the above, firms have an opportunity to claim a sizable share of this growing market, considering the still-nascent stage of automated advice.

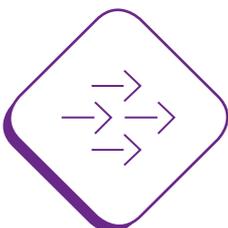
Exhibit 7: HNWI Reasons for Using Automated Advisory Services (% of Respondents), Q1 2015



Source: Caggemini and RBC Wealth Management Global HNWI Insights Survey, 2015

Implications

- Creating competitive differentiation in the face of rising competition from new players will be the key to driving growth for traditional firms.
- Full-service firms can work with automated advisory platforms to offload basic back-office and commoditized investment management tasks which do not necessarily require human assistance. Incorporation of automated advisory platforms in the entire financial planning process will allow wealth managers to focus on client-facing tasks aimed at building better relationships, thus creating a differentiated value proposition.
- Firms must make it a high-level priority to develop a strategy for investing in automated advice, given growing competition from automated advisors.



Trend 08: Increased Use of Predictive Analytics

Firms are increasingly using predictive analytics to process vast amounts of structured and unstructured data. The goal is to produce actionable information that will enable them to better understand their clients and to enhance client experience and loyalty.



Background

- Increased competition, regulatory scrutiny, and growing customer demands are putting pressure on wealth management firms' revenues.
- Firms are investing in Big Data and predictive analytics to support forward-looking decisions, gain deeper insights into customer behavior and interests, better manage risks and identify opportunities.

Drivers

- Provides actionable information to optimize channel management, improve customer retention and new-customer acquisition, and identify cross-and up-selling opportunities.
- Enable firms to improve the conversion rates of their marketing offers and programs.
- Aids in fraud detection and prevention programs.

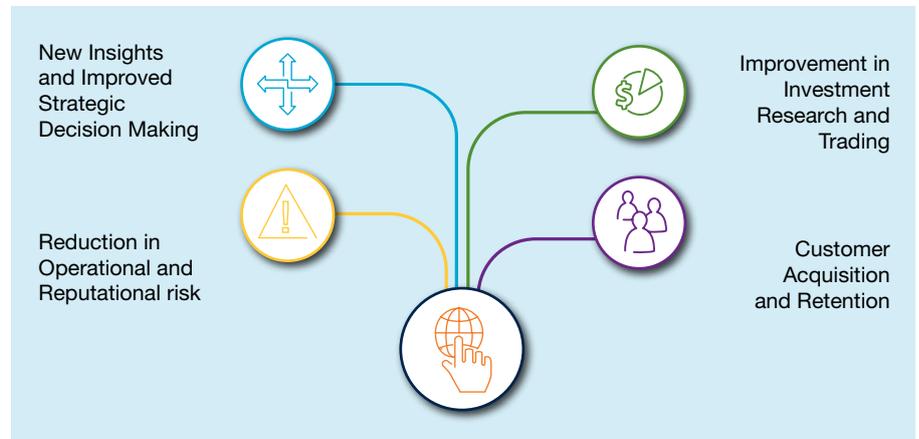


Trend Overview

- Predictive analytics, with its remarkable top-line generating potential, is a popular tool for managing and leveraging Big Data for actionable business information:
 - Provides new and deeper insights into market trends and client behaviors, which firms can translate into millions of dollars worth of opportunities and cost savings.
- Firms are also investing in digital tools and capabilities that provide access to better data, thus laying the foundation for the use of predictive analytics:
 - Wealth managers can mine this data to better understand the market and client behavior and to identify client-specific opportunities for delivering relevant and tailored products and services to their clients.
- Predictive analytics can support better high-speed trading decisions and outcomes.
- Some firms are using certain third-party platforms and tools that enable their customer-facing employees to obtain customer insights via the platform's cloud-based, data-driven analytics:
 - This enables their financial advice team to deliver an improved advice process.



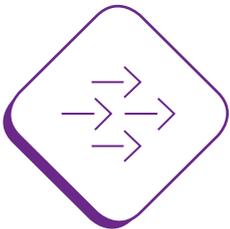
Exhibit 8: Implications of Implementing Analytics



Source: Capgemini Financial Services Analysis, 2015

Implications

- In order to stand out in the face of rising competition and tighter margins, firms need to increase their investment in analytics to gain a more comprehensive understanding of their clients:
 - Enables firms to channelize their offers accordingly and make relevant recommendations to HNWIs.
 - Helps firms in forecasting wider market trends and managing risk, providing a competitive advantage and the ability to recognize and drive new business opportunities.
- Can assist firms in the micro-segmentation of clients by aggregating large sets of customer data and discovering commonalities and correlations:
 - For instance, it can be used to group customers' posting queries about retirement-investment decisions on social media websites.
 - Enhances the firms' capabilities to deliver tailored services to their most valued customer groups.



