



Top 10 Trends in Wealth Management 2018

What You Need to Know



Contents

Introduction	3
Trend 01: Applications of Cognitive Computing, Machine Learning, and AI Expand Across Wealth Management Industry	5
Trend 02: Robotic Process Automation Can Help Firms Keep Costs Down and Accelerate Digital Transformation	8
Trend 03: Innovation is Key for Firms to be Future-Ready	11
Trend 04: Introduction of Marketplace Models for Wealth Management Products	13
Trend 05: Focus on Enhanced Customer Experience is Becoming a Wealth Management Priority	15
Trend 06: Cybersecurity Continues to be an Important Concern for Wealth Management Firms	17
Trend 07: Increase in Cost of Doing Business for Firms Due to Complex Regulations	19
Trend 08: Advent of Hybrid Advice Solutions to Set Wealth Management on a New Course	21
Trend 09: Development of Next-Gen Genome-Based Segmentation and Increased Focus on Traditionally Underserved Segments	23
Trend 10: Evolution of Fee Models Due to Client Demands, Regulatory Mandates, and Competitive Pressure	25
References	27
About the Authors	27

Introduction



The wealth management industry is faced with challenges such as intense competition, fee compression, stricter regulations, and evolving customer needs. The impact of these forces and the response of industry stakeholders give rise to critical trends in customer preferences, new technologies, changing advisory models, and security and compliance.

Wealth management clients are becoming more astute about financial planning, and they are seeking digital capabilities and better advisory options. As technology continues to change rapidly, firms must be agile to enhance the overall experience of both their customers and wealth managers. To stave off rising competition, many firms will collaborate with FinTechs¹ via innovative business models such as marketplaces to stay relevant and competitive.

Increased financial awareness of High Net Worth Individuals (HNWIs) is leading to increased demands for sophisticated and customized services. Product innovation can help firms improve the current modest HNWI satisfaction levels and help them differentiate in a rapidly saturating market. While **emerging technologies** such as Artificial Intelligence (AI) and Robotic Process Automation (RPA) are developing rapidly in the wealth management space, Application Programming Interfaces (APIs) and blockchain is also seeing a surge in its use and adoption.





On the regulatory front, myriad compliance mandates that wealth management firms face can seem quite complex, but from the cybersecurity point of view, almost all requirements focus on protecting clients and their information. **Security and compliance** requirements are giving firms a hard time with rising costs and overall spending in these areas; however, in the long run, these may reflect greater stability for firms and will help in establishing trust of their clients.

The **industry's advisory model has also been transforming**, shifting from commission-based to performance-based models, increasing focus on the traditionally underserved segments, and the rise of hybrid advisory services. Increasing competition and client demand for transparency is forcing firms to relook at their strategies to acquire and retain clients.

In the next section, we provide an analysis of the top 10 wealth management industry trends that firms need to navigate in the near term in their pursuit to become agile and competitive in the industry (Exhibit 1).

¹ Our use of the term 'FinTech' refers to the use of digital technologies for making wealth management products, services and distribution more effective for firms, wealth managers, and/or HNW clients. This includes both digital technologies that are provided as completely new and standalone services to HNW clients, as well as those which support/enable traditional wealth management services. For our definition, we are most focused on the services developed and provided by startups (as well as large, innovative technology companies)

Exhibit 1: Top 10 Trends in Wealth Management

Focus Area	Trend
 <p>Emerging Technologies</p>	<ul style="list-style-type: none"> ▪ Applications of Cognitive Computing, Machine Learning, and AI expand across wealth management industry ▪ Robotic process automation can help firms keep costs down and accelerate digital transformation ▪ Innovation is key for firms to be future-ready
 <p>Evolving Customer Needs</p>	<ul style="list-style-type: none"> ▪ Introduction of marketplace models for wealth management products ▪ Focus on enhanced customer experience is becoming a wealth management priority
 <p>Compliance and Security</p>	<ul style="list-style-type: none"> ▪ Cybersecurity continues to be an important concern for wealth management firms ▪ Increase in cost of doing business for firms due to complex regulations
 <p>Changing Advisory Trends</p>	<ul style="list-style-type: none"> ▪ Advent of hybrid advice solutions to set wealth management on a new course ▪ Development of next-gen genome-based segmentation and increased focus on traditionally underserved segments ▪ Evolution of fee models in wealth management due to client demands, regulatory mandates, and competitive pressure

Source: Capgemini Financial Services Analysis, 2017

Trend 01: Applications of Cognitive Computing, Machine Learning, and AI Expand Across Wealth Management Industry

Innovative applications using emerging technologies are now moving beyond marketing analytics toward more strategic functions.

Background



- Advances in technologies such as Artificial Intelligence (AI), Machine Learning (ML), and Cognitive Insights have started to make wealth management inroads as the industry realizes that the ability to extract value from big data is a key differentiator.
- Analytics applications in wealth management firms are already moving beyond marketing and customer segmentation to more robust fact-based behavioral data capture, as it taps into streams of structured and unstructured data.
- For example, firms are implementing the Next Best Action (NBA) engine to enable their digital transformation journey by leveraging analytics, insights and machine-learning algorithms as a competitive advantage across front-to-back value-chain.

Key Drivers



- Exponential increases in computer power and data storage have led to the rise in artificial intelligence and machine learning systems:
 - This increase is also driven by the fact that more data is being created which is expected to increase three-fold from 2016-2021.²
 - This explosion of customer data means firms can leverage the Next Best Action framework to shift to a customer-centric approach and design personalized, versus standard products.
- The rise in passive investing and move toward lower fees has also led asset managers to invest heavily in technology to reduce operating costs and to comply with regulatory scrutiny.
- Many firms are also moving toward Big Data and analytics applications as their clients become more demanding toward personalized and data-driven insights.

