WEALTH MANAGEMENT

TOP TRENDS 2022

Drivers, opportunities, and risks shaping Financial Services

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EXECUTIVE SUMMARY

2022 trends influenced by the shadow of the recent past

A year ago, our Top Trends in Wealth Management report emphasized how the pandemic sparked disruption and digital transformation and changing investor attitudes around Environmental, Social, and Corporate Governance (ESG) products. As we begin 2022, many of those trends continue to hold as COVID-19's wide-reaching effects continue to influence the wealth management industry.

As wealth management (WM) firms supercharge their digital transformation journeys, expect investments in cybersecurity and human-centered design to be critical to building superior digital client experience (CX). Another holdover trend – sustainable investing – is gaining mainstream attention and generating increasingly sophisticated client demands. Therefore, in 2022 and beyond, wealth management firms will need to bolster their capabilities to measure compliance with ESG standards when making recommendations for sustainability-based portfolios. Data and analytics capabilities will become ever more essential. Notably, firms can leverage behavioral analytics to strengthen client stickiness by identifying investors' patterns – starting by understanding a prospect's perception of the firm to, ultimately, offering personalized CX across the entire client journey.

WM firms continue to face significant revenue and margin pressures. Competition as well as collaboration opportunities are up as family offices re-emerge significantly and FinTechs explore embedded wealth management. Firms are also exploring new growth and profitability avenues such as consolidating business units and partnering with other firms for strategic advantage, bracing for the great wealth transfer, and preparing for investor demand for hybrid advice and digital assets.

As large financial services firms refocus on their wealth management business while new digital players make industry strides, competition is becoming historically intense. Not surprisingly, client experience is the new battleground.

Exhibit 1: Top wealth management trends 2022 – Priority matrix

Evolving customer needs

1. As sustainable investing evolves, building capabilities to measure ESG impact is the next step
2. Human-centered design will be a critical element of firms' digital transformation strategies
3. Building a digital asset investment strategy is becoming important

New growth opportunities

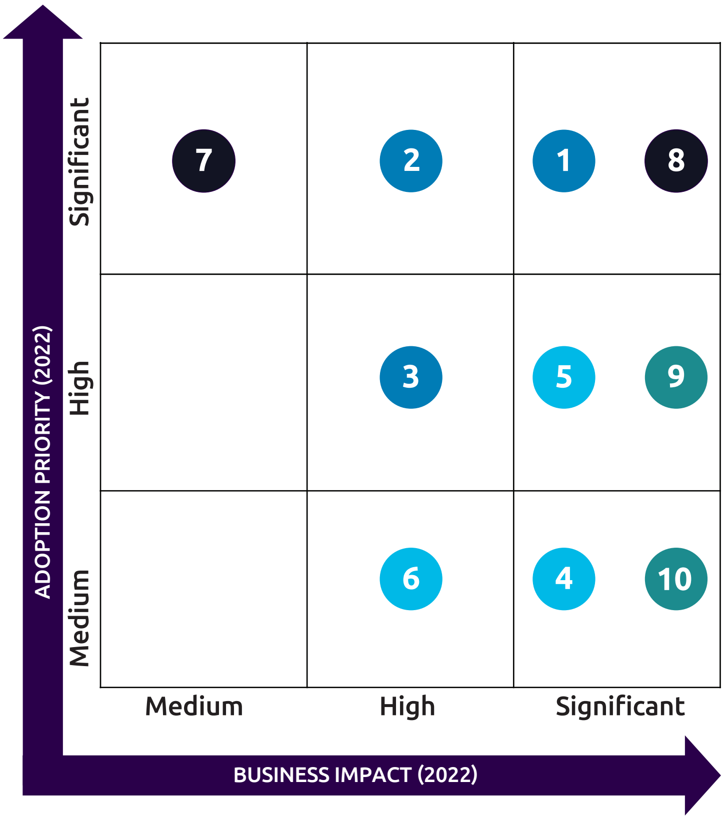
4. WM firms will be ready to capitalize on Great Wealth Transfer opportunities
5. Hybrid advice capabilities will unlock new revenue streams
6. The embedded wealth management revolution opens greater ecosystem collaboration opportunities

Intelligent enterprise

7. Cybersecurity becomes a top priority for wealth firms
8. Behavioral analytics enable firms in effective client interactions

Changing industry dynamics

9. WM firms explore consolidation among business units and other firms for strategic advantage
10. Family offices making a resurgence – worldwide



Sources: Capgemini Financial Analysis, 2021.