Trend 09: Reassessment of International Operations

Business opportunities coupled with the need for operational restructuring, are changing the dynamics of the wealth management industry, pushing firms to focus on their priority markets in order to boost profitability.

Background



- Wealth management firms are under pressure from changes to regulatory-compliance standards, changing client expectations in terms of digital capabilities, transparency in the fees, and increased costs.
- Firms are re-examining their global operations to identify the markets they think should be the priority in the future and, at the same time, the markets where they don't have economies of scale and are the source of their financial losses.

Key Drivers



- Increased regulations have made the situation very demanding for wealth management in terms of reduced revenues and margins and increased costs:
 - For example, while Foreign Account Tax Compliance Act (FATCA) has put an end to banking secrecy and placed additional burden in terms of investment in personnel and technology infrastructure, Retail Distribution Review (RDR) has mounted pressure on firms for being more transparent on fee.
- Increase in the number of regulations and compliance-operations costs are creating a very demanding business environment.
- In the post-financial-crisis era, firms are divesting/exiting business from non-strategic markets in order to meet the regulatory capital requirements.
- Increases in HNWI populations in emerging markets such as Asia-Pacific are providing new business opportunities for wealth management firms.

Trend Overview



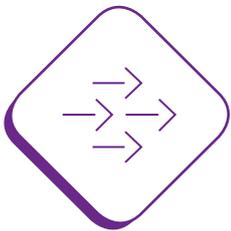
- Different firms have different drivers for re-examining their international operations based on their current resources and capabilities.
- The primary objective of these firms remains the same, however; that is to achieve sustainable growth in their priority markets and maintain their profitability:
 - For example, Merrill Lynch—after retreating from international markets through the sale of its non-U.S. wealth management business to Julius Baer—plans to create a special team of top international financial advisors in the U.S. to cater to high-net-worth families in 29 countries; with particular focus on Latin America and Canada.²¹

²¹ Merrill Plans Overseas Splash With New International Adviser Group, WSJ, July 2015

- Morgan Stanley has also recently decided to increase its focus on the Latin American and Caribbean markets. Their goal is to enter/expand in markets that are profitable and to exit business in countries where restrictive rules for off-shore accounts make doing business an expensive proposition.²²
- In light of the above, global wealth management firms are considering the sale of operations of non-strategic importance:
 - For example, Standard Chartered bought Morgan Stanley's Indian wealth management business in tandem with its business expansion strategy.

Implications

- Major structural changes are needed in wealth management firms in terms of operational and technical processes, and thus the potential for realizing the benefits of economies of scale in market has become very important.
- Customers are expected to benefit as wealth management firms will be better equipped to introduce transparency, reduce costs, and improve compliance standards once they have increased the scale of operations.
- Wealth managers need to embrace the changes that come with restructuring in order to better serve their clients.



²² Morgan Stanley wealth management focusing on most-profitable clients for international business, Reuters, August 2015

Trend 10: Investments in Financial Planning and Advice Tools

Driven by the need to empower wealth managers to provide personalized recommendations to HNWIs and to free up their time for business-building and value-add activities, firms are investing in financial planning and advice tools.



Background

- The wealth management industry is experiencing an increase in competition and regulatory pressures.
- With the transfer of wealth to Millennial HNWIs, client behaviors are also changing.
- A multitude of industry challenges is driving the evolution of the traditional wealth-manager role.
- Firms are engaging and empowering their wealth managers by investing in key capabilities and resources.

