

Wealth Management in the Digital Age

Understand demand for digital technology in wealth management, as well as cloud-based solutions for firms to transform their businesses



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Introduction

While global high net worth individual (HNWI¹) wealth is at an all-time record and is up over 70% since 2008, this wealth growth has coincided with decreased profitability for wealth management firms.

One of the biggest challenges for firms when addressing the revenue and profit dilemma is to effectively leverage digital technology and the latest in cloud platforms to transform their businesses. For example, our research shows that 46.5% of wealth managers globally are not satisfied with the digital tools provided to them by their firms. The dynamic is compounded as the majority of HNWIs state they will leave their wealth management firm for the lack of an integrated channel experience.

Beyond just retaining existing HNW clients and wealth managers, the ability to leverage digital technology to attract new clients and revenue through data-enabled propositions for clients will be critical to firms' profitability in the future.

One of the most critical dimensions to building digital capability is the ability to tap into new data possibilities and the rapid evolution of third-party FinTech firms, to bring the best capability to clients. Platforms such as those leveraging cloud computing technology may offer firms immediate revenue-generating possibilities on top of wealth manager productivity and efficiency gains, while also serving as a future-proof and scalable platform to keep up with the fast pace of technological change, especially the evolving FinTech ecosystem.



¹ HNWIs are defined as those having investable assets of US\$1 million or more, excluding primary residence, collectibles, consumables, and consumer durables

2. Exciting Times in the Global Wealth Management Industry

If there is one thing that can be said about the global high net worth individual population, it is that they are exceptionally resilient

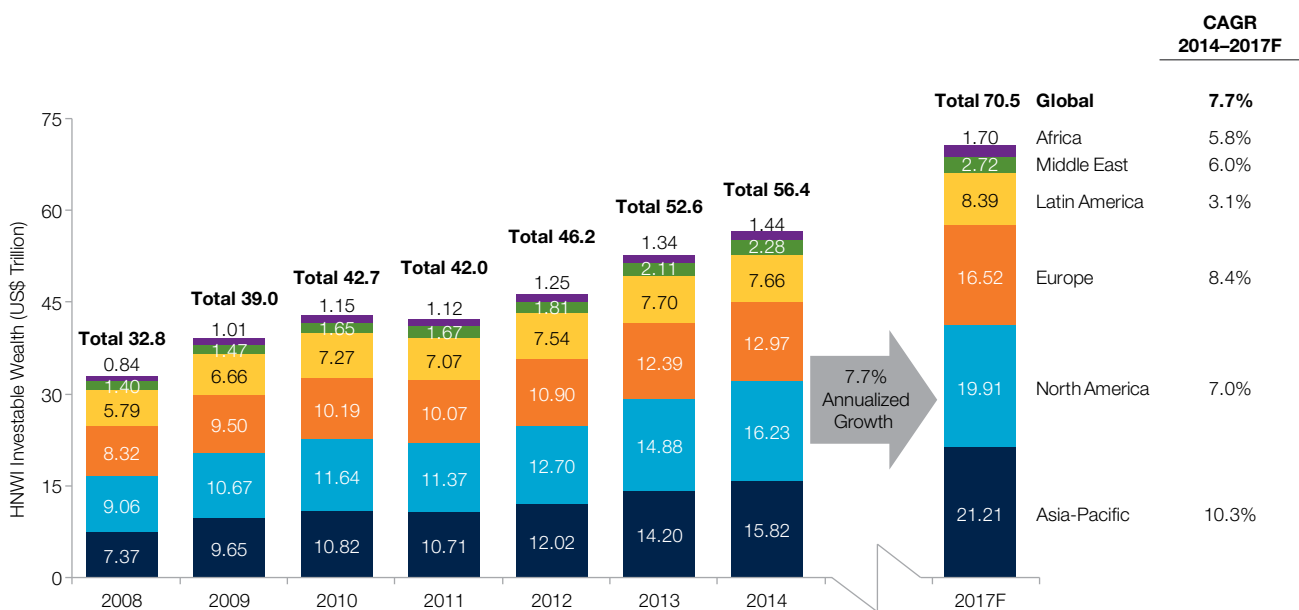
2.1. Record Levels of HNWI Population and Wealth

If there is one thing that can be said about the global HNWI population, it is that they are exceptionally resilient (see Exhibit 1).

Capgemini research identified the following pillars of the performance of the global HNWI population since 2008:

- **RECOVERY:** Global HNWI population and wealth was over 70% higher at year-end 2014 than year-end 2008 (the crisis low-point for HNWI wealth), representing almost 10% annual growth.
- **CONSISTENCY:** The global HNWI population has grown every year since 2008, with only one year (2011) less than 7% annual growth.
- **BALANCE:** All wealth bands showed strong growth, with HNWIs in the US\$1-30mn category growing the most, at just over 72% over the 2008-2014 period.
- **FORECAST:** Global HNWI wealth is forecast to cross US\$70 trillion by 2017, growing by 7.7% annually from the end of 2014. This growth is expected to be led by Asia-Pacific which is forecasted to surpass North America in HNWI wealth.

Exhibit 1: HNWI Investable Wealth Forecast by Region (US\$ Trillion), 2008–2017F



Note: Chart numbers may not add up due to rounding
 Source: Capgemini Financial Services Analysis, 2016

In 2014 alone, the top 12 U.S. metro areas added \$1 trillion in HNWI wealth, helping to drive the 9.4% overall increase in the U.S. to a new record of \$15.2 trillion



There have however been several winners and losers across markets (see Exhibit 2). Looking at the top 25 markets by HNWI population (representing over 90% of the global total), we can see three clear categories of performance.

On the one hand, the winners include markets characterized by global financial centers (Hong Kong, Singapore), key developing economies (China, India), and commodity-rich nations (Norway, Kuwait). On the other hand, those in the bottom of the growth race are understandably nations that have struggled economically since the crisis, with Latin American and European nations the most prevalent. In the middle is a true mix of markets including the U.S., which is the largest wealth market at around 30% of the global total.

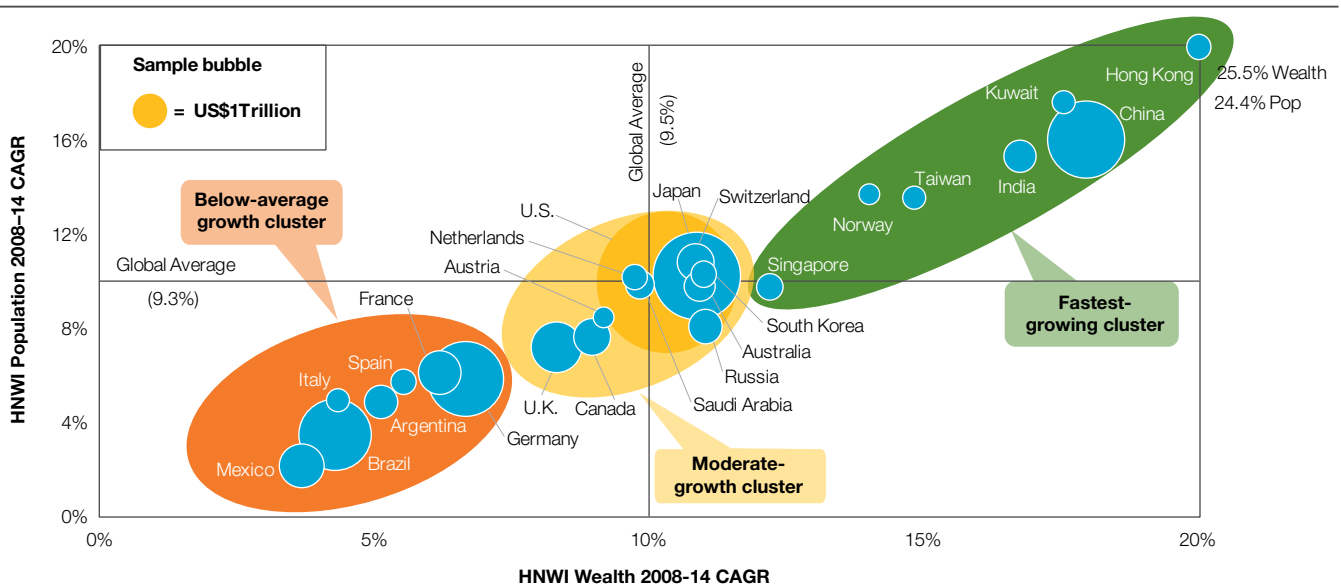
The U.S. has recovered well since the crisis, especially given its significant size, with wealth creation concentrated in the 12 top metropolitan statistical areas (MSAs). Since 2008, almost 23% of new HNWI wealth added globally has come from New York, Los Angeles, Chicago, Washington D.C., San Francisco, Boston, Houston, Philadelphia, San Jose, Dallas, Detroit, and Seattle. In 2014 alone, these 12 MSAs added \$1 trillion in HNWI wealth, helping to drive the 9.4% overall increase in the U.S. to a new record of \$15.2 trillion.

2.2. An Industry Marked by Disruption

While the rise in global HNWI population and wealth is an undoubted boon for wealth management firms, the industry is being disrupted by a variety of factors that are re-shaping firms' profit dynamics and relatedly, the competitive landscape of the industry.

For instance, wealth management firms are struggling to translate increased HNWI wealth into profit. While wealth is up significantly on 2008 levels, the cost: income ratio of the industry has failed to recover, having gone from around 62% in 2007 to 84.4% in 2014 – a highly concerning rise.³

Exhibit 2: HNWI Population and Wealth CAGRs⁴ for Top 25 Markets (%), 2008–2014



Note: Bubble size represents HNWI wealth in 2014
 Source: Capgemini Financial Services Analysis, 2016

³ "Key findings from Private Banking Benchmark 2015", Scorpio Partnership, 2015
⁴ CAGR refers to compound annual growth rate which provides a measure of that constant rate of return over the time period.