Adoption priority refers to the urgency of adopting a particular trend to maximize value creation in 2022. This rating is relative based on the identified trends for a typical wealth management firm operating in the current environment.

Business impact represents the effect of an identified trend on the WM firm's business in 2022. Impact could be on client experience, operational excellence, regulatory compliance, or profitability.

Capgemini analysts reached these trend conclusions based on a hypothetical bank working in the current operating environment:

- Low interest rate
- Continued operational disruption due to COVID-19
- Highly competitive environment and increased focus on customer centricity due to new-age players
- Operational cost overruns and high capital lock-in
- Uncertain regulatory environment.

Circumstances vary for each firm depending on business priorities, geographic location, and several other factors. For specific requirements, don't hesitate to get in touch with banking@capgemini.com.

TREND 1

STRATEGIC WM FIRMS WILL BE READY TO CAPITALIZE ON GREAT WEALTH TRANSFER OPPORTUNITIES

The most significant intergenerational wealth transfer in history – from Baby Boomers to Gen X, millennials, and Gen Z – is beginning. Preparation is critical.

Context

Speculation about the exact amount and the timing of the wealth transfer varies. Forbes reports USD30 trillion over many years. PNC says USD59 trillion by 2061. CNBC predicts USD68 trillion over 25 years. The New York Times confirms the variety of these assessments but forecasts ≈USD15 trillion over the next decade.[1] And Barclays estimates USD7.5 trillion globally within the next three decades.[2] Whatever the amount and timing, a significant opportunity for wealth managers is imminent. Therefore, it is time to build a diverse staff that aligns with changing client demographics.

- Wealth advisors and planners across the globe are beginning to advise an aging client population starting to think about legacy and estate planning.
- Financial literacy and knowledge are essential when wealth ownership is poised to change hands. Thus, wealth advisors are crucial in bridging the knowledge gap throughout the *great wealth transfer*.

Catalysts

- Baby boomers may trust their financial advisors implicitly, but younger generations want choices and are prone to conduct unilateral research before making decisions.
  - Rather than sticking with their parents' trusted wealth management firms, at least 80% of millennial heirs will seek a new financial advisor after inheriting their parents' wealth.[3]
- Baby boomers were focused on building wealth and businesses, but younger generations are prioritizing their purpose in life. This change in mindset translates to investment habits, which may explain the growing demand for Environmental, Social, and Corporate Governance (ESG) products.
- Future-focused wealth managers are working to establish long-term professional relationships with Gen X and millennials, whose spending and financial management habits are quite different from those of their parents and grandparents.

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[1] Vox, "The impact of inheritance," March 23, 2021.
[2] Barclays, "Are you ready for 'The Great Wealth Transfer'?" May 27, 2021.
[3] Unqork, "How Wealth Management Firms Should Prepare For The Great Wealth Transfer," accessed September 2021.

In a nutshell

- WM firms must empower staff to deliver CX that resonates with younger clients who grew up with highly personalized, seamless BigTech experiences.
  - Half of high-net-worth individuals (HNWIs) under 40 say they are not satisfied with personalized offerings from their firm. Fifty percent are not happy with the digital interfaces provided by their firm, and 40% cited the lack of value-added services as an attrition driver.[4]
- High-net-worth individuals who will be inheriting wealth have different investment preferences and are more sustainability-driven than previous generations. As a result, WM firms will have to revamp product offerings to satisfy the demands of their new clientele.
  - 39% of HNWIs < the age of 40 are likely to request an ESG score for products offered by their firm.[5]

To build authentic connections with next-gen investors, wealth advisors should:

- **Understand clients:** Gen X and millennials may not have the same awareness as their predecessors when making investment decisions. They also may not be predisposed to service provider loyalty. Therefore, wealth managers must hyper-personalize offerings to meet individual needs.

Figure 1: How can wealth managers prepare for the great wealth transfer?

Sources: Capgemini Financial Services Analysis, 2021.

[4] Capgemini, "World Wealth Report 2021," June 29, 2021.
[5] Ibid.