Trend Overview



- The wealth management industry is an early adopter of artificial intelligence:
 - Automated advisors utilizing AI are expected to have assets worth US\$2.2 trillion by 2020.³
 - Cognitive applications in wealth firms are also helping deliver deep personalization, and answer complex client questions in real time through expert virtual advisors that act as a conversational interface with clients

² "The ZetaByte Era: Trends and analysis", Cisco, June 7, 2017 accessed October 2017 at <https://www.cisco.com/c/en/us/solutions/collateral/service-provider/visual-networking-index-vni/vni-hyperconnectivity-wp.html>

³ "By 2025, AI Will Have a 5-Trillion-Dollar Direct Impact on the Workforce", LetsTalkPayments, May 5, 2016 accessed October 2017 at <https://letstalkpayments.com/by-2015-ai-will-have-a-5-trillion-dollar-direct-impact-on-the-workforce/>

(Exhibit 2). For example, Wells Fargo piloted an AI-driven solution on Facebook Messenger as a channel to personally address customer queries.⁴

- High-speed automated asset trading and real-time regulatory compliance are examples of growing industry innovations:
 - AI-enabled natural language generation (NLG) is increasingly closing the gap between data analysis and investment decisions, which will help progress automated advisory technology and drive more efficiency to automated trading strategies.
- Investment managers are using predictive analytics to generate investment ideas or as an early warning system for assets at risk. AI-enhanced data analytics can complement traditional financial analysis by offering unique insights:
 - BofA Merrill Lynch is experimenting with an AI stock-picking tool to help identify value in small-cap stocks that conventional analysts might miss.⁵
 - JP Morgan recently won an award for its analytics platform, SPARTA, which includes real-time calculation of performance, contribution, and attribution, in addition to on-the-fly grouping and advanced ex-post risk analytics.⁶
- According to a recent BofA Merrill Lynch report, advances in computing technology, machine learning, and user-friendly interfaces will generate a US\$5.2–6.7 trillion direct impact in the form of a higher efficiency and output. (ibid.3)
- Wealth firms are in the technological race to integrate AI, ML and data analytics applications with their teams to provide hybrid services.

Implications

- As technology advances become key differentiators, competition between non-traditional and traditional firms may heat up, with firms finding ways to distinguish through better service and operational efficiency with applications of AI, ML and cognitive analytics across all significant wealth management stages (Exhibit 2).
- The NBA engine provides actionable insights that add day-to-day benefits to call-center representatives, relationship managers, operational staff, customers, and even their pilot BOT to drive self service.
- The trend for servicing lower end of the market may emerge into sophisticated automated propositions in the future, but there may also be high adoption of sophisticated tools for traditional investment managers to service those clients who still want and need a more personalized approach:
 - Examples of these innovations include digital personal assistants to help clients plan their time and complete administrative tasks, and machine learning to proactively predict client needs.
- The move towards more data analytics applications will give firms an edge on stock market predictions saving them huge costs and margins. Automated advisory and other AI applications in financial services could increase efficiency by 45-55% for a total economic impact estimated to be US\$0.6-0.8 trillion in 10 years. (ibid.3)



4 “Wells Fargo Testing Bot For Messenger Featuring New Customer Service Experiences”, Wells Fargo, April 18, 2017 accessed November 2017 at <https://newsroom.wf.com/press-release/community-banking-and-small-business/wells-fargo-testing-bot-messenger-featuring-new>

5 “Machine learning is transforming investment strategies for asset managers”, CNBC, June 6, 2017 accessed October 2017 at <https://www.cnbc.com/2017/06/06/machine-learning-transforms-investment-strategies-for-asset-managers.html>

6 “Best Analytics Initiative: Buy Side—JPMorgan Asset Management”, WatersTechnology, January 16, 2017 accessed October 2017 at <https://www.watertechnology.com/awards-rankings/2480253/aftas-2016-best-analytics-initiative-buy-side-jpmorgan-asset-management-sparta>

Exhibit 2: Key Application Areas of AI and ML in Wealth Management Firms



Source: Capgemini Financial Services Analysis, 2017

Trend 02: Robotic Process Automation Can Help Firms Keep Costs Down and Accelerate Digital Transformation

Utilizing Robotic Process Automation (RPA) can help firms save up to 60% on time-to-resolution of repetitive tasks.⁷

Background



- There are many basic, logic-based and repetitive procedures which can be replaced by automation in the wealth management industry. These sort of processes are ideal for using Robotic Process Automation (RPA).
- A non-invasive tool, RPA does not disturb underlying computer systems.
- RPA processes are built step-by-step and not coded by programmers, a boon for non-technical users. It is user-friendly and highly scalable, with the potential to offer short pay-back periods compared with other technologies.
- Workforce inefficiencies can be eliminated using RPA, with highly labor-intensive processes an ideal starting point.

Key Drivers

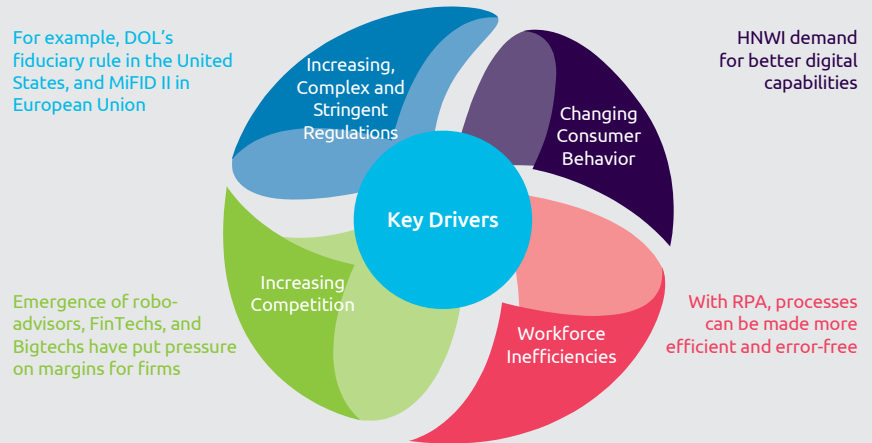


- Ever-increasing, complex and stringent regulations make it difficult for wealth management firms to keep costs in check while ensuring a positive customer experience:
 - For instance, The Department of Labor’s fiduciary rule in the United States⁸, the EU’s Markets in Financial Instruments Directive II (MiFID II).
- Younger HNWI’s are demanding better digital capabilities from their firms. At the same time, wealth managers are seeking improved digital capabilities to help them serve clients better.
- FinTechs and lower investment returns post-2008 – coupled with increasing competition due to the emergence of automated advisors – have put margin pressure on firms. Therefore, businesses are looking to cut costs by implementing RPA solutions.
- Other factors such as enhanced productivity, lower operational costs, reduced response time, faster client on-boarding, etc. are driving firms toward RPA (Exhibit 3):
 - Automation enables wealth management firms to focus on their core business, strengthen their competitive advantage, and improve satisfaction for clients as well as wealth managers and staff.

