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CAPITAL MARKETS

Trends in Global Wealth Management Industry – High Net Worth Client Perspective

Key emerging client-focused technology trends in the wealth management industry

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Contents

1 Highlights

The financial markets worldwide bounced back in 2009 from the recessionary lows seen during the financial crisis years. This growth was supported by recovery in the macroeconomic environment across regions. While most of the banks that survived the crisis benefitted from this improved performance, their business priorities underwent significant changes, with most of them altering their business models to incorporate lessons learned from past mistakes. One important highlight during and after the crisis years was increased emphasis on wealth management business by both universal banks and boutique firms.

The global wealth management industry has been booming with the growth in High Net Worth Individual (HNWI) wealth and population. Growth of HNWIs has been more prominent in emerging markets that were major contributors to global recovery witnessed in 2009 and 2010. Products and services demanded by HNWIs are now much more sophisticated than those offered under normal banking services. Our analysis highlights important trends witnessed across the globe.

However, the growth in wealth management business is not without its challenges as HNWI clients have become more demanding in terms of products and services offered. HNWIs are becoming tech savvy- both young and old. They are spending more time online, and are demanding increased communication in this space. Reporting needs of HNWIs is also on the rise as they invest across complex products and demand periodic updates on their holdings.

Wealth management firms are responding to these changes by updating their business models and re-thinking their long-term, operational strategies. They are leveraging technology platforms such as mobile and social media to develop increased service capabilities that improve communication with HNWIs. They are also investing in an improved client experience across online platforms to both retain existing clients and attract newer ones. In addition, firms are moving away from traditional client reporting tools towards enhanced tools that better enable advisors.

All these trends are changing the client and advisor service landscape and are expected to enable the growth of the wealth management industry. Professional services firms are also playing a key role in helping wealth management firms to achieve their goals.

2 Introduction

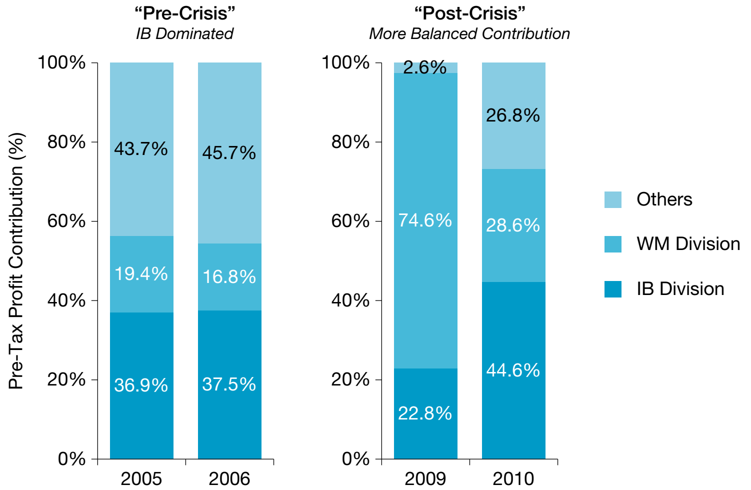
2.1. Financial Performance and Background

The global high net worth individual wealth and population witnessed growth across all regions in 2010, mostly benefitting from the improved financial market performance. Global HNWI wealth stood at $42.7 tn in 2010[1]. While North America remained the largest market in terms of HNWI wealth and population, the Asia-Pacific region overtook Europe on both of these parameters to occupy the second spot. Overall, growth rates in wealth remained higher in emerging economies than in developed economies.

In 2010, the Asia-Pacific region overtook Europe to become the second largest wealth management market in terms of both HNWI wealth and population

2010 also witnessed an increased focus by universal banks on their wealth management operations as the business environment for other operating units (such as investment banking) turned more challenging. For example, the revenue generated by investment banking divisions across most banks remained volatile, with most of them producing substantial losses in the crisis years. Recent regulations in the financial services industry are aimed towards curbing high- risk positions taken by the investment banking divisions. For instance, in the UK, the Independent Commission on Banking (ICB) report proposes ring-fencing banking operations from their riskier investment banking divisions[2]. As such, banks are now focusing more on developing their wealth management businesses, which have generated more stable revenues and margins, and have benefited from a resilient client base.

Exhibit 1: Pre-Crisis and Post-Crisis Performance of Wealth Management Division (%), 2005–2010



Source: Capgemini analysis, 2011

[1] *World Wealth Report*, Capgemini-Merrill Lynch, 2011
[2] As of October 2011, the ICB is still under discussion and is expected to come into effect in 2019, so as to provide banks with ample time to act on the recommendations

However, wealth management firms are also facing many challenges in managing and growing their business. Cost-to-income ratio for the global wealth management industry increased to 79.8% in 2010 and remains a cause of concern for the whole industry. It is of more importance in emerging markets where wealth management firms are still struggling to find the right business model.