The causes are myriad, though several stand-out:

- **Shifting HNWI Demographics and Demands**

- The number and influence of younger HNWIs is increasing as they inherit wealth and create wealth of their own, impacting firms not prepared for their high levels of tech-savviness and expectations for the client experience
- HNWIs are also holding significant amounts of their wealth in cash (25.6%⁵) and other asset classes that are not profitable for firms

- **Increased Regulatory Pressure**

- The volume and pace of regulatory change has led to a significant increase in costs (spanning people, documentation, IT and infrastructure, and opportunity costs, in addition to the penalty and reputational costs of non-compliance) and constraints in delivering an integrated client experience
- Wealth managers are spending more time on non-value add activities related to compliance, impacting their ability to prospect and serve HNWI clients

- **Entry of New Competitors**

- With increasing competition and investment performance transparency from online brokerages, combined with market turbulence, wealth management firms are challenged to differentiate their services beyond investment performance
- Additional competition is now coming from FinTech players targeting different aspects of the wealth management value chain



Firms are focused on these challenges in numerous ways, though we see ten general areas of focus in the coming 12-18 months:⁶

1. 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 HNWIs
2. Wealth management firms are increasingly adopting a **utility-based model** for their middle- and back-office functions in order to optimize operations and reduce costs
3. Identity thefts and personal financial crimes are increasing at a faster rate, resulting in **higher spending on cyber security**
4. Wealth management firms are increasingly using **cloud computing** (for non-critical tools and applications) to reduce infrastructure costs
5. Enhanced use of technology by younger generations is leading to increased focus on, and investments in, **digital and self-service capabilities** by firms
6. Wealth management firms are increasingly focusing on **social impact** advice as social impact investments by HNWIs are gaining foothold across the globe
7. Rise of **automated advisors** is leading to the emergence of new business models
8. Firms are increasingly using **predictive analytics** to process the vast amounts of structured and unstructured data, with an aim to better understand their clients and enhance client experience and loyalty
9. Global wealth management players are **reassessing their international operations** in the light of increasing regulations and challenges facing the industry
10. 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.

While the trends cover several areas, a common theme underpins many of them – The importance of digital technology. The next section looks at this in more detail.

⁵ "2015 World Wealth Report", Capgemini and RBC Wealth Management, 2015

⁶ "Top 10 Trends in Wealth Management in 2016", Capgemini, 2016 (<https://www.capgemini.com/resources/wealth-management-top-10-trends-for-2016>)

3. The Future of Wealth Management is Digital

The wealth management industry's digital maturity lags behind the majority of other industries, including those in financial services like insurance and retail banking



3.1. Busting the Digital Myth

For years, the wealth management industry has been resistant to transformative digital technology, with several common reactions being used as an excuse for not moving forward quickly. We consider these “myths” and while the industry has begun to accept that more needs to be done on digital, the pace is still far too slow. These myths are:

- **MYTH 1: “HNWIs do not want digital tools, just face-to-face contact”**
 - The Reality: While the direct relationship is important, over a quarter of HNWI clients outright prefer digital contact to direct contact, rising across regions and age groups⁷
- **MYTH 2: “Digital channels will cannibalize our business”**
 - The Reality: Not investing sufficiently in digital will result in client, advisor, and asset loss to competitors
- **MYTH 3: “Wealth managers will not use digital tools”**
 - The Reality: Wealth managers are increasingly recognizing the value that digital tools provide to deepen the relationship and facilitate flow of information, such as visualization on tablets (see page 15)
- **MYTH 4: “True omni-channel capability is too difficult”**
 - The Reality: It is difficult, but some firms are already part-way through the journey to 360 portfolio views and data analytics
- **MYTH 5: “It is a low priority compared to other issues”**
 - The Reality: Around 56% of firms have digital as a top three priority for the short-term, and almost 69% have it as top three priority over the medium term,⁸ so not moving forward will mean being left behind⁹

As a result, the wealth management industry's digital maturity is lagging far behind the majority of other industries, including those in financial services like insurance and retail banking (see Exhibit 3).

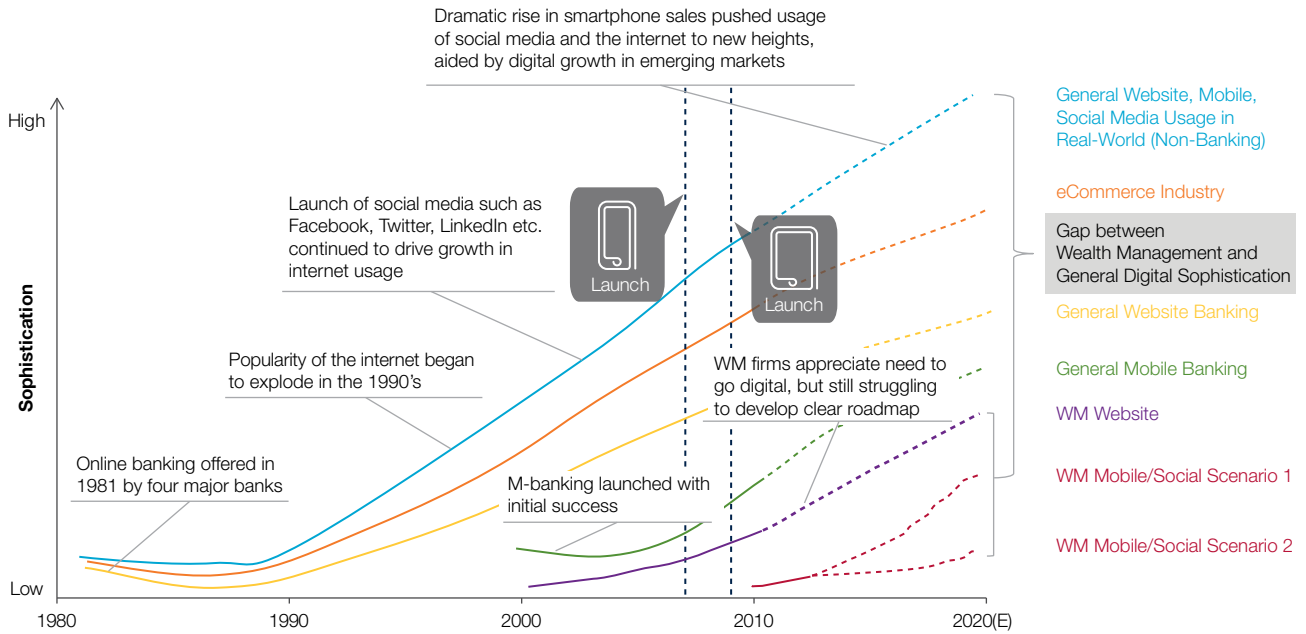
Firms have a choice to make on whether they will bridge the gap, though the choice is an easy one. Since wealth management clients have relationships with these more mature industries, including insurers and retail banks, they will not accept a lower standard from their wealth manager to whom they often pay for higher fees.

⁷ “2014 World Wealth Report”, Capgemini and RBC Wealth Management, 2014

⁸ Short term refers to 6-12 months while medium terms refers to 3 years from the time we asked the firms in Q1 2014

⁹ “2014 World Wealth Report”, Capgemini and RBC Wealth Management, 2014

Exhibit 3: Digital Penetration of Wealth Management vs. Real World, 1980–2020E



Source: Capgemini Financial Services Analysis, 2016

Additionally, there are four fundamental forces in the wider landscape that serve as unstoppable digital tailwinds:

- **“Google-ification”**
 - Google has driven the information age through an individuals’ ability to find a wide variety of information quickly, easily, and for free
- **“Apple-ification”**
 - Apple established the customer experience at being at the center of a firm’s strategy
- **“Amazon-ification”**
 - One of the first firms to articulate and deliver a contextual and sales-focused digital value proposition
- **“Facebook-ification”**
 - Drove widespread adoption of digital social interaction

Given that the above services are generally free and deliver highly positive customer experiences, wealth management firms must begin moving forward with their own digital transformation programs.

3.2. HNWI Digital Demand and the Implications of Inaction

Firms need to understand the extent to which HNWI digital capability in their wealth management relationships. Such a dynamic can be looked at through three lenses:

- **Future digital demand from HNWI**
- **Digital channel and capability segmentation**
- **Attrition risk for firms lacking digital capability**

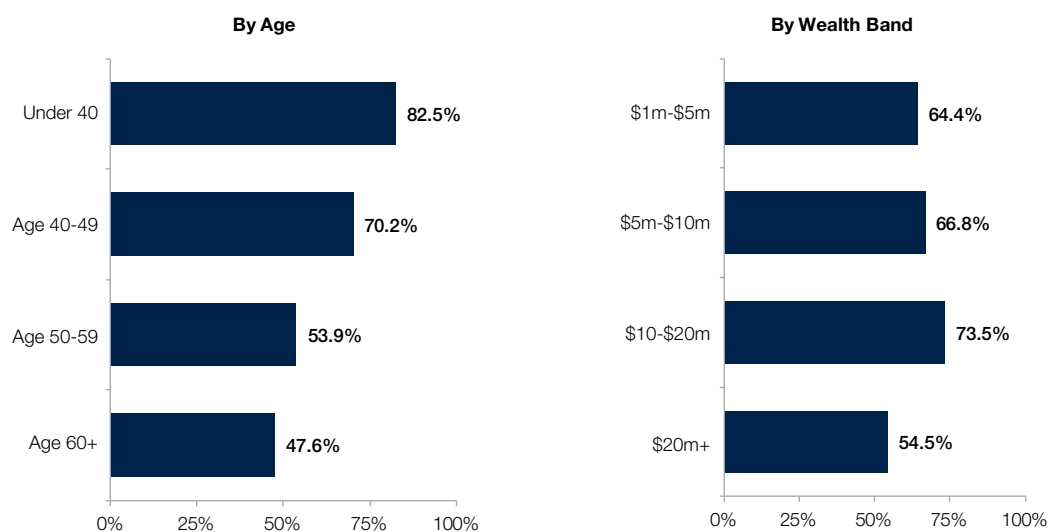
Future Digital Demand from HNWI

It is clear that digital is fundamental to the future of the industry, given that the clear majority of HNWI globally state that they expect the majority or indeed entire wealth management relationship to be digital. The 2014 *Global HNWI Insights Survey*¹⁰ found that 64.2% of HNWI globally expect their future wealth management relationship to be mostly or entirely digital, reaching as high as 82.3% in Asia-Pacific (excluding Japan). Even in more developed markets, future digital demand is high, at 61.5% of all HNWI in Europe and 57.7% in North America.