⁷ “Flawless accuracy, incredible efficiency, shrinking costs”, Customer Think, June 14, 2016 accessed October, 2017 at <http://customerthink.com/flawless-accuracy-incredible-efficiency-shrinking-costs-the-back-office-tech-that-makes-it-all-possible>

⁸ The U.S. Department of Labor (DOL) Fiduciary Rule was originally scheduled to be phased in April 10, 2017 – Jan. 1, 2018, but was delayed until June 9, 2017, including a transition period for the application of certain exemptions to the rule extending through Jan. 1, 2018. Full implementation of all elements of the rule has been pushed back to July 1, 2019. The rule expands the “investment advice fiduciary” definition under the Employee Retirement Income Security Act of 1974 (ERISA)

Exhibit 3: Key Drivers of RPA



Source: Capgemini Financial Services Analysis, 2017

Trend Overview

- Many firms are experimenting with RPA and have come up with some use cases. However, the significant costs associated with replacing legacy systems have precluded many firms from scaling up to a level that yields tangible benefits.
- RPA can be used to increase controls and execution consistency, but it cannot replace human oversight in risk and compliance.⁹ However, RPA can help keep costs in check by streamlining compliance processes.
- Typical RPA use cases include:
 - Client onboarding – Know Your Customer (KYC) and other due diligence processes during client onboarding are being automated and moved to digital instead of having hard copies of multiple forms. Although RPA works with content that is already available within a system, initial information has to be handled by people.
 - Back office operations – Automating time-consuming tasks and processes will lead to agile operations, and free up the time of the decision makers, in addition to reducing costs.¹⁰
 - Chatbots – Chatbots provide an avenue to significantly engage both customers and wealth managers:
 - Customers can leverage the chatbots to access portfolio summaries and changes in asset parameters in real time without the intervention of wealth managers.
 - Voice assistants (like Amazon's Alexa) can be integrated with chatbots to resolve voice based queries, thus reducing effort.
 - Chatbots can be used to answer FAQs related to news trends, and transactions, thus driving self-service.
 - Wealth managers can leverage chatbots to identify new client leads and automate the follow-up with specific input.



9 "Robotics: The Next Frontier For Automation In Finance And Risk Management", Forbes, April 20, 2016, accessed October 2017 at <https://tinyurl.com/yc5dp6mk>

10 "Where to Start with RPA in Financial Services", Finextra, August 1, 2017, accessed October, 2017 at <https://www.finextra.com/blogposting/14362/where-to-start-with-rpa-in-financial-services>

- To comply with regulations and to keep the cost-income ratios in check, improving operational excellence in the back and middle offices (which would help reduce the costs) is only the start.
- Firms need to look at RPA beyond just a technology initiative and leverage it to re-orient their business models, re-engineer their processes, and restructure their people.

Implications



- RPA can enable firms do things in a faster, cheaper and better manner, bringing efficiencies into the system. Additionally, there is enhanced security compared to human-driven processes.
- Wealth managers can concentrate on value-add activities, which in turn helps drive revenue. As routine tasks are automated, customer experience is improved.
- As routine functions are automated, employees can learn new skills to maintain and upgrade their contributions to the firm's growth.
- Once companies grasp the value of RPA, they can accelerate their digital transformation programs as they scale up operations.

Trend 03: Innovation is Key for Firms to be Future-Ready

With subdued post-recession investment returns, disruptive innovation has become a powerful wealth management differentiator.

Background



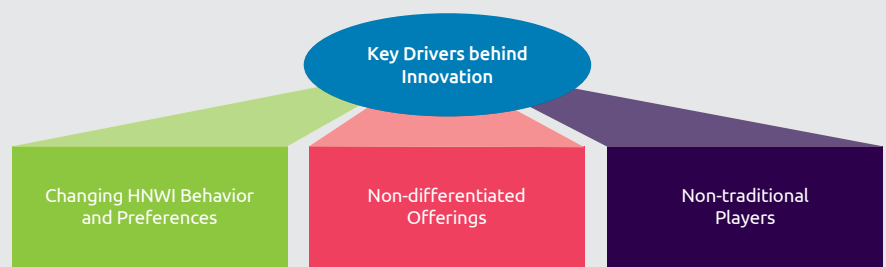
- Other participants in financial services retail business are way ahead in product innovation than wealth management firms. For example, the Vitality program in insurance with a three-step process – one, discover the state of your health, two, personal health goals based on the health status which can be used to earn points, and third, enjoy rewards according to the points you earn.
- As HNWI's become more financially savvy, they are demanding more sophisticated and customized services. To improve HNWI satisfaction, product innovation is essential.
- We are now observing such innovation in wealth management too, as FinTechs disrupt traditional business models with the introduction of automated advisory services and other digital capabilities.
- A further challenge to incumbents is the possible entry of BigTechs¹¹ that bring not only technology expertise but the trust of a broad customer base. BigTech entry into wealth management could spur intense competition, or fruitful partnerships.

Key Drivers



- Due to non-differentiated offerings in the wealth management industry, there are cost pressures and downward movement of profit margins for the incumbents. Businesses must innovate in both product and technology offerings to improve margins and, as a result, customer experience (Exhibit 4).
- Low investment returns in the post-crisis period have made clients consider switching to other firms in hopes of better opportunities, thus making client retention difficult.
- The entry of non-traditional players, such as FinTechs with broad digital capabilities, is disrupting the industry and forcing incumbents to innovate to stay relevant and competitive.

Exhibit 4: Key Drivers Behind Innovation in Wealth Management Industry



Source: Capgemini Financial Services Analysis, 2017

¹¹ BigTech is a general term to cover data-driven technology firms not traditionally present in financial services, such as Google, Amazon, Alibaba, Apple, Tencent, and Facebook.

- HNWIs, especially those under 40, increasingly demand digital capabilities to support their portfolio and relationship management needs. At the same time, wealth managers seek freedom from repetitive, routine activities to have more time to engage directly with the clients – in revenue increasing activities.

Trend Overview



- Opportunities created through specific technologies include:
 - Application program interfaces (APIs) – Users upload their bank account details into a single app, and while doing transactions, they can pay through any of the accounts.
 - Blockchain – The Distributed Ledger Technology (DLT) based smart-contract concept can tighten processes and remove some risks from transactions in financial services.
- Technological innovation can enhance the service delivery experience along the various customer lifecycle phases:
 - For example, BNP Paribas wealth management has co-created a new client experience with clients and FinTechs – with a focus on three new services:
 - *'myAdvisory,'* which boosts clients' investments management and provides personalized financial advice directly via a smartphone.
 - *'myBioPass,'* which enables clients to easily access their online banking services using biometrics.
 - *'The Leader's Connection,'* which is a digital platform available on smartphone and tablet that allows BNP Paribas wealth managers to connect eligible investors to facilitate co-investments and give them the opportunity to share their views on exclusive private investment opportunities.¹²
 - Customer Acquisition – Firms such as OCBC Bank, HSBC, and MUFG have completed a proof of concept for a know-your-customer (KYC) blockchain.¹³ Other FinTechs such as Netki provide open source and open standard-based digital identity solutions that allow financial service companies to meet their compliance requirements on both public and private blockchains.¹⁴

Implications



- With firms aggressively pushing digital technologies into the current value chain in wealth management, the industry is likely going to see higher penetration of automated advisory and digital marketplace platforms.
- Firms and wealth managers are expected to increasingly use social media and leverage data analytics for prospecting clients. There are use cases of mobile apps feeding the relevant information daily to wealth managers and clients:
 - Citibank partnered with Thomson Reuters to enable their customers to get access to series of stock market insights and analysis on their internet and mobile trading platforms.¹⁵
- Firms are expected to strategically focus on big data and advanced analytics to enable differentiated services and product solutions for HNWIs. Innovation can, in turn, improve customer experience by providing customized offerings to the clients and help firms move away from the 'one-size-fits-all' approach.
- The industry could be looking at increased outsourcing of back and middle office functions in response to the growing margin pressures and the complex regulatory structure.