Continued dependence upon relationship mangers and an acute shortage of qualified talent in many markets has led to higher personnel expenses. In addition to these challenges, increased regulations in the financial services industry across the globe is creating hurdles for the growth of wealth management business.

2.2. Key Market Trends and Challenges

Despite strong growth in assets, the wealth management industry still faces many challenges, and the challenging environment is forcing wealth management firms to rethink their business models. Increasing client awareness, regulatory oversight, and a shift in focus towards emerging markets are reshaping the wealth landscape. Firms now need to respond to these changes as quickly as possible to remain competitive. On a broader level, trends witnessed across the wealth management industry can be classified into two categories, namely, HNWI-specific and firm-specific trends.

HNWI-specific Trends

- Client trust in advisors and wealth management firms has been improving during the post-crisis period.
- Growth in HNWI wealth and population over last three years has been higher in emerging markets as compared to that in developed markets.
- The proportion of young HNWIs (< 45 years) has been gradually increasing across regions mainly due to the rise in number of young entrepreneurs and also due to the increase in wealth transfers towards younger generations.
- HNWI's demand for philanthropic planning and products is rising steadily.

Firm-specific Trends

- Wealth management firms are struggling to create scalable business models while facing rapid changes in the financial markets.
- The wealth management division is becoming central to universal banks' operating models.
- Regulatory oversight on the wealth management industry is increasing across the globe.
- Emerging markets (especially Singapore and Hong Kong) are emerging as new offshore centers for wealth management.
- Behavioral finance is going mainstream as wealth management firms leverage it to better serve their clients.

Other Challenges
Wealth management firms also face multiple challenges when trying to capitalize upon industry trends. At the parent level, wealth management divisions at universal banks face reputational risk arising from the trading scandals and losses arising from activities of other business units. Legal risks could also arise in cases where conflicts of interest between business units (ex. investment banking and wealth management) are not properly managed. At the business-unit level, challenges faced by firms include motivating and incentivizing wealth managers to interact with multiple business units to provide their clients with necessary information. At the distribution level, the important challenge is to offer a wide array of products to HNWIs while clearly explaining the specific details and risks of each. Some other challenges facing wealth management firms are shortage of well qualifies and experienced advisors, increased regulatory burden and constantly evolving needs of HNWI clients.

However, not all the above-mentioned challenges are global in nature. Talent shortage and succession planning problems are more pronounced in the Asia-Pacific region, while demand for sophisticated service is more relevant in the Europe. Growth in female HNWI assets requires a reconsideration of HNWI preferences primarily in the North American region.

Each of these trends and challenges has multiple business and technology implications for wealth management firms globally.

3 Emerging Technology Trends in Global Wealth Management – Client Focused

With improvement in macro-economic and market performance in 2009 and 2010, HNWI wealth and population are both on the rise. Emerging markets in Asia Pacific, Latin America, and Africa are witnessing unprecedented growth in HNWI wealth as the power equation is slowly shifting to the East. HNWIs are becoming more demanding for product and service offerings from wealth management firms. Advisors are also demanding technologically advanced tools and systems to better serve their wealthy clients. At the same time, wealth management firms are leveraging opportunities presented by advancements in technology and changes in client preferences.

These changes have led to the emergence of the following key client-focused trends in the wealth management industry:

1. Increased leverage of mobile and social media platforms to strengthen market presence and cater to HNWI demands.
2. Increased spending in the online space to cater to the growing percentage of technologically savvy clients.
3. Increased spending on client reporting tools to improve transparency and client satisfaction.

The technology trends covered in this document are not exhaustive in nature and only current prominent trends have been analyzed

4 Trend 1: Increased Leverage of Mobile and Social Media Platforms to Strengthen Market Presence and Cater to HNWI Demands

Mobile and social media platforms provide wealth management firms with an opportunity to communicate quickly with their clients and to better understand client behavioral traits.

4.1. Background and Key Drivers

Improvements in mobile technology have led to higher use of smartphones across the globe. Smartphones provide clients with a rich user experience and capabilities that now compete with traditional desktops and laptops. The last few years have also witnessed increased maturity of social media platforms that are used by hundreds of millions of users globally. Various financial institutions across the globe leverage this channel to offer better service and to increase their customers' convenience. However, wealth management firms until recently were shying away from both these platforms, not truly convinced of their applicability in the high net worth space. Many drivers now warrant focus on these platforms:

- HNWIs are increasingly using mobiles to check their financial accounts, particularly the growing proportion of young HNWIs (< 45 years).
- Adoption of smartphones and social media platforms has also been higher amongst the younger generation of HNWIs.
- Advisors are demanding these capabilities that provide them with information on the go and help them understand HNWIs choices and preferences.