Additionally, future digital demand is consistent across wealth bands – disproving another myth that those with the most wealth are not interested in digital – and is especially true for younger HNWI, who represent the future of the wealth management industry (see Exhibit 4).

Future digital demand is consistent across wealth bands – disproving another myth that those with the most wealth are not interested in digital – and is especially true for younger HNWI

Exhibit 4: Extent to Which HNWI Consider Entire or Most of Future Wealth Management Relation to be Digital by Age and Wealth Band, (% of Respondents), Q1 2014



Note: Question asked, "In FIVE YEARS, to what extent would you like your wealth management relationship to be conducted through digital channels?"
 Source: Caggemini Financial Services Analysis, 2016; Caggemini, RBC Wealth Management, and Scorpio Partnership Global HNWI Insights Survey, 2014

¹⁰ Caggemini, RBC Wealth Management, and Scorpio Partnership Global HNWI Insights Survey, 2014

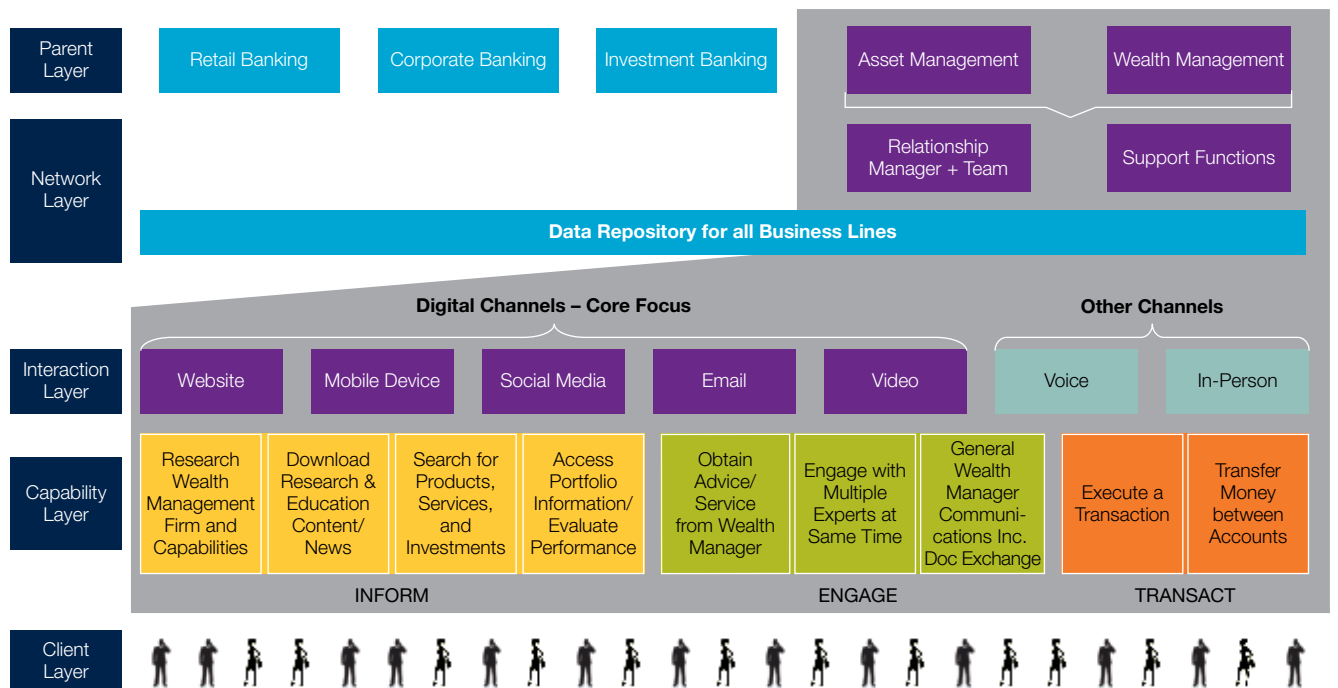
Digital Channel and Capability Segmentation

To move forward with a digital strategy, it must first be defined. Day-to-day interactions between HNWLs and wealth managers cover a wide range of activities that serve to inform clients, engage them, and enable transactions to be carried out, either by HNWLs themselves, or on their behalf (see Exhibit 5).



- **Inform-type capabilities** encompass researching the wealth management firm and its capabilities, downloading research and education, accessing news and content, searching for products, services, and investments, as well as evaluating portfolio information and performance.
- **Engage-type capabilities** include obtaining advice and service from the wealth manager, engaging with multiple experts at the same time (such as for financial planning discussions), and conducting general communications with the wealth manager, including document exchange and recurring portfolio reviews.
- **Transact-type capabilities** include executing transactions and transferring funds between accounts.

Exhibit 5: Understanding Channel Landscape in Wealth Management



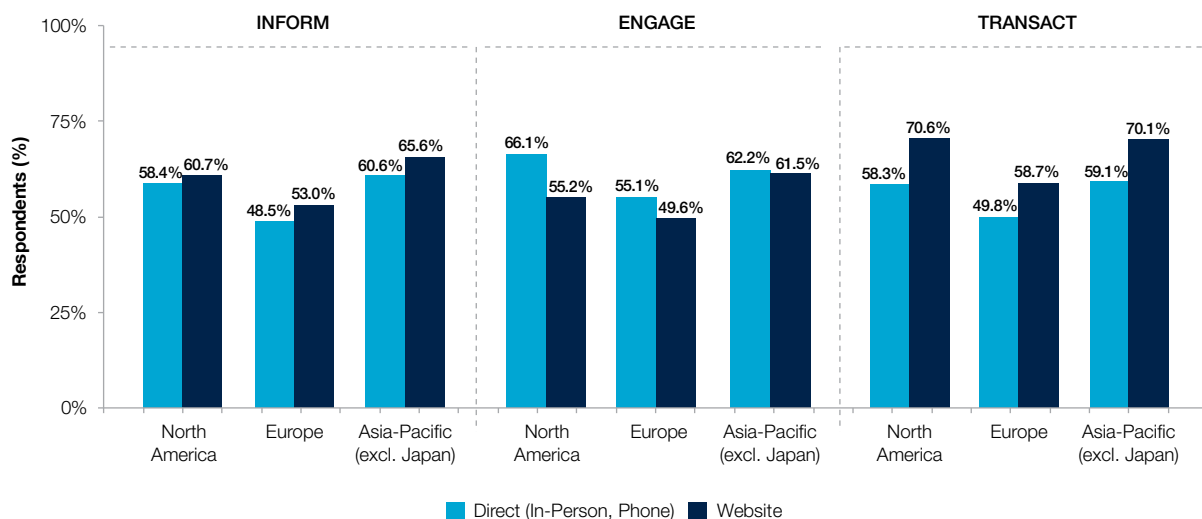
Source: Capgemini Financial Services Analysis, 2016



Each one of these Inform, Engage, and Transact capabilities can be executed through any one of a number of channels, including websites and mobile applications, as well as in-person or telephone interactions.

Face-to-face interactions have long been the industry standard and continue to hold significant sway, but the margin of preference for them is slight and expected to fade as the next generation gains in prominence. For instance, the 2014 Global HNWI Insights Survey identified that HNWIs prefer digital channels over direct ones to execute transactions (see Exhibit 6), with HNWIs in North America and Asia-Pacific (excl. Japan) having the strongest preferences for executing transactions via the website.

Exhibit 6: HNWI Channel Importance for Different Wealth Management Capability Areas by Region, (% of Respondents), Q1 2014



Note: Weighted average of respondents indicating importance level to difference capabilities per channel
 Source: Capgemini Financial Services Analysis, 2016; Capgemini, RBC Wealth Management, and Scorpio Partnership Global HNWI Insights Survey, 2014

Some of the biggest disruption is coming from emerging digital channels of mobile applications, social media, and video