- **Support financial literacy:** A lack of understanding about saving, investing, and debt cost the United States USD415 billion in 2020, with only 30% of Americans having a long-term financial plan.[6] As these individuals become wealth management firm clients, the knowledge gap must be bridged.
- **Offer holistic financial planning:** Advisors will need to help new-age clients (who receive a sizable inheritance and may not grasp its tax implications) plan retirement, manage their tax burden and estate planning as well as provide support with value-added services related to wealth transmission.
  - US-based Brandywine Oak Private Wealth helps match young advisors with next-gen clients to enable better understanding and relationship building.[7]

Impact

- Wealth management firms must up-skill/re-skill advisors to effectively offer financial advice to younger clients considering that 62% of wealth managers say they cannot confidently understand and cater to millennials.[8]
  - Accepting advice was the cornerstone of baby boomers' wealth management relationships. In contrast, millennials tend to be wary of a lone voice of authority, and they conduct independent research to bolster decision making.[9]
- WM firms will reap performance benefits if they invest in understanding the behavioral aspects of new-age clients to guide them through potentially confusing situations.

[6] Moneytree, "8 Ways to Prepare for the Great Wealth Transfer," July 26, 2021.
[7] eMoney, "How Three Advisors Engage the Next Generation of Clients in Financial Planning," March 18, 2020.
[8] Capgemini, "World Wealth Report 2021," June 29, 2021.
[9] Unqork, "How Wealth Management Firms Should Prepare For The Great Wealth Transfer," accessed September 2021.

TREND 2

WEALTH MANAGEMENT FIRMS EXPLORE CONSOLIDATION AMONG BUSINESS UNITS AND OTHER FIRMS FOR STRATEGIC ADVANTAGE

A unified business model has become more prevalent in the industry to provide hyper-personalized services and gain a strategic foothold in an ever-competitive market.

Context

- Industry consolidation has been on the rise for nearly two years, with significant developments within and between firms.
  - According to Echelon Partners, ~205 transactions took place in 2020 to set an eight-year record high, up from 203 in 2019. Also, the value of US investment management M&A activity in 2020 was ≈ USD28-billion, the highest overall deal value in the sector since USD29 billion in 2000.[10, 11]
- Moving forward, it is likely that more records will be broken as firms up their games to stay competitive, keep up with technological developments, innovate, and cater to clients through hyper-personalized solutions.
- Consolidations are addressing process redundancies by unifying business models.

Catalysts

- Many WM firms are exploring synergies with retail banks or insurers to promote themselves as a one-stop shop that caters to the full spectrum of clients' financial services needs.
- Wealth management M&A activity is primarily a shift to cater to the new-generation HNWIs with contemporary preferences and portfolio expectations.
- What's more, today's challenging global macroeconomics are shaping narratives around consolidation as firms scale operations while maintaining cost efficiencies.

In a nutshell

- Organizations are considering M&A to broaden scale and portfolio offerings by aggressively developing products to meet market demand, implementing new technologies to enhance efficiency, and hyper-personalize to capture growth opportunities.
  - Morgan Stanley acquired Eaton Vance to bolster its existing investment capabilities, global distribution reach, and client relationships.[12]

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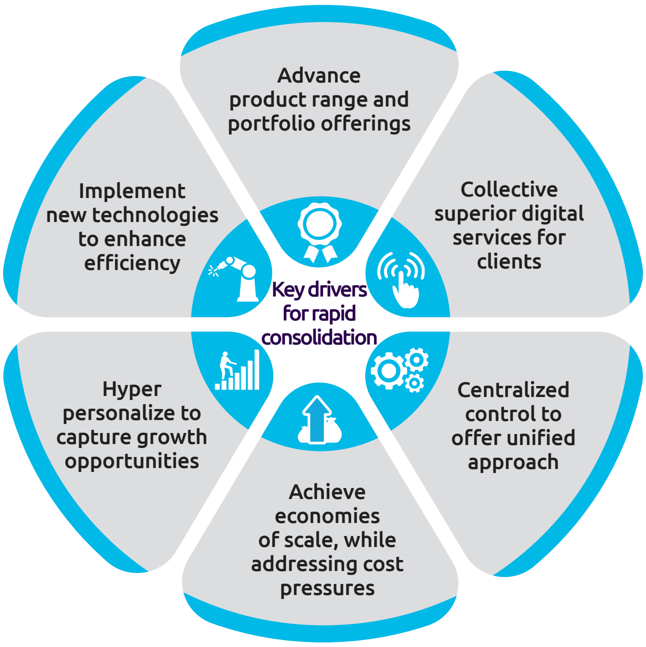
[10] NAPA, "2020 M&A Activity Unfazed by Pandemic; Will 2021 Be the Same?," January 27, 2021.
[11] Business Insider India, "Taking stock of a remarkable year in asset and wealth management," December 28, 2020.
[12] Morgan Stanley, "Morgan Stanley Closes Acquisition of Eaton Vance," March 1, 2021.