Wealth management firms have recently increased their focus on leveraging mobile and social media platforms to enhance their business offerings.

4.2. Analysis

Until recently, wealth management firms were not able to gauge how mobile and social media platforms would fit into their business models. Even today, many firms are struggling to develop a business case. Nevertheless, many have now focused their efforts in this direction. Some key benefits derived from mobile and social media are:

- Quickly communicating with clients across mobile platforms.
- Understanding client behavior by interacting via social media platforms, by analyzing their posts, messages and subscriptions, and preferences.
- Better relating to younger HNWIs that have integrated these technologies to a greater extent into their daily lives.
- Better relating to real-life experiences gained by clients

Many smartphones are now offering capabilities that help process data faster and provide users with a rich content navigation experience. Their popularity is rising by the day due to increased convenience and ease of usage. Even the social media platforms are now maturing, taking full advantage of capabilities offered by Web 2.0. These two technologies are helping businesses to come up with innovative ways to communicate with both existing clients and potential new customers. Most large brokerage firms such as Charles Schwab and E*TRADE already provide mobile trading platforms to their customers. Top wealth management firms such as J.P. Morgan and Bank of America Merrill Lynch have developed mobile applications that allow clients to view their portfolio holdings, trade across various asset classes, and move money between linked/eligible accounts. Other wealth management firms such as Barclays now use social media to establish thought leadership and to promote their brands. Increased use of these technologies could lead firms to create interesting business models that would help them grow their business. However, it is imperative to understand that the digital transformation will help realize additional service channels for distribution but is unlikely to replace any existing channel.

4.3. Implications

Wealth management firms need to be strategic in leveraging mobile and social media platforms or else they might risk falling behind. While, both platforms do provide innovative ways to interact with users, they also add challenges in terms of their effective usage (Exhibit 2). Some firms still shy away from social media platforms in fear of violating regulatory guidelines. Others are finding it daunting to choose from multiple choices offered by these technologies.

Wealth management firms are also finding it difficult to quantify benefits they can achieve by leveraging these two technologies. This makes it difficult to decide on how much time and money to invest. Mismanagement of social media platforms can also bring reputational risks to wealth management firms. Firms will need to rethink their intellectual property strategy to decide what kind of data should be available on social media platforms.

Exhibit 2: Opportunities and Challenges Presented by Mobile and Social Media Technologies

Opportunities	Challenges
▪ Increased demand for mobile applications and social media platforms ▪ Ability to better communicate with HNWIs ▪ Ability to better communicate with HNWI's via additional service channels	▪ Multiple mobile operating systems ▪ Fear of violating regulatory principles ▪ Unclear quantifiable benefit

Source: Capgemini analysis, 2011

One point of clarity is that wealth management firms will need to develop a well defined strategy to take advantage of the fast growing use of both mobile and social media platforms. Professional services firms will play a key role in helping wealth management firms achieve this objective.

5 Trend 2: Increased Spending in the Online Space to Cater to the Growing Percentage of Technologically Savvy Clients

Young tech savvy HNWIs are now demanding new technology-specific services such as video conferencing, screen sharing, and the ability to view portfolio holdings online.

5.1. Background and Key Drivers

Easy access to the internet via computers, mobile phones, and other devices is changing the way HNWIs keep track of their wealth and the way they communicate with their firms and advisors. HNWIs now demand communication across technologies such as video conferencing and screen sharing. As such, wealth management firms are spending more on developing their online presence to enable effective interaction with HNWIs. Some key drivers for increased online spending by wealth management firms are:

- Demand for communication across online channels.
- Ability to attract younger tech-savvy HNWIs.
- Fear of losing younger HNWIs during inter-generational wealth transfer.
- Demand from advisors for access to better online tools.
- Ability to provide consolidated portfolio views to HNWIs and advisors.

Wealth management firms have recently increased their focus on leveraging mobile and social media platforms to enhance their business offerings.

5.2. Analysis

A survey by Cisco-IBSG[3] found that the wealthy less than 50 years old are poised to move to firms that provide them with a new approach to financial advice. Young wealthy investors don't use the online platforms just because these options are available, but because they find them preferable. Video conferencing and screen sharing options help remove geographic limitations for HNWIs when interacting with advisors and wealth management firms. Access to accounts online help HNWIs keep real-time track of their portfolios using computers, smartphones, and other devices. Advisors also benefit from better online tools that provide them with consolidated views for all client accounts.

Wealth management firms today are devoting more efforts towards creating state of the art online platforms to better engage their clients. Spending is also focused on providing a consistent customer experience across online platforms. Firms are spending to create self-directed online portals for clients, freeing advisors from low-value interactions such as frequently-asked queries. It also helps service the less profitable client segments via cheaper service channels as compared to the more expensive face-to-face interactions. Firms are also developing IT infrastructure that facilitates better communication with advisors and investors.