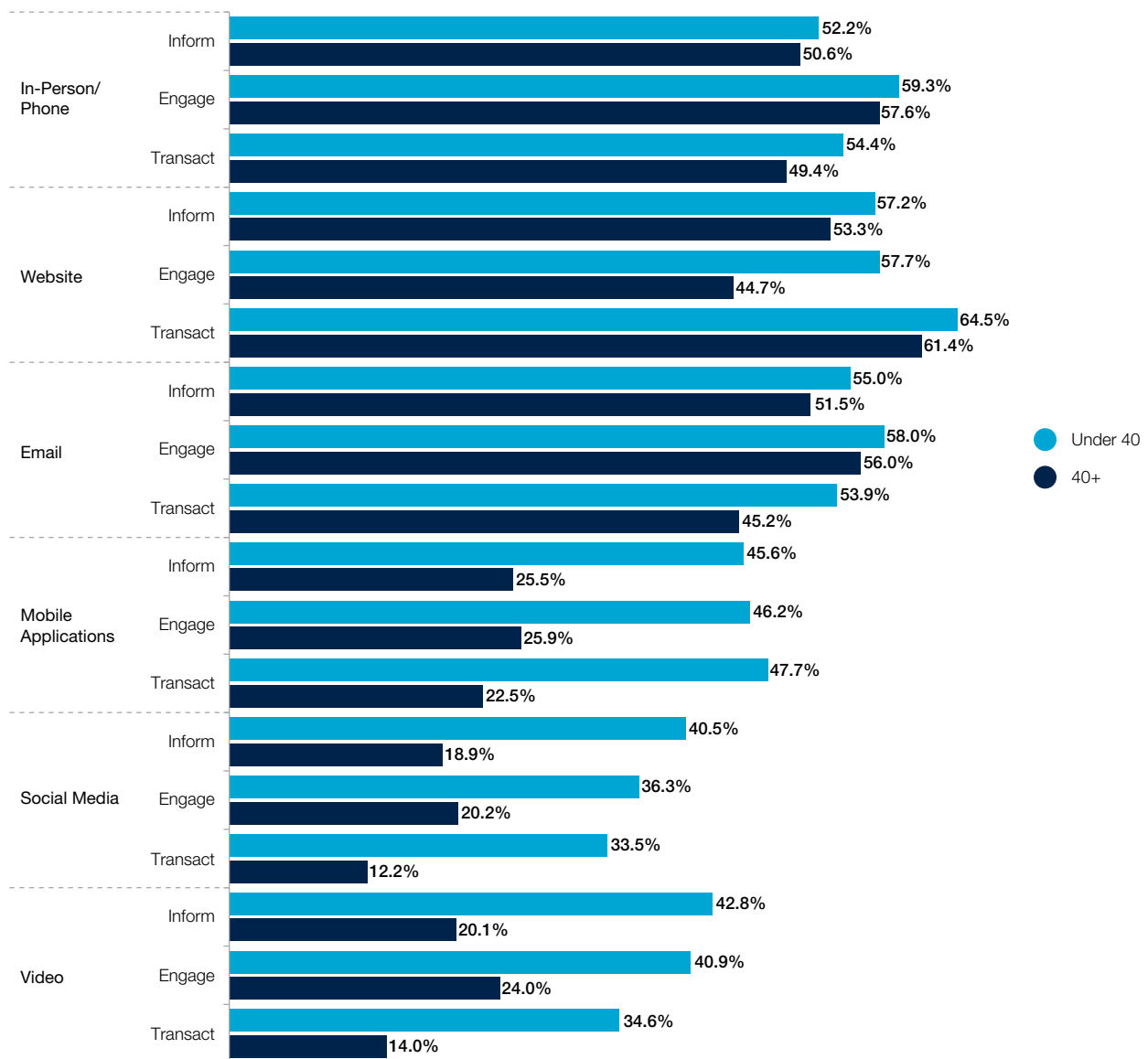
The pattern was similar when looking at the Inform capabilities, with HNWIs in Asia-Pacific (excl. Japan) expressing the largest preference for using websites rather than direct contact to obtain information.

The picture is slightly different when it comes to engaging with wealth managers, given that HNWIs—especially those in North America—exhibit a preference for direct rather than digital interactions.

Some of the biggest disruption is coming from emerging digital channels of mobile applications, social media, and video, especially when segmenting the HNWI client base by age. As Exhibit 7 shows, the trend towards digital is even more prevalent for HNWIs under the age of 40, and cuts across Inform, Engage, and Transact. This is especially notable in the divergent demand for mobile applications, social media, and video – tools that many firms and wealth managers are still not comfortable providing or using.

Of the three emerging forms of digital interaction, mobile applications received the highest level of demand from HNWI. Mobile applications can provide much the same functionality as the website, while also offering the added elements of spontaneity and convenience through a compact, dynamic interface.

Exhibit 7: HNWI Channel Importance for Different Wealth Management Capability Areas by Channel, (% of Respondents), Q1 2014



Note: Weighted average of respondents indicating importance level to difference capabilities per channel
 Source: Capgemini Financial Services Analysis, 2016; Capgemini, RBC Wealth Management, and Scorpio Partnership Global HNW Insights Survey, 2014

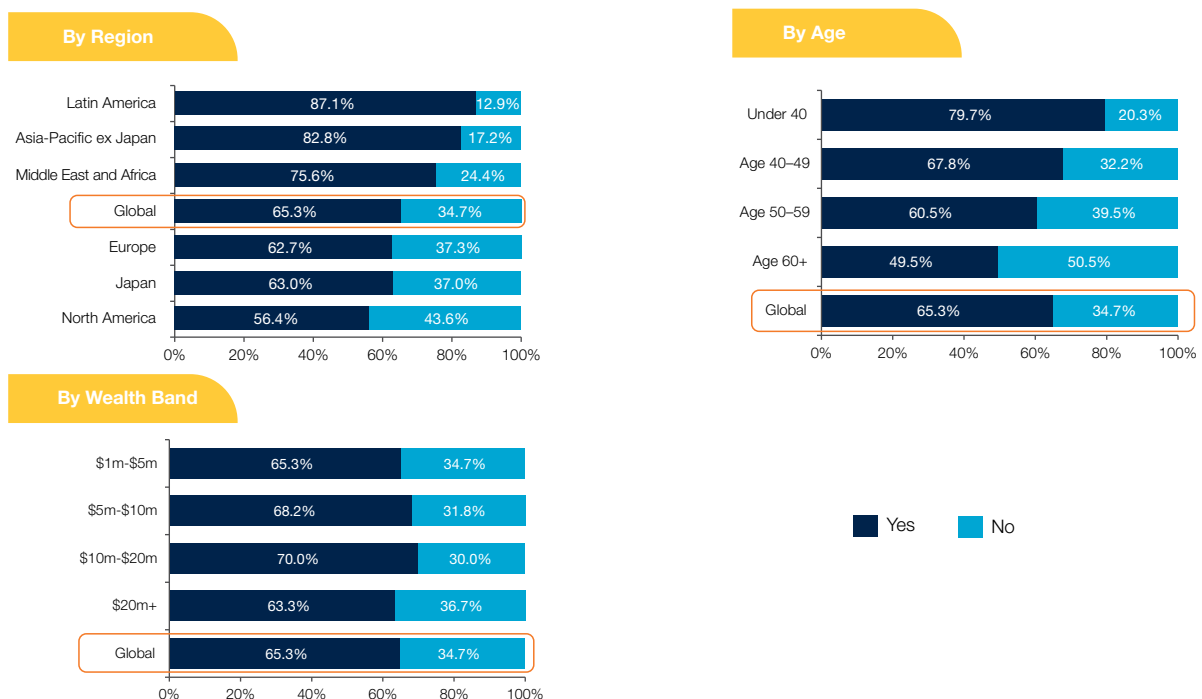
The biggest implication is the significant levels of HNWI attrition risk for not getting digital right

Attrition Risk for Firms Lacking Digital Capability

We have seen that digital demand from HNWLs is significant, but what is the implication for firms and wealth managers?

The biggest implication is the significant levels of HNWI attrition risk for not getting digital right, as evidenced by Exhibit 8.

Exhibit 8: HNWI Propensity to Leave Wealth Management Firm Due to Lack of Integrated Channel Experience by Demographics, (% of Respondents), Q1 2014



Note: Question asked, "To what extent do you agree or disagree with the following statement? 1. I expect my wealth management experience to be integrated across all channels (personal, phone, digital) with a consistent level of service across all channels, for example, I should be able to start an activity on any channel and finish on any another channel", and "If your main wealth management provider could not offer this type of integrated wealth management experience, would it prompt you to consider moving to another firm?"

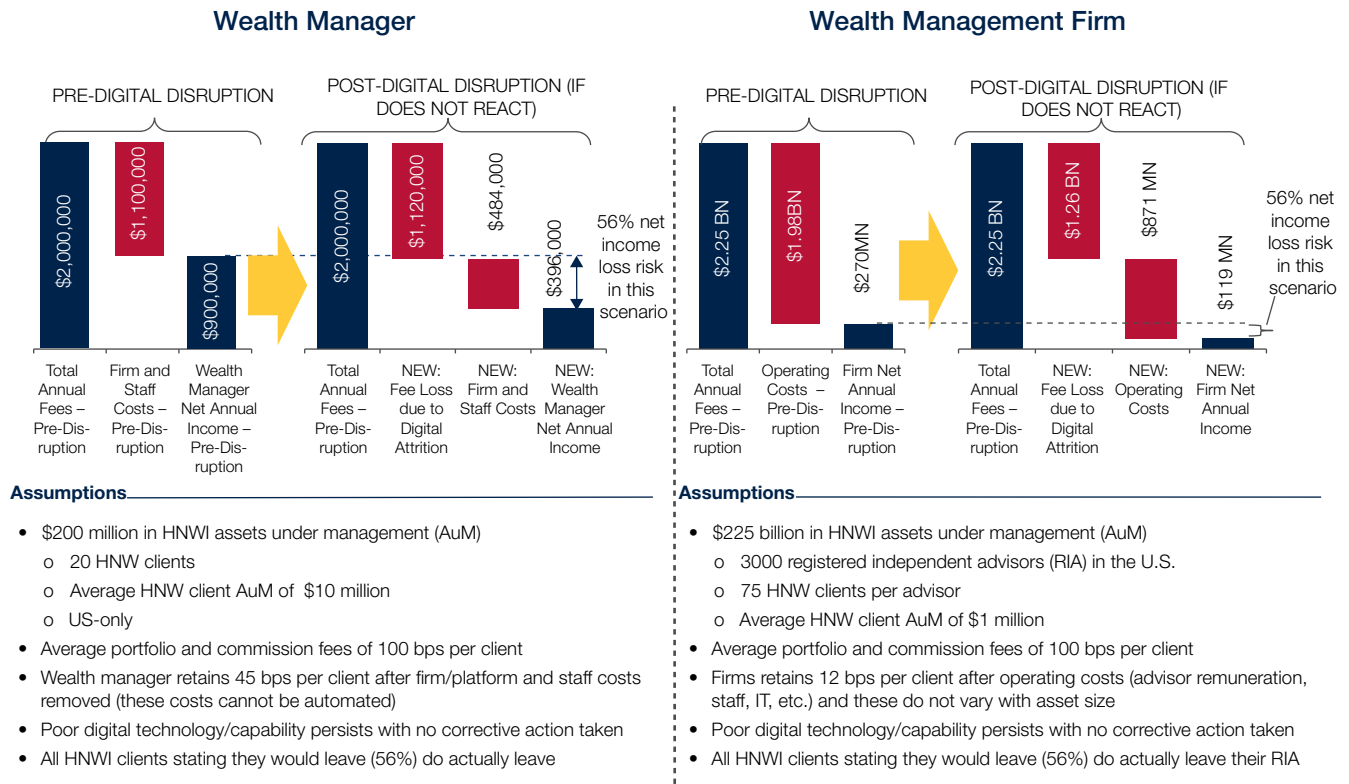
Source: Capgemini Financial Services Analysis, 2016; Capgemini, RBC Wealth Management, and Scorpio Partnership Global HNWI Insights Survey, 2014

In the most extreme scenario of digital attrition, firms would and wealth managers lose an estimated 56% of their net income

Regardless of region, age, or level of wealth, it is clear that there is significant risk of HNWLs leaving their wealth management firm for a lack of an integrated channel experience. The highest risk is in developing regions and amongst the younger population of HNWLs, but is sufficiently elevated to be a concern regardless of demographic factors.