¹² "BNP Paribas Wealth Management reinvents its Client Experience leveraging digital solutions", January 1, 2017 accessed October 2017 at <https://group.bnpparibas/en/press-release/bnp-paribas-wealth-management-reinvents-client-experience-leveraging-digital-solutions>

¹³ "HSBC, MUFG and OCBC complete KYC blockchain POC", FinTech Innovation, October 4, 2017 accessed October 2017 at <https://www.enterpriseinnovation.net/article/hsbc-mufg-and-ocbc-complete-kyc-blockchain-poc-937750511>

¹⁴ "21 Companies Leveraging Blockchain for Identity Management and Authentication", www.letstalkpayments.com, February 13, 2017 accessed October 2017 at <https://letstalkpayments.com/22-companies-leveraging-blockchain-for-identity-management-and-authentication>

¹⁵ "Thomson Reuters Stock Analytics", accessed November 2017 at <https://www.citibank.com.sg/gcb/investments/brokerage.htm>

Trend 04: Introduction of Marketplace Models for Wealth Management Products

The increasing ease of access and low cost of switching between service providers and products could lead to marketplace models of wealth management.

Background



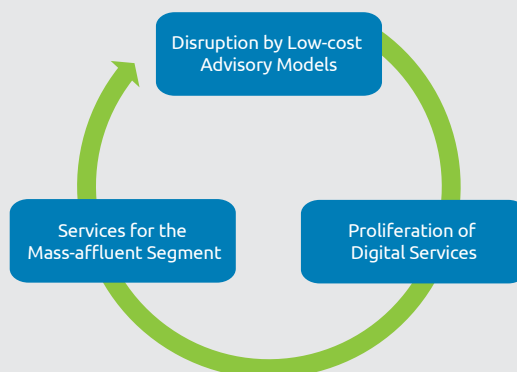
- Wealth management products, like most banking products, are now being unbundled from the bank as a whole, and being offered as modules or individual products to clients who may not have been associated with the bank.
- We have seen the Play Store for Android and the App Store from Apple evolving into thriving marketplaces for third-party apps, a long way from the initial days when only Google and Apple apps were available for download.
- With hundreds of FinTechs coming up with great ideas for better products and higher returns along with improved customer experience by leveraging ML and AI, wealth management firms need to decide if they only want to become a product creator or also become a broad product distributor, in order to provide customer-centric holistic financial solutions by offering in-house as well as third-party products.

Key Drivers



- The wealth management industry has seen rapid disruption in the form of lower cost models that provide high-tech solutions at lower costs. E.g. automated advisors that manage a huge amount of wealth without the help of human advisors.
- Such business models, mainly on the digital medium, offer solutions especially to the mass-affluent segment at a fraction of the cost of traditional wealth managers, driving out intermediaries to reduce fee costs, and eliminating the need of costly human advisors to manage the wealth (Exhibit 5).

Exhibit 5: Key Drivers behind Marketplace Models



Source: Capgemini Financial Services Analysis, 2017

Trend Overview



- The mobile marketplaces have added value to the primary platform owner and helped expand the scale of offerings by allowing products from creative developers to be sold to customers over this platform:
 - Similarly, in the wealth management domain, the reach of the digital medium and the trusted brand of incumbents is perfect for FinTechs to leverage for scale in the form of a collaboration where their products are sold to existing and new clients.
 - Customers will be able to use a wider array of offerings on the platform for holistic wealth management solutions, even though from multiple third-parties.
- If wealth management firms do not foray and experiment with this model soon, an eventual entry of BigTechs into wealth management services could lead to lost opportunities and leave them at a severe disadvantage.
- These marketplaces could initially offer products that are less intensive w.r.t. human advisors and rely on automated advisors:
 - FinTechs could be onboarded to sell their products and services via the marketplace, till a critical number of clients are acquired.
 - An early mover incumbent could also have other incumbents sell their products on the platform, thus improving the reach and attractiveness of the marketplace to clients.
 - The services and products that can be distributed via this model could include those that can be managed by automated platforms such as risk-profiling, portfolio management, and cash and credit services among others.
 - The marketplace model will encourage customer-centric solutions rather than firm/product-centric advice.
- The faster such a marketplace can scale up and build a trusted brand, the harder will it be for others to gain a foothold, thus creating a competitive advantage in the long term.

Implications



- The marketplace model will mean that the incumbent platform owner will have to constantly compete with third-party products and services in addition to other marketplaces:
 - Third-party solutions being sold in the marketplace will certainly have lower margins for the marketplace owner compared to their own solutions.
 - Hence, the focus should be to stay ahead of other products w.r.t. innovation, brand, and customer experience.
- To stay ahead of the game, even after setting up the marketplace, the incumbents will have to attract FinTechs, say through accelerators, and collaborate with them to build better products and solutions to sell via the marketplace at higher margins than third-party products.
- The marketplace model will allow the incumbent to collect massive amounts of data from clients who interact with the platform, thus opening up possibilities of better insights on customer needs and customer experience.
- This model is also a huge opportunity for the marketplace owners to grab an ever larger share of the client's wallet by hosting a wide array of offerings across the wealth portfolio.
- Hence, the marketplace model may be a defensive play in the short-term (to thwart the FinTech threat) but could turn out to be a tremendous strategic value-add as an analytical treasure trove for a future-proof digital wealth firm.

Trend 05: Focus on Enhanced Customer Experience is Becoming a Wealth Management Priority

Customer experience can be used to create a sustainable competitive advantage in a rapidly changing industry.

Background



- Customer experience in wealth management holds higher weight for clients compared to other products they use, as this relationship has far-reaching implications on the client's financial and life goals.
- Clients are open to switching to other wealth management providers in search of better user experience, thus forcing firms to innovate to keep up with their demands.
- The current HNWI satisfaction levels are modest and have much scope for improvement:
 - The mindset of wealth management firms is shifting toward putting client-specific needs at the center of the wealth manager-client relationship. Customer experience is a critical input for building trust and gaining client confidence.
- Customers are looking to engage with clicks and interactions rather than papers and charts.