Drivers

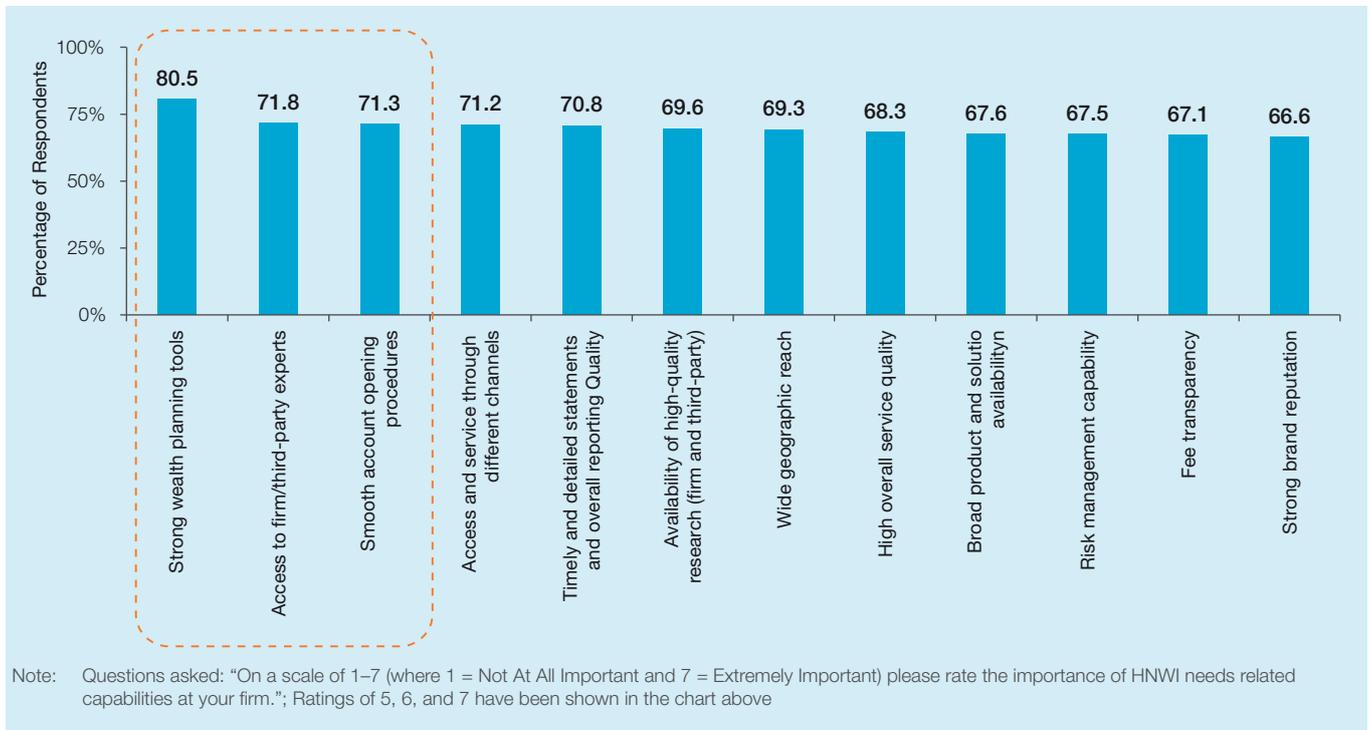
- The Millennial HNWIs have different expectations and behavioral patterns compared to their predecessors.
- Digital disrupters such as automated advisor and analytics offer cost-efficient and technologically advanced, alternative operating models to traditional firms.
- New technologies are enabling wealth managers to automate or eliminate low-value back-office, operational and administrative tasks.

Trend Overview

- Asset allocation and investment management services are becoming increasingly commoditized.
- With firms moving towards goal-based, holistic financial planning due to rapidly changing customer demands, the value proposition of the wealth manager role is also in transition.
- Firms are investing in financial planning tools and capabilities to empower their wealth managers.
- The most important of the capabilities needed to meet changing client needs are wealth-planning tools such as scenario planning and asset allocation, as identified by 80.5% of the wealth managers participating in a recent survey (Exhibit 9).
- Firms are investing in next generation advisor platforms that integrate CRM capabilities, financial and investment planning, monitoring, reporting, and other functionalities:
 - This investment is needed to bridge gaps that exist around existing advisor platforms across various stages of the advisory process.



Exhibit 9: Importance Placed by Wealth Managers on Capabilities Required to Fulfill HNWI Wealth Needs (% of Respondents), Q1 2015

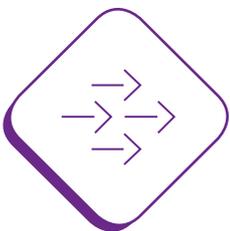


Source: Capgemini Financial Services Analysis, 2015

- Firms are building a holistic strategy around their advisor platforms and other CRM tools to improve advisor productivity levels.
- Firms are building an integrated-advisor platform by developing a comprehensive reporting solution and incorporating effective risk-management tools into their next-generation platforms.