Played out in a business scenario, the results would be significant, both to wealth managers and their firms. As Exhibit 9 shows, in the most extreme scenario of digital attrition, firms and wealth managers would lose an estimated 56% of their net income.

Exhibit 9: Hypothetical Digital Attrition Risk and Impact to a Wealth Manager and Wealth Management Firm (US\$), Q1 2016



Note: See assumptions in figure

Source: Capgemini Financial Services Analysis, 2016; Capgemini, RBC Wealth Management, and Scorpio Partnership Global HNWI Insights Survey, 2014

Over 50% of wealth managers globally state they are at least somewhat likely to leave their firm in the short-term

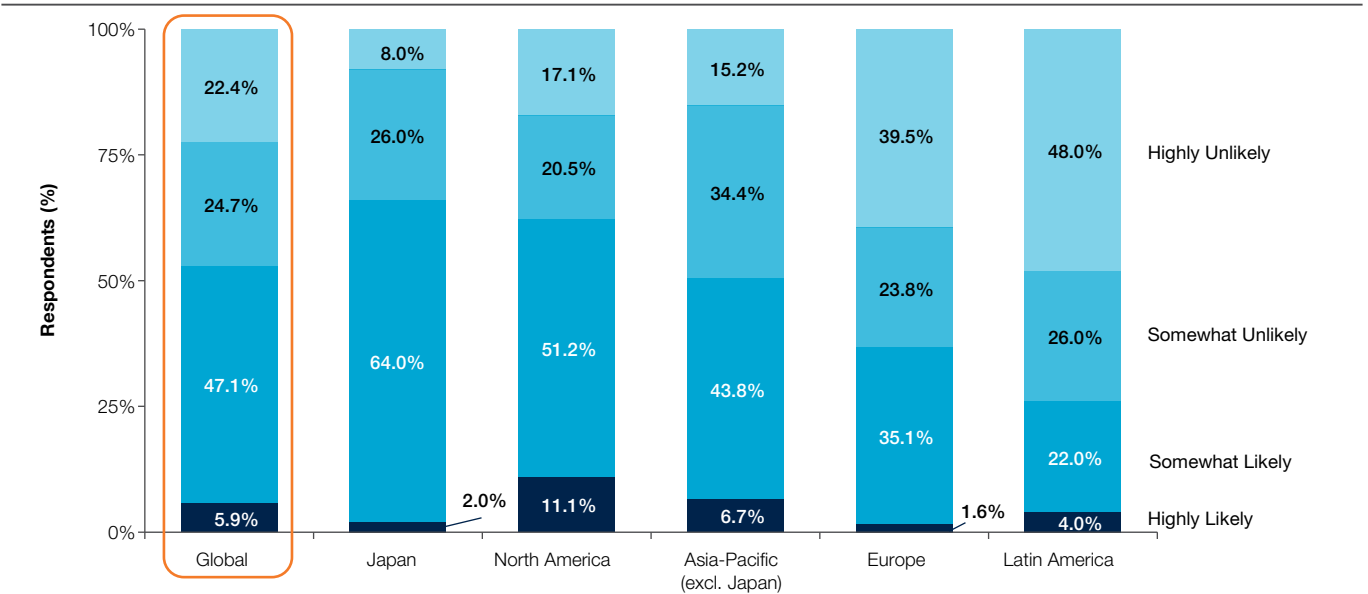
While these scenarios are highly unlikely since attrition would be more phased over time (and very few firms would take no action), it nonetheless paints a clear picture of the amount of profit at stake as the industry transforms.

3.3. A New Dynamic – Wealth Manager Digital Demand

The attrition risk is not only from HNWIs. Wealth managers are also looking at leaving their current firms, as over 50% of wealth managers globally state they at least somewhat likely to leave their firm in the short-term (see Exhibit 10). Given that over 66% of HNWIs are likely to follow their wealth managers to their next employer,¹¹ this represents a significant burning platform for firms to address.

¹¹ Capgemini and RBC Wealth Management Global HNWI Insights Survey 2015, Q1 2015

Exhibit 10: Wealth Manager Propensity to Leave Wealth Management Firm (% of Respondents), Q1 2015

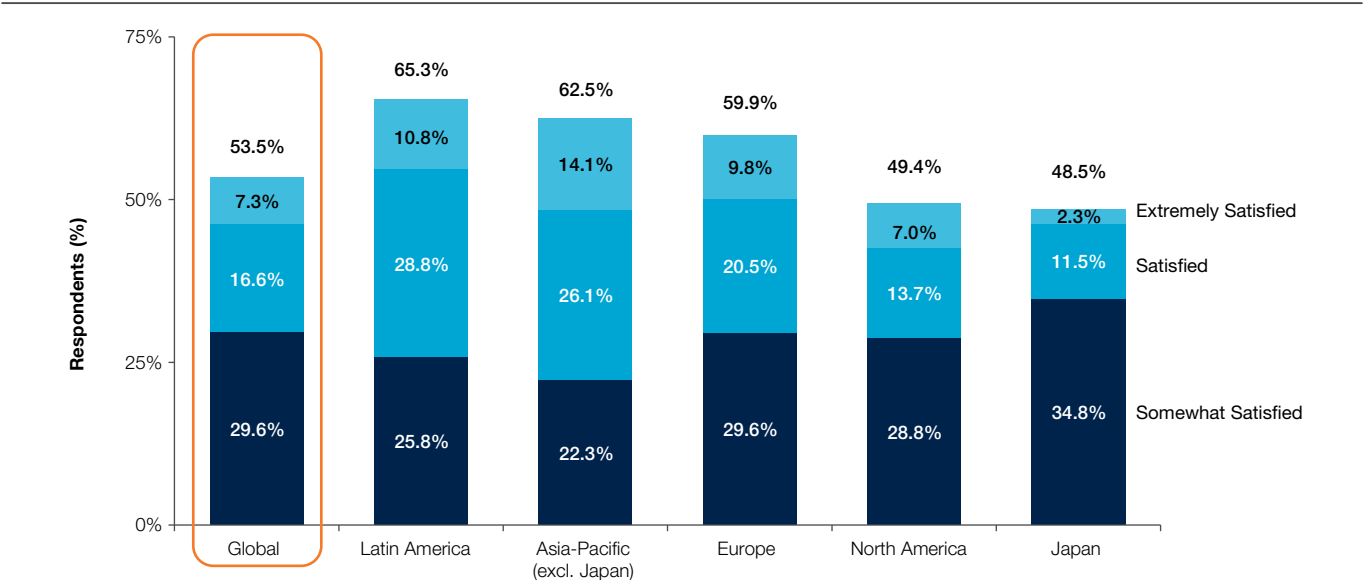


Note: Question asked: How likely are you to leave your firm within the next 6–12 months? Question was asked in Q1 2015
 Source: Capgemini Financial Services Analysis, 2016; Capgemini Wealth Manager Survey 2015

Only 53% of wealth managers globally are at least somewhat satisfied with wealth manager digital capabilities

A significant lever for firms to arrest this churn is by focusing on emerging strong digital demand from wealth managers. Exhibit 11 shows that when it comes to the key digital capabilities for wealth managers themselves (such as real-time access to client profile and market information and advisor desktop with all applications on a single platform), only 53.5% of wealth managers globally are at least somewhat satisfied with wealth manager digital capabilities. Additionally, only 23.9% are “Satisfied” or “extremely” satisfied, implying very significant correlation between digital capability and wealth manager attrition risk.

Exhibit 11: Wealth Manager Satisfaction on Digital Capability of Firms for Advisory Capabilities (% of Respondents), Q1 2015

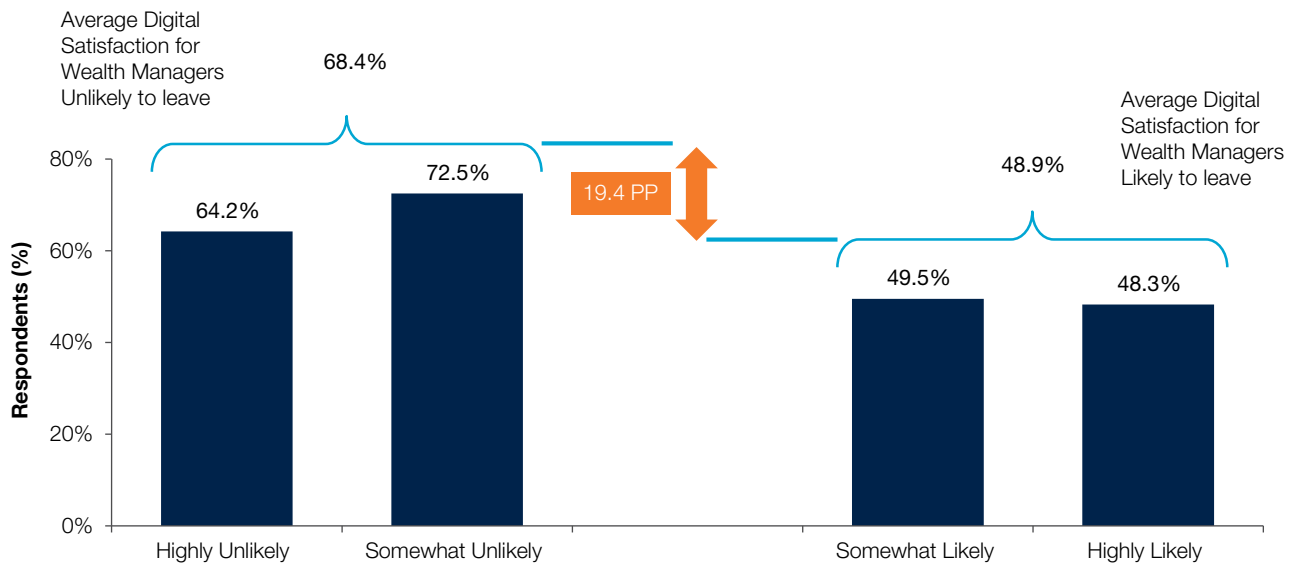


Note: Question asked: How satisfied are you with the digital capabilities you have access to in the following areas?
 Source: Capgemini Financial Services Analysis, 2016; Capgemini Wealth Manager Survey 2015

Wealth managers who are likely to leave the firm in the short term are 19.4 percentage points less digitally satisfied

There is clear evidence of strong correlation between wealth manager digital dissatisfaction and significant attrition risk (see Exhibit 12). The 2015 Capgemini Wealth Manager Survey highlights that wealth managers who are likely to leave the firm in the short term are 19.4 percentage points less digitally satisfied than wealth managers stating they are unlikely to leave the firm.