Key Drivers



- Faced with changing demographics and demands of HNWIs, wealth management firms must adapt their service offerings. As HNWIs become more financially savvy, they become more empowered in their wealth management firm relationships.
- Less than 50% of HNWIs are fully comfortable with the fees they pay (as noted in the *2017 World Wealth Report*), and the new entrants in this crowded market are fully exploiting this opportunity by tailoring their offerings and fee structures, delivering superior client experience under better fee models.
- Client experience mainly revolves around simplification of client touch-points, creation of intuitive and easy-to-use features within complex investment management tools, and seamless omnichannel (e.g. across multiple devices) portfolio management capabilities.
- Firms also need to keep the wealth manager experience above a threshold level, as technological innovations in the industry make it easy for wealth managers to go independent. HNWIs, in turn, tend to follow their wealth managers due to the already established relationship and trust.

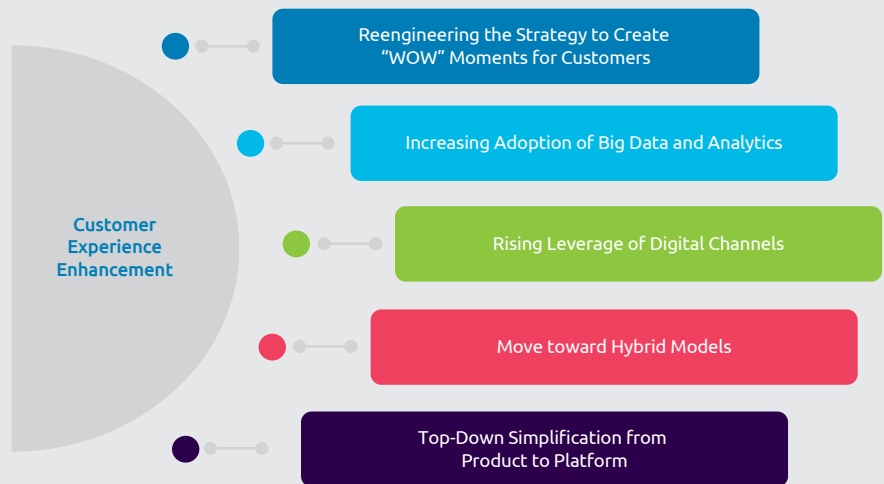
Trend Overview



- With their strategy revolving around customer experience, firms are following a bottom-up approach to find out what the pain-points in the customer journey are and where “wow moments” can be created. It is now imperative for firms to re-engineer their business models to keep up (Exhibit 6).
- Firms are looking to leverage the rising interest in digital channels such as social media, mobile applications, and implementing automated advisory and automated investment management to enhance the overall experience of both their customers and the wealth managers.

- Increased HNWI awareness and changing demographics have led to increasing demand for customized and sophisticated advice on digital channels. Wealth managers and clients alike want the ability to maintain the wealth relationship remotely.
- Firms are just beginning to experiment with hybrid models to strike the right human- and automated-advisory mix.

Exhibit 6: Levers to Enhance Customer Experience



Source: Capgemini Financial Services Analysis, 2017

Implications



- Firms need to train their wealth managers on digital capabilities – to ensure that all customers, in turn, can have the best possible experience during their interactions. Several wealth management firms are looking at a fully integrated workstation to enable wealth manager to have everything at their fingertips, thus enhancing the client service experience through improved client-face time.
- Firms need to anticipate customer needs and identify behavior patterns better to keep up with evolving client needs and offer a more collaborative, individualized wealth experience and an integrated customer journey across the value chain.
- This is expected to lead to increased adoption of data analytics to create customized advice for clients, while enabling wealth managers to make better advisory decisions, creating ‘wow moments’ along the way for a great client experience.

Trend 06: Cybersecurity Continues to be an Important Concern for Wealth Management Firms

Use of sensitive data, regulatory mandates, and digitization require firms to beef up their cybersecurity mitigation plans. A reactive approach is insufficient to stop fraud.

Background



- Wealth management firms hold huge amounts of highly sensitive information, which makes cyber-defence very essential as data theft can lead to significant reputational and financial damages.
- Increasing digitization, outsourcing, and reliance on emerging technologies such as IOT and the cloud further increase exposure risk.
- Cyber risk tops the list of concerns for UK wealth management firms, with 90% of wealth managers rating the threat of cybercrime as either high or very-high.¹⁶
- According to a report released in September 2016, cybersecurity is a high priority for 81% of advisors, but only 29% are fully prepared to manage and mitigate the risks associated with cybersecurity.¹⁷

Key Drivers



- Recent large-scale cyber-attacks across all industries drive the need to secure data.
- Digitization involving migration to the cloud, IOT infrastructures, etc., have provided several benefits to wealth management firms but also exposed them to external threats, driving them to increase their security levels to prevent loss of sensitive customer information.
- Stricter regulations are now compelling the wealth management industry for stronger measures in cybersecurity:
 - E.g. in Europe, the General Data Protection Regulation (GDPR) will require mandatory data protection measures to be implemented by firms and may impose heavy penalties on them in cases of negligence.

Trend Overview



- As wealth management firms expand their digital services to meet client demands, they face many open vulnerabilities for which they need to prepare with broader, sustainable, and adaptive cyber-defence models.
- The possibility and scale of cyber-attacks on firms cannot be undermined (Exhibit 7):
 - Globally, damages due to cybercrime are expected to rise to US\$6 trillion annually by 2021.¹⁸

¹⁶ "Cyber risks tops UK Wealth Management firms' list of concerns", LarkInsurance and CompeerLtd Report, January 23, 2017 accessed October 2017 at <https://tinyurl.com/yapkuoec>

¹⁷ "Is Your Data Safe? The 2016 Financial Adviser Cybersecurity Assessment", FPA Research and Practice Institute™ accessed November 2017 at <https://tinyurl.com/ybms9noz>

¹⁸ "CyberCrime Report", CyberSecurity Ventures, accessed October 2017 at <https://cybersecurityventures.com/hackerpocalypse-cybercrime-report-2016/>

- Voice-enabled connected devices are creating new opportunities for identity theft and fraud, and hence such as ecosystem needs to be secured before investment transactions can be routed through them.
- Companies such as Pindrop and Nuance help defend against fraud through voice calls. They use voice biometrics to authenticate callers and detect identity theft that might lead to fraud.
- Many firms are increasing spend on IT security to prevent disruption or breach due to cyber-attacks:
 - A recent survey revealed that 86% of financial services firms plan to spend more time and resources on cybersecurity in the coming year.¹⁹
- The global cyber security market continues to expand with an anticipated 2017-22 CAGR of 11.0% and is expected to reach US\$231.9 billion by 2021.²⁰

Exhibit 7: Impact of Cybercrime on Firms



Source: Capgemini Financial Services Analysis, 2017

Implications



- Globally, there is a move toward proactive protection where firms employ security analytics utilizing machine learning and artificial intelligence to analyze information and predict or thwart potential threats.
- Demand for advanced threat protection products using big data analysis to detect and neutralize possible threats will grow at a much faster pace than demand for traditional enterprise security products.
- Wealth firms will need to strengthen their cybersecurity capabilities to prevent cyber-attacks that might risk client information:
 - They will most likely integrate new technologies such as biometrics, behavioral analytics, and machine learning to build adaptive and intelligent defenses.