– To significantly accelerate its digital banking efforts, Morgan Stanley also acquired E*Trade and its full suite of digital banking services – including direct integration with brokerage accounts, checking, and high-yield savings accounts.[13]
– HSBC is eyeing acquisition opportunities in Asia that build product capability and distribution. The bank wants to grow its footprint in the region by boosting its wealth unit – seeking to bolster its fee-generating business.[14]

- Moreover, organizations are merging internal business units to centralize control and mitigate increasing cost pressure, fee compressions, rising compliance costs, advancing product range, and other rising operational concerns.
  – Credit Suisse is reorganizing its key wealth management business by consolidating several private banking units into one global division. The bank wants to cut costs by centrally controlling offerings with a unified client approach.[15]
  – Deutsche Bank merged wealth management with private and commercial businesses to create a single international private bank. A single consolidated unit will allow the bank to coordinate superior digital services to all clients and expand its wealth management base.[16]
  – Citi combined its consumer wealth-management and institutional clients group to create Citi Global Wealth, offering an integrated platform serving clients across the wealth spectrum.[17]

Figure 2: Key factors driving rapid consolidation in the WM industry



Sources: Capgemini Financial Services Analysis, 2021.

Impact

- With a growing focus on offering hyper-personalized and holistic financial planning solutions, consolidations will enable wealth firms to enhance CX and boost loyalty.
- As customer acquisition becomes more challenging and expensive, consolidations provide firms access to new client segments or deeper relationships with existing clients.
- Acquiring mature WealthTechs or other digital players will help incumbents gain new competencies and leverage benefits quickly.
- Mutualization of non-differentiating functions can help firms streamline workflows and operate more efficiently.

[13] Morgan Stanley, "Morgan Stanley Closes Acquisition of E*TRADE," October 2, 2020.
[14] NIKKEI Asia, "HSBC eyes Asia wealth-management acquisitions as profit soars," April 27, 2021.
[15] Bloomberg Quint, "Credit Suisse Weighs Overhaul of Wealth Management Business," June 30, 2021.
[16] Wealth Manager, "Deutsche Bank merges wealth units to launch global private bank," June 11, 2020.
[17] Citi Consumer Business, "Citi Unifies Global Wealth Management Business," January 12, 2021.

TREND 3

FAMILY OFFICES MAKING A RESURGENCE – WORLDWIDE

The family office model has become increasingly popular over the last decade against the impending *great wealth transfer* and increasing demand for investor personalization.

Context

Historically, family offices began within European dynastic families, such as the *House of Rothschild*. The first US family office was formed in 1882 by John D. Rockefeller to manage the Standard Oil fortune. The family of JPMorgan created a similar organization. Within the last half century, family offices have grown exponentially around the world.

- There were 7,300 family offices in 2019, up 38% from 2017. Now, the global number is estimated to be around 10,000, as ultra-high-net-worth families preserve and grow inherited wealth.[18]
- Mostly unregulated, family offices control an estimated USD6 trillion to USD7 trillion in assets under management, compared with USD4 trillion in global hedge funds.[19]
- Today, approximately two-thirds of family offices are in North America, about one-quarter in Europe, and the remaining 9% are in Asia and the rest of the world.[20]

Catalysts

- As the number of ultra-high-net-worth individuals (HNWIs) has grown globally, so, too, have family offices. The number of ultra-HNWIs nearly doubled from 102.6 thousand in 2010 to 200.9 thousand in 2020, and their financial wealth grew by 76% during the same time.[21, 22]
- With more ultra-HNW individuals, the need for complex and tailored financial advice is also ramping up, prompting the bespoke advisory model of family offices.
- High- and ultra-high-net households can efficiently invest (significantly lower operational, administrative, and performance-related costs) by operating through family offices rather than traditional vehicles – while maintaining strong performance.

In a nutshell

- In Asia, family offices are growing briskly. Traditionally, ultra-high-net-worth Asian families managed wealth through holding companies or special-purpose vehicles (SPVs). However, as these corporate structures became more complex and time-consuming, families moved to a more functional office structure.
- Major financial institutions are working to partner with family offices.
  - JPMorgan offers its private banking arm as a family office partner with banking and custodial services to cater to families' specific needs.[23]

[18] Ocorian, "Why are family offices on the rise?," October 7, 2020.
[19] Institute for Policy Studies, "Family Offices: Trillion Dollar Pools of Unregulated Capital You Haven't Heard About," May 21, 2020.
[20] FINTRX, "Mapping the location and assets of the Family Office Industry," January 19, 2021.
[21] Capgemini, "World Wealth Report 2021," June 29, 2021.
[22] Ibid.
[23] JPMorgan, "Banking and custody: A proven partner for your family office," accessed September 2021.