Exhibit 12: Wealth Manager Satisfaction on Digital Capability of Firms for Advisory Capabilities by Likelihood to Leave (% of Respondents), Q1 2015



Note: Questions asked: How satisfied are you with the digital capabilities you have access to in the following areas?; How likely are you to leave your firm within the next 6–12 months? Question was asked in Q1 2015
 Source: Capgemini Financial Services Analysis, 2016; Capgemini Wealth Manager Survey 2015

4. A New Value Proposition for the Wealth Manager of the Future

Despite the digital demands of HNWI's, the role of the wealth manager is and will remain critical



Despite the overall high levels of HNWI client satisfaction globally, there is a disconnect on the part of wealth managers in understanding and meeting the needs of younger HNWI's

4.1. Wealth Managers Continue to Play a Vital Role

Despite the digital demands of HNWI's, the role of the wealth manager is and will remain critical, with digital channels playing a complementary role to the client-wealth manager relationship. Indeed, on the surface HNWI clients are largely satisfied with their wealth managers, with HNWI's globally giving their primary wealth manager a nearly 73% performance rating.¹²

Such performance scores are impressive, given the breadth of support HNWI's are looking for from wealth managers. For instance, HNWI's want their wealth manager to fulfill a wide range of wealth needs, especially those deemed to be advice-related wealth needs. These needs focus on specific actions around providing advice, such as how wealth managers endeavor to understand HNWI needs, concerns, and risk tolerances; how efficiently they use HNWI time and resolve problems; and how well the investment decisions wealth managers make actually perform. It is the responsibility of the wealth manager to meet these needs, whereas platform-related wealth needs (which relate more directly to the firm platform that supports wealth managers) sees the firm assume responsibility for improving service delivery.

While some of these needs are more essential than others, HNWI's rank the importance of nearly all of them within a narrow band of 61% to 73%. When it comes to achieving satisfaction on the measures that matter most to HNWI's, wealth managers and firms appear to be doing a great job. Among HNWI's who place high importance on their wealth needs, the average satisfaction level with the ability of wealth managers and firms to fulfill these needs is 86.4%.

4.2. Needs of Younger HNWI's Change the Dynamic

Despite the overall high levels of HNWI client satisfaction globally, there is a disconnect on the part of wealth managers in understanding and meeting the needs of younger HNWI's.

As Exhibit 13 shows, younger HNWI's are less satisfied than older HNWI's (70.0% vs. 73.4% for older HNWI's) with their wealth managers, and have less trust and confidence in them (54.3% vs. 58.3% for older HNWI's). While the gap is relatively small, in the context of all the other ways that younger HNWI's are different (high levels of digital demand, desire for social impact and philanthropy, and concerns around the future, among others) it creates an imperative to focus more on younger HNWI's.

From a practice management perspective, younger HNWI's are also much more likely to hold relationships with five or more firms (43.2% vs. 14.7% for older HNWI's)

¹² "2015 World Wealth Report", Capgemini and RBC Wealth Management, 2015

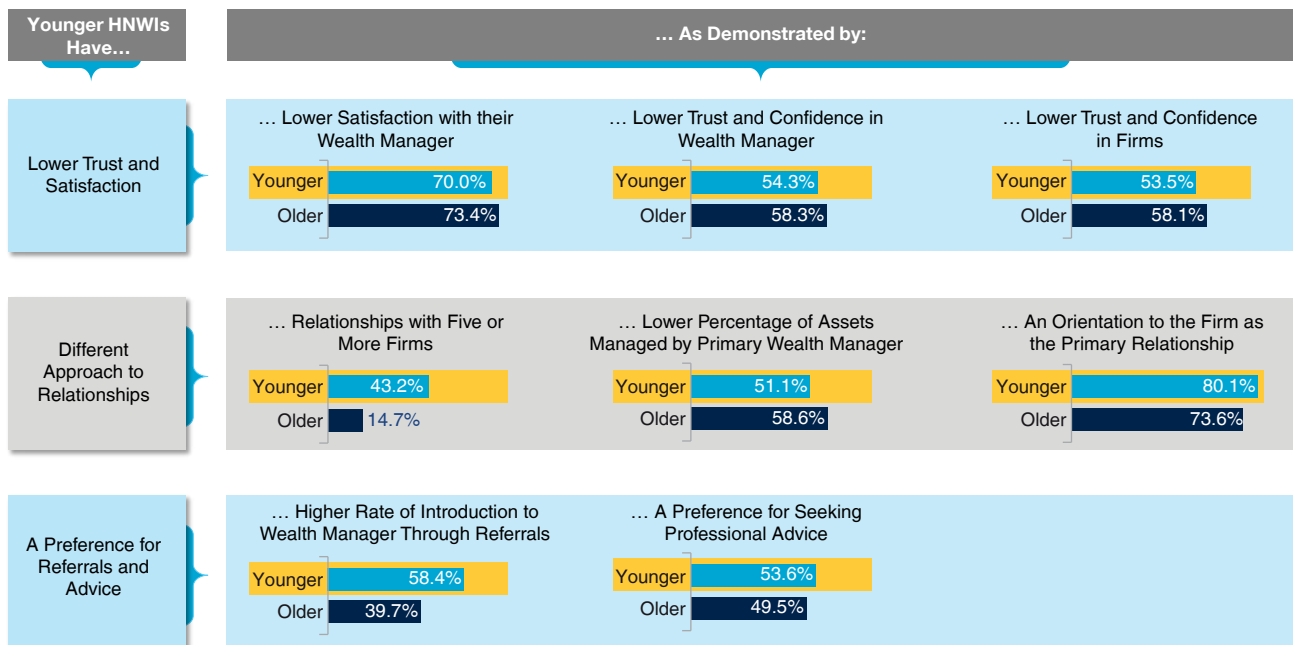


and keep a lower percentage of assets with their primary manager, representing both a challenge and an opportunity for firms that can meet the demanding service expectations of younger HNWI.

Wealth managers and firms will need to heed these findings, given that positive client experiences must become a top priority to overcome the lower levels of confidence and satisfaction that younger HNWI have in wealth managers. Wealth managers must also have a solid presence on both physical and online channels to take advantage of the strong preference of younger HNWI for word-of-mouth referrals.

Finally, working with other professionals, including those from other firms, will become more important for wealth managers, given the propensity of younger HNWI to work with multiple institutions. To offer differentiating services, wealth managers must also act as conduits to a broad range of capabilities, both inside and outside of their firms.

Exhibit 13: Preferences and Wealth Management Approach of Younger HNWI, (%), Q1 2015



Note: Questions asked (in order of appearance of graphs in each row): “On a scale of 0%–100%, how satisfied are you with your primary wealth manager?”; “Currently, to what extent do you agree or disagree with the following statement?—I have trust and confidence in the wealth managers and firms.” Results were analyzed based on agreement and disagreement to arrive at the percentages for HNWI trust and confidence. Respondents were asked to rate on a scale of 1–7 and the above percentage represents the sum of rating from 5–7; “How many wealth management firms do you work with?”; “What percentage of your financial assets are managed by your primary wealth manager?”; “Thinking about your primary wealth manager, as well as the wealth management firm, please indicate which of them most influences your decision to hold assets with your current wealth management firm.”; “How were you introduced to your primary wealth manager?” The above values represent the sum of HNWI choosing the response as referral by a friend or business contact; “Which statement best describes the way you currently work with wealth managers?—I seek professional financial advice vs. I do not seek professional financial advice.”

Source: Capgemini Financial Services Analysis, 2016; Capgemini and RBC Wealth Management Global HNWI Insights Survey, 2015

4.3. The Evolving Role of the Wealth Manager

These factors highlight a broader trend of the evolving role and value proposition of the wealth manager. Firms and wealth managers face a host of industry challenges, including ongoing issues such as shifting HNWI client behaviors (including high levels of cash), regulatory and cost pressures, and more recent threats from new entrants, all of which are driving the evolution of the wealth manager’s role.