¹⁹ "86 Percent of Financial Services Firms to Increase Cyber Security Spend in 2017", eSecurity Planet, April 2017 accessed October 2017 at <https://tinyurl.com/yb7afcqw>

²⁰ "Cybersecurity Market worth 231.94 Billion USD by 2022", Markets&Markets, July 2017 accessed October 2017 at <http://www.marketsandmarkets.com/PressReleases/cyber-security.asp>

Trend 07: Increase in Cost of Doing Business for Firms Due to Complex Regulations

Post-recession regulatory mandates make the compliance function vital for wealth management firms.

Background



- As an aftermath of the global financial crisis, the wealth management industry came under much scrutiny. The uncertainty around the sheer number of ever-evolving regulations coming up in domestic as well as international markets has resulted in a paradigm shift for the wealth managers.
- The cost of compliance, as well as the cost of non-compliance, is rising as the regulations increase both in number and scope. Firms need to have a strategy in place to assess and comply with these regulations to avoid future fines and reputational damages.

Key Drivers



- Regulations are continually evolving in response to new business models with the entry of non-traditional players focusing on digital capabilities.
- Fiduciary rules are being enforced strictly to prevent conflict of interest, wherein some of the larger wealth management firms could bet against what they are advising their clients to do.
- Regulations are also becoming more stringent to prevent firms from colluding over transaction fees and the payment models.

Trend Overview



- The cost of doing business in wealth management is rising with increased global regulatory changes:
 - In 2016, Thomson Reuters Regulatory Intelligence tracked 52,506 regulatory updates globally from around 500 regulators, which is about 201 changes per day.²¹
- Regulations are leading to an expansion in the playing field in the wealth management industry, with consumers being the ultimate beneficiaries.
- Regulatory approaches to financial innovation are diverging in the US, Europe, and Asia, potentially jeopardizing the likelihood of a concerted global response in a future financial crisis.²²
- An upcoming regulation – GDPR (General Data Protection Regulation), wherein people have a right to be forgotten or a right to erasure of all personal information held on them by a particular company²³ – may lead to an increase in the operational costs as firms have to get systems in place in order to comply with the regulation.
- New regulations are putting significant focus on investor protection and client disclosures. Organizations are dedicating time and money to combat these challenges.

²¹ "9 Forces of Change in the Wealth Management Industry, and What It Will Take to Win", www.tabforum.com, April 24, 2017 accessed October 2017 at <https://tinyurl.com/k5vds9l>

²² "Startups may drive fintech innovation, but bigtech will be winners in financial services", www.thenextsiliconvalley.com, August 25, 2017 accessed October 2017 at <https://tinyurl.com/y7xentwu>

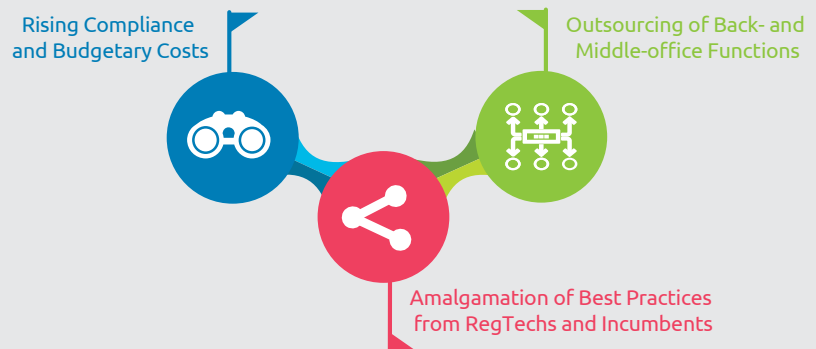
²³ "2018 is shaping up to be a regulatory nightmare for financial services", www.information-age.com, April 19, 2017 accessed October 2017 at <http://www.information-age.com/2018-nightmare-financial-services-123465793>



Implications

- Firms have to be up-to-speed with the latest regulations leading to increased compliance and operational costs, which is putting downward pressure on margins. This could spell trouble for smaller firms, and consolidation may be the only answer to survive in such a situation (Exhibit 8).
- In the short term, with the growing expertise required to keep up with complex regulations, outsourcing of the back-office and the middle-office may be an obvious solution for many of the firms.
- Amalgamation of the best services – a combination of what RegTechs are offering and the existing compliance frameworks of incumbents – can create better compliance processes for the industry. This could eventually stabilize costs and make firms more agile in the face of evolving regulations:
 - Wealth management firms seeking to quickly respond to regulations at lower costs and without needing extensive system overhauls may wish to consider the use of out-of-the-box solutions such as Fenergo and Skience, that support complying with rules and regulations such as AML, KYC, MiFID II, Dodd-Frank, etc.

Exhibit 8: Implications of Changing Regulations on Firms



Source: Capgemini Financial Services Analysis, 2017

Trend 08: Advent of Hybrid Advice Solutions to Set Wealth Management on a New Course

The maturing of hybrid advice will have significant impact on the wealth management industry, although human element will remain a key differentiator.

Background



- Automated advisory services like Betterment, Wealthfront, etc. have disrupted the wealth management industry, traditionally reliant on wealth managers to dispense advice:
 - However, automated advisors lack a human face. Since wealth management demands a highly fiduciary service that a human advisor has built over time, these automated solutions fall short as they are not able to bring the trust and confidence of a well-recognized brand that a traditional advisory firm offers.
- This shortfall can be met by a hybrid model, combining self-service and wealth manager-led advice, which has evolved to become as popular as the wealth manager-led path.
- Despite their support of hybrid-advice models and the significant potential benefits on offer, most firms have yet to roll out effective solutions.

Key Drivers



- The wealth management industry, driven by the need to grow business, reduce costs, and meet regulatory requirements, is enthusiastic in its support of hybrid services:
 - Wealth management firms will stand to improve wealth manager productivity, lower cost to income ratio, reduce errors, and increase conversions by leveraging technology to assist in traditional manually intensive jobs.
 - New regulations are putting a bigger focus on investor protections and client disclosures.
 - Increased agility and competitive differentiation are also critical benefits of a robust hybrid advisory solution.
- An improved ability to attract mass affluent clients who were traditionally underserved because of low customer lifetime value, and to meet higher HNWI expectations is also spurring some firms to leverage hybrid capabilities.