[3] Winning the battle for the wealthy investor, Cisco IBSG Study, 2011

Exhibit 3: Key Online Platform Features that Wealth Management Firms Need to Develop

Source: Capgemini analysis, 2011

5.3. Implications

Enriched technology and online platforms are now a necessity for wealth management firms and can help drive scalability of their business models. To cater to HNWI and advisor demands, many wealth management firms are strategically investing in the online space. Firms are providing features such as portfolio performance tracking, consolidated and multi-dimensional view of client portfolios, and consolidated view of all accounts under management for advisors.

Wealth managers need to study the typical profile and online technology usage patterns of HNWIs who are most likely to use it to monitor their portfolios and contact their advisors. They would then need to identify the right strategies to capitalize on this underlying trend.

6 Trend 3: Increased Spending on Client Reporting Tools to Improve Transparency and Client Satisfaction

6.1. Background and Key Drivers

Clients of wealth management firms are demanding access to real-time reports on demand, but until recently, many firms were still using basic reporting tools for this purpose. Some of these reports are prepared to provide clients with a concise summary of their portfolios, while others are prepared to provide updates on specific products and services that clients are using. Timely and easy access to information is essential to build customer trust and loyalty, especially during periods of severe market volatility. With a rise in product offerings and complexity across various asset classes, client reporting has become more complex and important. In many instances, regulations require firms to provide their clients specific periodic reports. HNWIs have also been demanding easy-to-understand summaries of their portfolio holdings with the firms. Many advisors who have a strong understanding of their customers now cite client reporting as a crucial tool to better serve their wealthy customers.

As such, wealth management firms are investing in enhanced reporting tools that help meet client, advisor, and regulatory demands. The key drivers that have resulted in this increased spending are:

- Advisors rank client reporting as one of their key enablers.
- Wealth management firms believe their reporting tools are inadequate to meet increasing demand on client reporting.
- Insufficient client reporting capabilities is cited as a key driver to client attrition.
- HNWIs rank client reporting as one of the top factors when choosing a wealth management firm.

6.2. Analysis

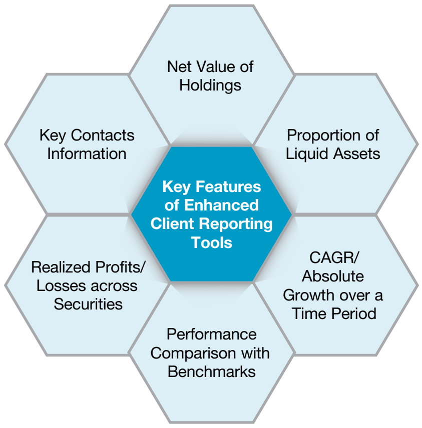
As HNWIs invest across multiple asset classes and as regulations around the wealth management industry increase, reporting needs of wealth management firms have increased. However, insufficient focus was placed on this prior to the financial crisis. During the crisis, as client-advisor trust broke down, firms looked on client reporting as an important tool to improve transparency and to reestablish trust. Inadequate reporting was looked on with suspicion by HNWIs during the crisis.

Higher priority put on client reporting tools by HNWIs when choosing a wealth management firm makes it a key enabler for advisors to improve client service.

Firms are now realizing that client reporting is ranked as a top criterion by HNWIs when choosing a wealth management firm. Even advisors rate this capability highly and many are dissatisfied when there is inadequate internal support from wealth management firms[4]. Frequent and clear communication helps improve client and advisor perception of their firms. As such, firms are now investing more to enhance client reporting capabilities that help satisfy clients and advisors. They are also investing to create enhanced advisor workstations with tools that enable advisors to meet ad hoc data requests by clients.

[4] *World Wealth Report*, 2009, Capgemini-Merrill Lynch

Exhibit 4: Key Parameters of an Enhanced Client Reporting Tools System



Source: Capgemini analysis, 2011

6.3. Implications

Delivering personalized client reports has become a differentiator for wealth management firms. It helps them attract more customers while retaining existing ones. There are some cases where HNWI customers have shifted their entire assets to firms providing quick and detailed reports on their portfolio performance and holdings. In addition to being client-focused, firms must also pay attention to the tools and support mechanisms that serve as enablers to advisors. It is thus imperative for firms to re-evaluate the new tools they are designing to ensure that they fit with long-term operational strategy goals. Analyzing past service requests can help firms identify frequently-demanded reports by clients and they can provide these reports on a proactive basis. Emerging client needs such as demand for dashboards that provide a complete view of products and holdings should also be considered. Above all, firms should also strive to deliver value-added services such as 'what if' analysis to their clients.

Professional service firms can help wealth management firms by providing end-to-end automated solutions for client reporting so that the workflow requires minimal manual intervention and data gets pulled and processed efficiently and accurately from various systems.

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