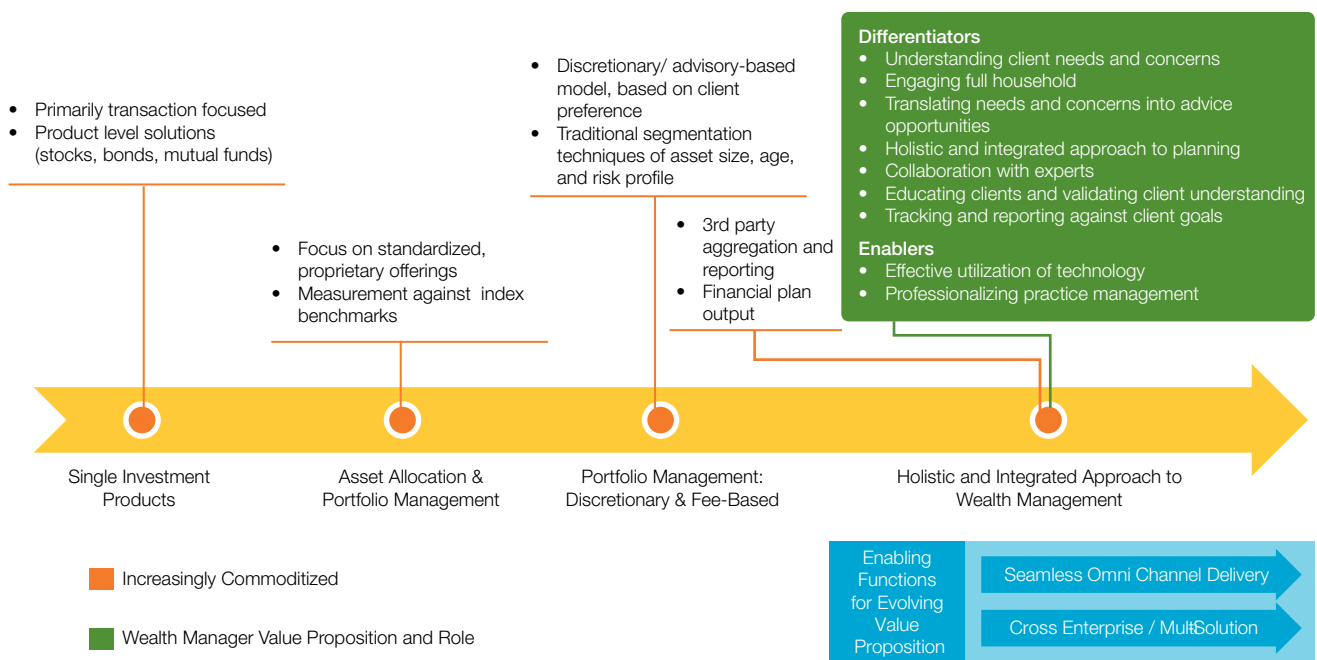
While the longer-standing issues are well-known to firms, the disruption from new entrants (particularly automated advisory services¹³, or as some know them, “robo-advisors”), presents a significant challenge as well as an opportunity.

All of these factors are driving an evolution in the wealth manager value proposition across multiple areas (see Exhibit 14). While some aspects have been in transition for several years and there are global nuances, the difference now is in the convergence of areas and accelerated pace of change. In summary, these changes are:

- **Growing prominence of fee-based and discretionary solutions.** Regulations and client demand have shifted the focus of many wealth managers and firms from commission or advice-based solutions toward fee-based or discretionary products.
- **Focus on behavior-based segmentation.** Segmentation of clients has evolved from traditional techniques based on HNWI age, wealth level, and risk profile, to advanced approaches based on HNWI behaviors.



Exhibit 14: Evolution of the Wealth Manager Value Proposition and Role



Source: Capgemini Financial Services Analysis, 2016; 2015 World Wealth Report, Capgemini and RBC Wealth Management, 2015

¹³ Automated advisory services refer to online-only firms (or divisions of traditional wealth firms) that offer automated portfolio management services (i.e. client inputs result in automated portfolio management recommendations). However, they are not typically equipped to offer more holistic and detailed financial product and planning services.



As basic asset allocation, investment advisory, and risk profiling services become commoditized, the value proposition of wealth managers is transitioning. It is moving away from stock selection and investment management, toward more holistic financial planning

- **Utilizing open architecture to offer varied products.** The adoption of open architecture is allowing wealth managers to offer HNWI access to investments that were previously available only to institutional investors, rather than relying on the proprietary offerings of the firm.
- **Shift toward a goals-based, holistic approach to wealth management.** Advice and solutions have evolved from suggesting plain and simple products (equities, bonds, and mutual funds) to adopting a goals-based, holistic approach to wealth management encompassing cash, credit, tax, estate planning, insurance, philanthropy, and succession planning, both for businesses and personal wealth.
- **Delivery of the full capability of the firm.** Along with the shift to delivering a more holistic approach to wealth management advice, the core focus of the relationship between the HNWI and the wealth manager has expanded such that wealth managers increasingly act as conduits to provide HNWIs with access to a broad range of experts from across the firm.
- **Use of multiple channels.** The traditional method of dialogue between HNWIs and firms has evolved from a single face-to-face channel, to a more integrated multiple channel experience, with the goal of providing clients a consistent, personalized, anytime/anywhere, seamless experience across all channels, including digital.
- **Increasing shift toward goals-based performance measurement.** The investment management process has evolved from a pure transaction-based model that measures success based on relative returns, to a financial planning model that measures success against the broad range of needs and concerns of HNWIs to achieve a more relevant and personalized goals-based performance measurement.

The imperative for wealth managers to embrace a holistic approach toward financial planning and wealth management is clear, and by adapting to the new environment, wealth managers can turn the disruption wrought by automated advisory services into opportunity. As basic asset allocation, investment advisory, and risk profiling services become commoditized, the value proposition of wealth managers is transitioning. It is moving away from stock selection and investment management, toward more holistic financial planning. With the transition already underway, leading wealth management firms are ramping up their investments in capabilities related to financial planning.

5. Firms Need to Ingrain Digital Throughout Client Experience

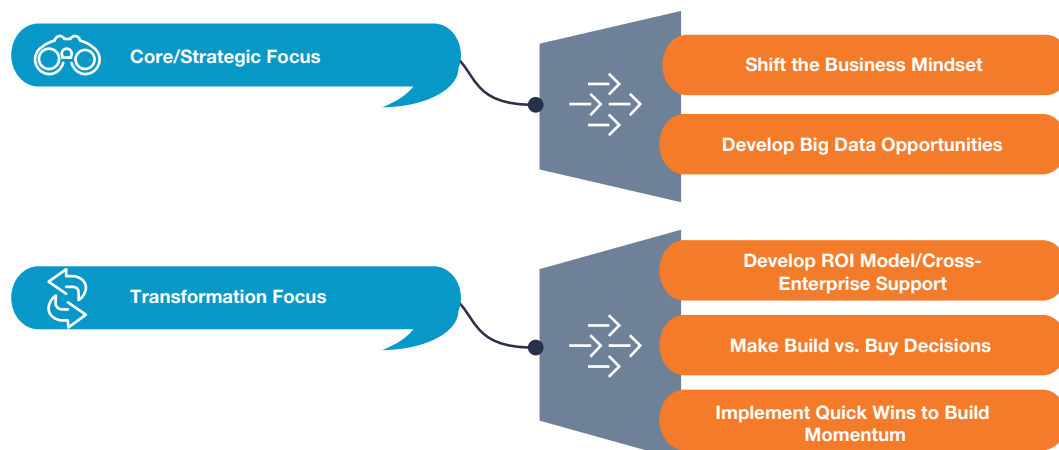
Third-party vendors may offer both a more affordable way to acquire software expertise, while also being more scalable to keeping up with the fast pace of technological change, especially those that can integrate with the evolving FinTech ecosystem

5.1. STRATEGIC: Build a Transformative Digital Mindset

The Capgemini framework for firms to chart a path through this complex landscape is multi-faceted (see Exhibit 15).

- **Shift the business mindset.** Future leaders will recognize that digital can no longer be viewed as a channel, but should be instead an integral part of the HNWI experience, integrated across all channels.
- **Develop an ROI model built on cross-enterprise engagement.** Typical ROI approaches are not sufficient for measuring the investments required to infuse a digital mindset throughout a firm. Firms need to go beyond merely identifying key performance indicators, and should instead build comprehensive ROI models that take into account the level of digital engagement required of wealth management staff throughout every level and line of business of the firm. Since the success of any digital program is based on end-user adoption, the entire enterprise, including back-, middle-, and front-office staff, needs to be engaged.
- **Make build vs. buy decisions.** During the journey towards building digital maturity, firms come across the decision of whether to build or buy capability. Building functionality in-house presents a wide range of challenges, not least of which are the complexity of existing systems. Third-party vendors may offer both a more affordable way to acquire software expertise, while also being more scalable to keeping up with the fast pace of technological change, especially those that can integrate with the evolving FinTech ecosystem.

Exhibit 15: High-Level Digital Prioritization Roadmap in Wealth Management



Source: Capgemini Financial Services Analysis, 2016; 2014 World Wealth Report, Capgemini and RBC Wealth Management, 2014

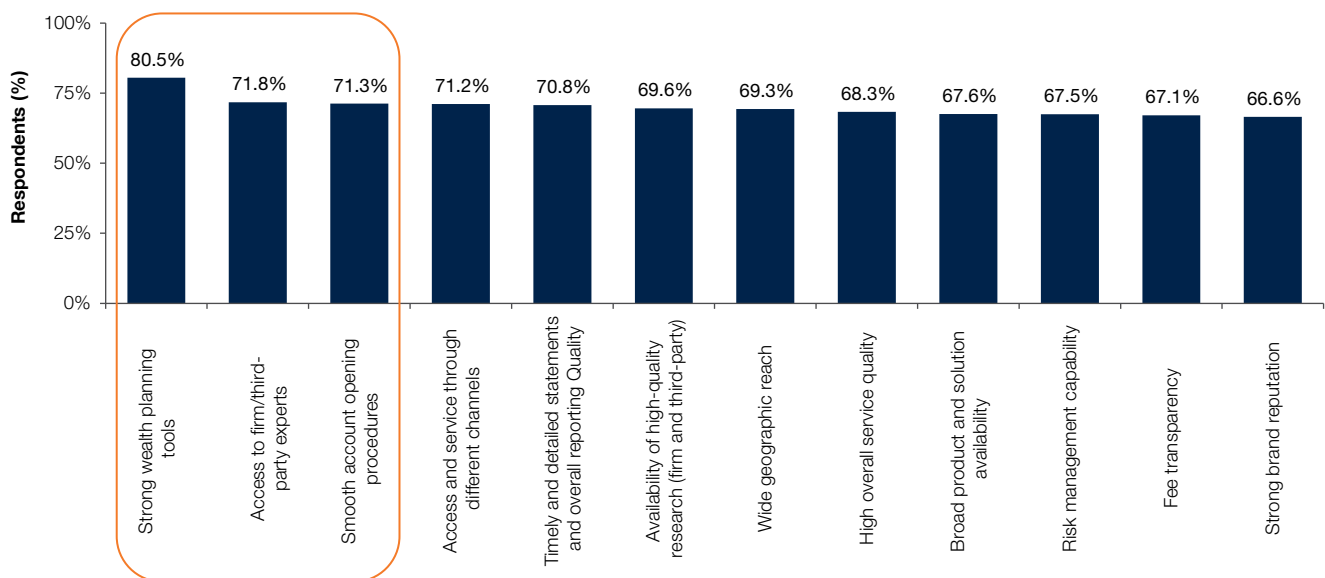
Firms that figure out how to convert data into meaningful information that they can act on will become the high-performance firms of the future.