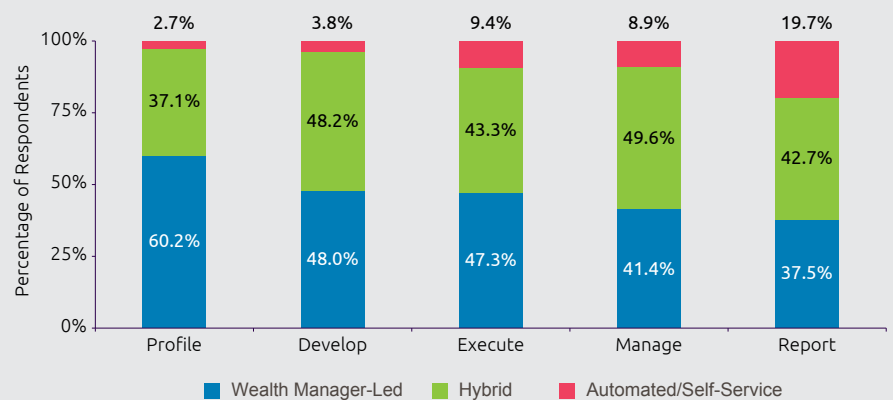
Trend Overview



- HNWIs want the flexibility to choose from self-service delivery, a wealth manager-led approach, or a combination of the two – the hybrid-advisory model, as evident from the results of the Global HNWI Insights Survey 2017 by Capgemini (Exhibit 9):²⁴
 - HNWIs heartily embrace wealth managers at the profile phase of the relationship (60.2%), when financial goals are being outlined and risk tolerances set.
 - Almost half of global HNWIs are partial to a hybrid approach to ‘manage ongoing advice and optimization.’
 - Out of the five wealth management lifecycle stages (‘Profile’, ‘Develop’, ‘Execute’, ‘Manage’, and ‘Report’), HNWIs prefer the hybrid route for two of the

- lifecycle stages ('Manage' and 'Report') and the wealth manager-led approach for two other stages ('Profile' and 'Execute').
- Fully-automated services currently appeal to fewer HNWI's but are still important. They are most preferred at the 'Report' stage by 19.7% of HNWI's.
 - Wealth management firms have aligned to recognize the importance of hybrid advice and are pushing to implement them:
 - As per the 2017 *World Wealth Report*, 53.7% of global wealth management firms have hybrid advice programs underway, but none has a fully implemented solution.
 - Firms have yet to achieve very positive results from their efforts, giving themselves an effectiveness score of only 4.0 out of a maximum 7.0 globally.

Exhibit 9: Interaction Preferences for Wealth Management Capabilities^a, Q2 2017 (Global)



a: Respondents with experience with the interaction in the past year have been analyzed.
 Note: Question asked: "How would you like to interact with your primary wealth manager or wealth management firm for each of the following services?"; HNWI's were asked choose their preferred interaction between 'Fully Wealth Manager-Led', 'Hybrid' and 'Fully Automated' for 24 Capgemini Hybrid Framework Capabilities, the values represent the average of the capabilities in the 5-stages shown above
 Source: Capgemini Financial Services Analysis, 2017; Capgemini Global HNW Insights Survey 2017

Implications

- Advisors will likely ease out of direct interactions in the mass affluent client segments while providing customized services at the higher end.
- Wealth management firms may have to adjust to slimmer revenue margins in core areas of business as fee structure will be revised to accommodate higher self-service capabilities.
- New age technologies such as NLP, AI, and ML may be taken up by wealth management firms as client experience will be a critical factor of competitive differentiation.
- Hybrid model transformation will require wealth management firms to focus on specific actions related to the people, processes, and marketing propositions.
- The rise of hybrid models is likely to lead to the entry of BigTech firms (Google, Alibaba, etc.) into the wealth management space.



Trend 09: Development of Next-Gen Genome-Based Segmentation and Increased Focus on Traditionally Underserved Segments

Accessing traditionally underserved segments can create the next big opportunity for the wealth management industry.

Background



- Traditionally underserved segments which were out of the ambit of traditional wealth management industry are gaining attention as digital tools and technology make it possible to serve complex investment needs which were economically unattractive in the traditional investable asset-based segmentation.
- These segments have distinct needs and preferences, understanding which can unlock a vast amount of assets:
 - Of the US\$41 trillion in global intergenerational wealth to be transferred over the next four decades, women will inherit 70%, or a staggering US\$29 trillion.²⁵
 - The global wealth of women is expected to grow from US\$13 trillion to US\$ 21 trillion by 2021, about 1.6% faster year-on-year than that controlled by men.²⁶
 - The mass affluent segment (US\$1 million - US\$5 million) comprises 90% of global HNWIs by population and 43.0% of total wealth.²⁷
- Firms can also analyze their client base to determine unserved/underserved segments to introduce differentiated offerings that cater to the unmet needs of those segments:
 - For example, an asset management firm analyses advisor preferences and suggestions, along with historical behavior/purchases of customers and uses this data (called genome) to push products that are likely to be purchased by the client.

Key Drivers



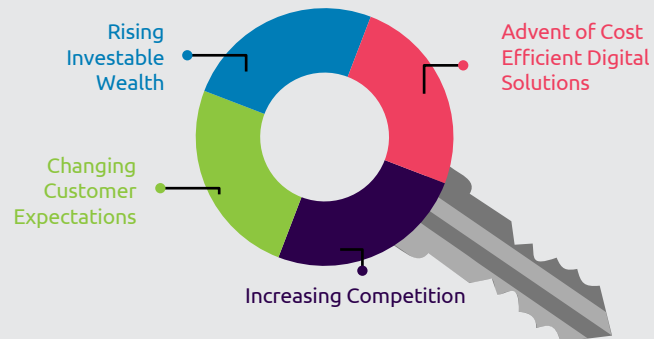
- Personalized solutions catering to niche segments can be a client acquisition tool to attract younger, less-affluent customers, who might potentially require private banking services in the future (Exhibit 10).
- As competitiveness within the wealth management industry increases (with digital platforms offering similar services at a fraction of the cost), making inroads with the female and mass affluent sections will provide growth opportunities for organizations.
- For banks, this is an opportunity to increase competitiveness by using personalized solutions as a point of differentiation to compete with FinTechs and to protect future revenue streams.
- As women continue to attain financial independence, they will increasingly make investment decisions tailored to their needs.