Implications

- Financial planning tools can help wealth management firms in improving their operational efficiency as well as their core-business value proposition.
- Increased automation of low-value advisory tasks can lead to higher efficiency, lower costs, and more time spent by advisors on client-facing activities.
- Enables wealth managers to make personalized and relevant recommendations to their clients.
- Provides customers with better access to transparent and simplified information which, in turn, enables them to make more informed decisions.



References

1. World Wealth Report, 2015, 2014, Capgemini and RBC Wealth Management, accessed December 2015 at <https://www.worldwealthreport.com/>
2. Asia-Pacific Wealth Report 2015, Capgemini and RBC Wealth Management, accessed December 2015 at <https://www.capgemini.com/thought-leadership/asia-pacific-wealth-report-2015-from-capgemini-and-rbc-wealth-management>
3. 'Improving Financial Advisor Productivity through Automation', Capgemini, 2011 accessed December 2015 at https://www.in.capgemini.com/resource-file-access/resource/pdf/Improving_Financial_Advisor_Productivity_through_Automation.pdf
4. 'Temenos WealthManager® using SaaS', Capgemini, 2012 accessed December 2015 at https://www.in.capgemini.com/resource-file-access/resource/pdf/Temenos_WealthManager_using_SaaS.pdf
5. 'Wealth management firm St James's Place migrates to AWS cloud to meet scalability demands', Matthew Finnegan, COMPUTERWORLDUK, April 21, 2015, accessed December 2015 at <http://www.computerworlduk.com/infrastructure/wealth-management-firm-st-jamess-place-adopts-cloud-first-strategy-3608546/>
6. 'From the Margins to the Mainstream', World Economic Forum, September, 2013, accessed December 2015 at http://www3.weforum.org/docs/WEF_IL_FromMarginsMainstream_Report_2013.pdf
7. 'Impact investing on the cusp of mainstream wealth management', William Burckart, Investment News, June 29, 2014, accessed December 2015 at <http://www.investmentnews.com/article/20140629/REG/306299996/impact-investing-on-the-cusp-of-mainstream-wealth-management>
8. 'More Clients Using Securities-Based Loans', Corrie Driebusch, Wall Street Journal, May 20, 2014, accessed December 2015 at <http://www.wsj.com/articles/SB10001424052702304198504579573921305157680>
9. 'Markit and Genpact Launch KYC Services', Genpact, May 22, 2014, accessed December 2015 at <http://www.genpact.com/home/media-room/press-releases/press-releases-desc?Title=Markit-and-Genpact-Launch-KYC-Services>
10. 'Morgan Stanley says wealth management employee stole client data', Lauren Tara LaCapra and Tanya Agrawal, Reuters, January 5, 2015, accessed December 2015 at <http://www.reuters.com/article/2015/01/06/us-morgan-stanley-data-idUSKBN0KE1AY20150106>
11. 'Wealth managers look online to bolster advisory services', Sarah White and Joshua Franklin, Reuters, June 18, 2014, accessed December 2015 at <http://www.reuters.com/article/us-wealth-summit-digital-idUSKBN0ET1IN20140618>



About the Authors

Heena Mehta is a Senior Consultant with the Market Intelligence team in Capgemini Financial Services with over four years of experience specializing in capital markets.

Sumit Chugh is a Senior Consultant with the Market Intelligence team in Capgemini Financial Services with five years of experience specializing in capital markets and wealth management.

Bhaskar Sriyapureddy is a Senior Consultant with the Market Intelligence team in Capgemini Financial Services with over twelve years of experience specializing in capital markets and wealth management.

The authors would like to thank **William Sullivan, David Wilson, Chirag Thakral,** and **Tej Vakta** from Capgemini for their contributions to this paper.



Learn more about us at: www.capgemini.com/wealth
or email: wealth@capgemini.com



About Capgemini

Now with 180,000 people in over 40 countries, Capgemini is one of the world's foremost providers of consulting, technology and outsourcing services. The Group reported 2014 global revenues of EUR 10.573 billion.

Together with its clients, Capgemini creates and delivers business, technology and digital solutions that fit their needs, enabling them to achieve innovation and competitiveness.

A deeply multicultural organization, Capgemini has developed its own way of working, the Collaborative Business Experience™, and draws on Rightshore®, its worldwide delivery model.

Learn more about us at
www.capgemini.com

All products or company names mentioned in this document are trademarks or registered trademarks of their respective owners.
Rightshore is a registered trademark of Capgemini.