- **Implement quick wins to build momentum.** Given the importance of maintaining organizational energy for digital transformation, especially in driving adoption from the key end-users, wealth managers, firms should seek early successes whenever they can. For example, providing tablet devices to allow wealth managers to perform visualization, such as dynamic reporting and scenario planning to engage with clients, could be one such approach.
- **Develop big data opportunities.** Many firms consider the Holy Grail for their digital initiatives to be the ability to have a complete picture of all the types of interactions the firm is having with clients and a clear sense of how effective those touch points are in both meeting client expectations and achieving the financial goals of the firm. The sum total of all a firm's client interactions will generate data that firms should be able to mine to gain meaningful intelligence aimed at driving strategic decisions. Firms that figure out how to convert data into meaningful information that they can act on will become the high-performance firms of the future.

5.2. TACTICAL: Equip Wealth Managers for Success

Wealth managers have identified specific capabilities that are critical addressing HNWI needs. The most important of these are wealth-planning tools, such as scenario planning and asset allocation, as well as the ability to have access to experts, such as legal, tax, and philanthropy at the firm and through third parties (see Exhibit 16). Both of these capabilities must be digitally-enabled and can serve not just as a defensive measure to retain HNWI clients, but also as a revenue-generating tool by building differentiated value propositions in the areas that HNWI value.

Exhibit 16: Wealth Manager Importance on Capabilities to Fulfill HNWI Wealth Needs, Q1 2015



Note: Questions asked: "On a scale of 1–7 (where 1 = Not At All Important and 7 = Extremely Important) please rate the importance of HNWI needs related capabilities at your firm."; Ratings of 5, 6, and 7 have been shown in the chart above
 Source: Capgemini Financial Services Analysis, 2016; Capgemini Wealth Manager Survey, 2015

It is therefore critical for a wealth management firm to be able to tap into a platform that leverages advanced application programming interface (APIs) and integration with current and future third-party tools

Lastly, as with any significant technology implementation, articulating the productivity and revenue-generating benefits to wealth managers will be critical in driving adoption and getting the most from investments into leading digital platforms and capabilities

It is important to note that wealth managers and even their firms cannot have all of the financial planning and expert capabilities that HNWIs need. At the same time that third-party FinTech firms are increasing in both number and sophistication for wealth management capabilities, it is therefore critical for a wealth management firm to be able to tap into a platform that leverages advanced application programming interface (APIs) and integration with current and future third-party tools, allowing wealth managers a range of options on how they customize their service approach to meet HNWIs' needs.

Exhibit 16 also shows that another key capability demanded by wealth managers is to have hassle-free account opening procedures, a development that could see innovative concepts such as e-signatures become more mainstream. These new account opening tools allow for not only a far smoother customer experience during the critical 90-day referral window, but also offer firms a more robust capability for regulatory compliance around know-your-customer requirements.

In the transition toward a more thorough financial planning approach enabled by digital technology, major training and change management initiatives are required. Wealth managers will benefit from understanding the importance of financial planning discussions as a key part of the advisory process, and how they will support their business growth and profitability. Coaching and support to segment clients into those who need relatively simple financial planning software solutions vs. more tailored approaches, such as dedicated financial planners, regardless of wealth level, will be an important part of changing wealth manager behavior. Wealth managers will also require more in-depth training on the use of digital tools and social media so they can better engage with clients, particularly the younger ones. Finally, they need guidance regarding how to become more creative in their discovery and prospecting efforts. Lastly, as with any significant technology implementation, articulating the productivity and revenue-generating benefits to wealth managers will be critical in driving adoption and getting the most from investments into leading digital platforms and capabilities.



6. Conclusion: Faced with the Need to Rebuild, Cloud-Based Platforms Are a Key Lever of Firms' Digital Success

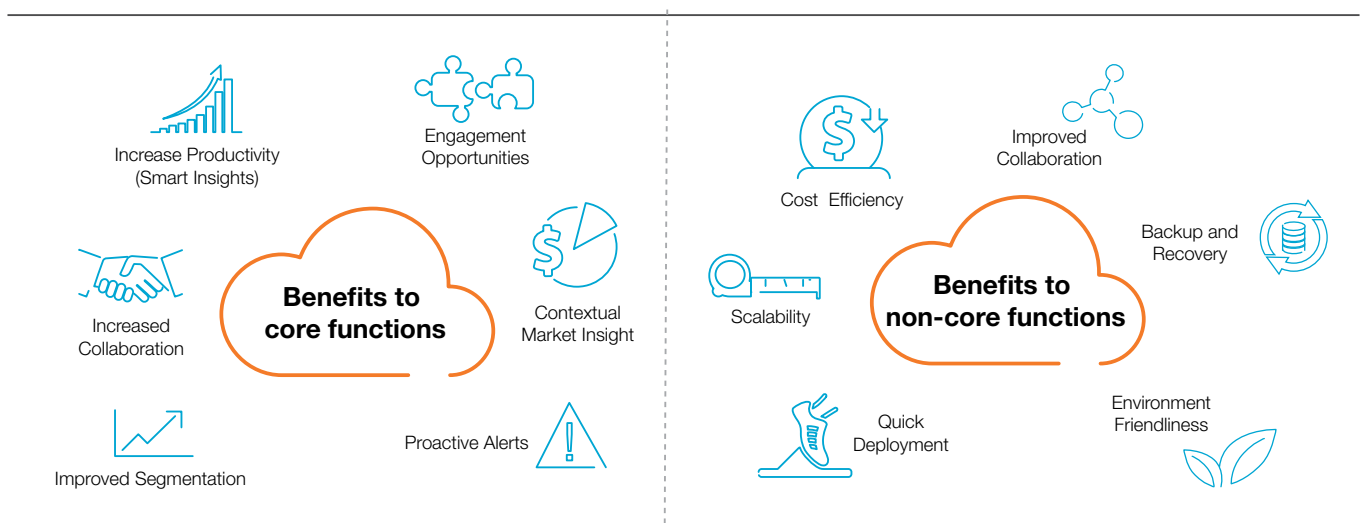
Three characteristics of cloud computing—agility, flexibility, and scalability—make it a critical pillar for wealth management firms to consider

Faced with the need to digitalize and build a unified view of clients to enable contextual, collaborative, and personalized service, firms must ultimately rebuild their technology platforms. To do so, they face a choice between re-building their systems from scratch (by employing a service-oriented architecture [SOA] approach) or leveraging a scalable and cost-efficient platform built on cloud technology that can seamlessly integrate with upstream and downstream applications.

More and more firms are opting for cloud-based platforms when choosing how to build their digital capability, given the need for both new revenue opportunities as well as cost control. Three characteristics of cloud computing—agility, flexibility, and scalability—make it a critical pillar for wealth management firms to consider in order to succeed in today's highly disrupted industry (see exhibit 17).¹⁴

In addition to the significant cost-benefit advantage that can be gained by replacing fixed-cost investments with variable-cost investments, leading cloud platforms allow firms the ability to collaborate internally and with clients (such as through chat functions), integrate across multiple devices, tap into the FinTech capability to deliver new and differentiated propositions to clients, as well as integrate seamlessly with existing applications such as data feeds, portfolio management tools, and many others.

Exhibit 17: Benefits of Cloud Computing for Wealth Management Firms



Source: Capgemini Financial Services Analysis, 2016

¹⁴ Top 10 Trends in Wealth Management in 2016, Capgemini, 2016

A solution built on cloud technology needs to provide a unified view of the HNW client, by using data and analytics to glean actionable intelligence from all of the various interactions the client has with the firm and its ecosystem

Finally, a cloud platform needs to ensure it provides a unified view of the client, by using data and analytics to glean actionable intelligence from all of the various interactions the client has with the firm and its ecosystem. By having this foundation, the firm and the wealth manager can provide differentiated and personalized service to the HNW client as both the relationship and the client's own needs evolve over time.

IN PRACTICE: Preparing for New-Age Adaptive Transformation of the Wealth Manager Workstation

A large North American bank wanted to optimize its wealth management business to provide a superior client experience and improve advisor satisfaction. Capgemini collaboratively guided the firm through a comprehensive 'current state' assessment study across their wealth management value chain, identifying the key pain points contributing to the high costs and inefficiencies within their systems and processes. Capgemini performed a competitive benchmarking analysis which compared key competitors on over 400 functionality points.

Capgemini advised the firm with actionable recommendations to help the firm integrate and consolidate multiple, siloed tools in use, and identified a solution based on Salesforce for increased optimization. A 'target state', multi-year roadmap was also developed to achieve a Salesforce-based advisor workstation that would enable greater revenue opportunities and enhance the client service experience

The solution enabled:

- Increased productivity via smart insights and integrated workstation
- Proactive engagement opportunities through fully integrated household information across the bank
- Contextual market insights across the book of business
- Proactive alerts on any device and private client communities
- Increased collaboration across teams

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