²⁵ "A Golden Age of Philanthropy Still Beckons: National Wealth Transfer and Potential for Philanthropy Technical Report", Boston College, May 28, 2014 accessed October 2017 at <https://tinyurl.com/owhvxqt>

²⁶ "Wealthy Women Targeted by UBS", Financial Times, January 2017 accessed October 2017 at <https://www.ft.com/content/d446ffe0-e23e-11e6-8405-9e5580d6e5fb>

²⁷ 2017 World Wealth Report, Capgemini

Exhibit 10: Key Drivers for Firms to Focus on Traditionally Underserved Segments



Source: Capgemini Financial Services Analysis, 2017

Trend Overview



- Traditionally, most of the big banks serve clients across different segments covering retail, mass affluent, and HNWI:
 - Wealth management firms fit customers within rigid investable wealth-based segments without being sensitive to their distinctly different needs.
- Wealth management firms are now being cognizant of these segments:
 - UBS has prioritized attracting more female clients with focused advisory services.²⁸
 - Pilatus Bank now offers those services to the mass-affluent market as well, that were earlier available only to HNWI.²⁹

Implications



- It is critical for firms to customize their approach and engagement to attract women investors.
- Firms need to retrain and improve wealth manager capabilities to help understand the distinct needs of the new client segments:
 - Hybrid solutions are likely to help cater to the distinct needs of these segments.
- Firms need to be agile to revamp their internal infrastructure and competencies to adjust to newer business models.
- Firms must create a robust feedback mechanism to become more receptive to the expectations and concerns of these segments to offer pertinent services.

²⁸ "Wealthy Women Targeted by UBS", Financial Times, January 2017 accessed October 2017 at <https://www.ft.com/content/d446ffe0-e23e-11e6-8405-9e5580d6e5fb>

²⁹ "Pilatus Bank is set to offer Private Banking to the mass affluent", Globenewswire, October 2017 accessed October 2017 at <https://tinyurl.com/y7y4cjg2>

Trend 10: Evolution of Fee Models Due to Client Demands, Regulatory Mandates, and Competitive Pressure

Client discomfort with fee levels and rising demand for transparency are encouraging flexible performance-based and modular-fee models.

Background



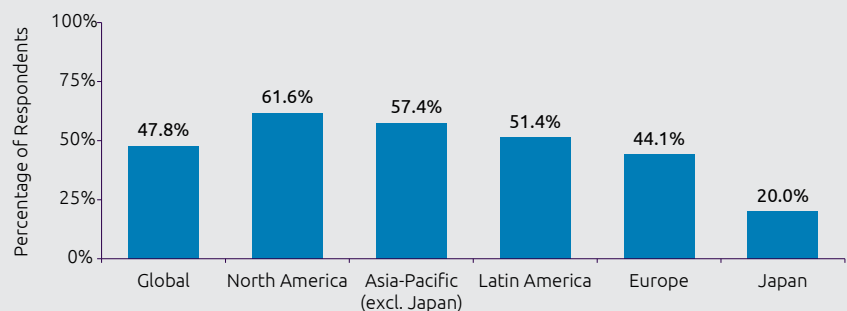
- Wealth management fees have primarily been charged as a percentage of assets under management with the wealth manager:
 - With stricter supervision of investment strategies and restrictions on trading, and a cautious financial market post the 2008 crisis, return on assets managed by wealth managers have mostly declined.
 - Diminishing returns have driven clients to examine the fees they pay and how they are calculated.
- HNWI's are also demanding better transparency around fees.
- Competition from FinTechs is forcing wealth managers to assess their pricing strategies and to consider better fee models to acquire and retain clients.

Key Drivers



- As noted in the 2017 *World Wealth Report*, HNWI's are not very comfortable with the level of fees being charged by wealth managers:
 - Only 47.8% of HNWI's globally say they are fully comfortable with the level of fees charged for wealth management services (Exhibit 11).

Exhibit 11: HNWI Comfort Level with Fees (%), Global, Q2 2017



Note: Question asked: "Given the performance of your assets and the service you received from your primary wealth management firm, how comfortable were you with the fees you were charged in 2016? Please indicate your response on a scale of 1–7. 1 = Not at all comfortable, 4 = Neither comfortable nor uncomfortable, 7 = Extremely comfortable"; Ratings of 6 and 7 have been shown in the chart above

Source: Capgemini Financial Services Analysis, 2017; Capgemini Global HNWI Insights Survey 2017

- The lack of comfort also originated from lack of transparency in fees, concern with value of services delivered, and availability of lower-cost alternatives from new entrants who are disrupting the industry.
- Regulators in the United States and Europe are mandating stricter fee disclosure rules for investment services and products, making it difficult for firms to design transparent pricing and to put the client at the center of fee models in which value delivered is a critical parameter.

Trend Overview



- HNWIs, globally, pay an average of US\$65,795 in annual fees, which amounts to a fairly high 8.4% of assets under management.
- The overall level of fees is slightly less a concern with 18.9% of HNWIs saying so, than the value delivered (22.9%) and the transparency of fees and services (20.9%).³⁰
- HNWIs are now looking for fee models where they pay for services that add value to their portfolios and not just as a percentage of assets under management.
- As seen in the 2016 *World Wealth Report*, 28.1% of HNWIs would ideally want to pay fees by performance, about 10 percentage points more than the 18.0% of HNWIs who currently pay by performance:
 - While 30.1% of HNWIs pay based on a percentage of assets, only 23.6% say they would prefer to do so in an ideal world.
 - Preference for the pay-for-performance model cuts across almost all wealth segments and was especially popular among the ultra-wealthy.
- Firms are now adapting to client demand and competitive pressure by designing better fee models:
 - E.g. Fidelity International has announced that its fees on active equity funds will be linked to how well they perform versus benchmarks. Fidelity will charge a baseline management fee, though it will be less than what is currently charged.³¹

Implications



- Wealth management firms are likely to devise transparent fee models in line with what clients want:
 - They need to move toward client-friendly models such as fees based on performance, a fee-by-service module, fixed yearly fees, or a combination model.
- With the possibility of marketplaces that sell their own and third-party products, incumbent firms will have to seriously consider modular fees:
 - Unbundling of banking services, including wealth management offerings, will ultimately lead to modular fees across the board, being offered by large banks to FinTechs alike.
- Therefore, the share of fees as a percentage of assets is destined to go down, though not completely, but fees by performance and by module will likely be the most popular models in the near future.

³⁰ 2017 *World Wealth Report*, Capgemini

³¹ "Fund Fees Whacked Again in Active-Passive Fight", Bloomberg, October 3, 2017, accessed October 2017 at <https://tinyurl.com/y8kg2oo9>

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