- Ultra-high-net-worth families see the following advantages in establishing a family office:
  - Consolidation of all wealth-related services in one place creates a clearer picture of their financial well-being and helps them make an informed investment decision. It optimizes maintenance costs as well.
  - Families can tightly control such organizations, and thus it becomes easier for them to align the organization's values with the family's values and interests.
  - Family offices provide ultra-high-net-worth families room to make standalone and bespoke investment decisions to fulfill their financial goals.
  - Family offices personalize advice to the needs of each unique client, whereas a traditional wealth firm draws from its portfolio of investment products. Traditional wealth firms serve multiple clients, whereas family offices typically offer dedicated investment teams.

Figure 3: Family offices offer a variety of services

Sources: Capgemini Financial Services Analysis, 2021.

Impact

- We expect family offices to proliferate further. According to the World Wealth Report 2021, there are 200.9 thousand ultra-high-net-worth individuals worldwide, with more than USD30 million investable income, and the number is rising. These wealthy households will have an interest in family office services.
- In the aftermath of the multi-billion-dollar fiasco surrounding the Q1 2021 collapse of Archegos Capital Management, a USD10 billion family office founded by New York investor Bill Hwang, expect the introduction of global regulations and intergovernmental cooperation to impact family office structures. Morgan Stanley and other prime brokers are reviewing their relationships with family offices that deal with multiple prime brokerages.[24]
- The possibility of regulatory oversight and changing client expectations will force the focus of family offices to evolve from investment to a more holistic financial services approach built on a platform for corporate and family governance. Embedding value-added services and interactive educational resources will boost family office relevance and comprehensiveness.

[24] The Trade, "The collapse of Archegos Capital Management," July 16, 2021.

TREND 4

A DIGITAL ASSET INVESTMENT STRATEGY IS BECOMING IMPORTANT

As digital assets and currencies present new opportunities for investors and wealth management firms, building a suitable investment strategy is becoming essential.

Context

As the average wealth management client profile and sources of wealth evolve, high-net-worth-individuals (HNWIs)are exploring new strategies. Apart from traditional asset classes such as equity, real estate, and fixed income instruments, HNWIs are considering assets being developed in the digital world:

- In 2021, there were >8,000 cryptocurrencies with a market capitalization of about USD1.6 trillion. Many countries are considering central bank digital currencies (CBDCs), with China and Sweden already launching pilot projects.[25]
- Speculative investors are sinking money into everything from virtual art to digital homes and virtual baseball cards – thanks to blockchain-powered non-fungible tokens (NFTs).[26, 27]

Catalysts

- Increased digitization of businesses is leading to an expanding digital asset universe.
- Advancements in enabling technologies, such as distributed ledger technology (DLT), are making way for efficient management and transaction of digital assets.
- There is a growing ecosystem of players in digital assets custody, exchange, venture capital, investment products, etc., allowing HNWIs to explore investments in these assets.[28]

In a nutshell

- Investors are increasingly dipping their toes into cryptocurrency and other digital asset investments:
  - The 2021 World Wealth Report 2021 found that 72% of the 2,900+ HNWIs surveyed have invested in cryptocurrencies, and 74% have invested in other digital assets such as website domain names.[29]
  - These numbers rise to 91% and 94%, respectively, for HNWIs under 40.
- Some of the ways to invest in digital assets include:
  - Directly investing in cryptocurrencies such as bitcoin
  - Investing in cryptocurrency exchange-traded products (ETPs) or funds
  - Investing in digital tokens, such as security tokens for a physical asset or non-fungible tokens

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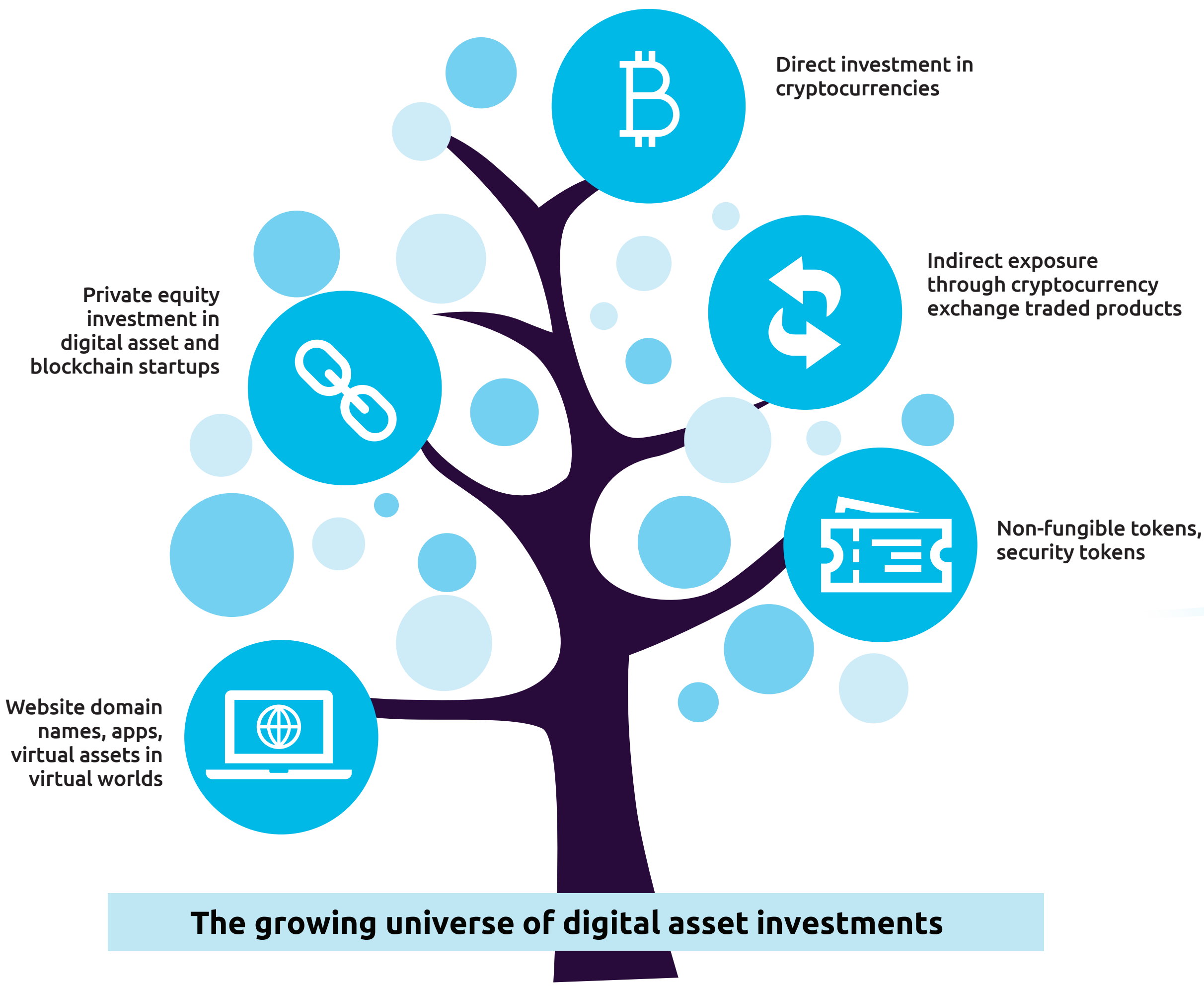
[25] Goldman Sachs, “Digital Assets: Beauty Is Not in the Eye of the Beholder,” June 2021.
[26] TechCrunch, “What happens to your NFTs and crypto assets after you die?,” April 5, 2021.
[27] Non-fungible tokens (NFTs) are distinct pieces of digital media that are verifiably scarce and unique. NFTs rely on blockchain for authenticity, security, and payment.
[28] CV VC, “Swiss Digital Asset and Wealth Management Report 2021,” accessed September 2021.
[29] Capgemini, “World Wealth Report 2021,” June 29, 2021.

  - Investing in other digital assets such as website domain names, apps, or even virtual assets in virtual worlds[30]
  - Investing in digital asset and blockchain startups through private equity.
- Both traditional and digital players have started building capabilities and rolling out offerings to address HNWIs' interest in digital assets:
  - In June 2021, Citi launched a Digital Assets Group within its wealth management division to focus on various aspects of blockchain-enabled finance.[31]
  - Fidelity plans to create a bitcoin exchange-traded fund (ETF) and ramp up its digital assets team.[32]
  - Wealthfront launched two cryptocurrency trusts that customers can add to their portfolio, with an upper limit of 10% of the overall portfolio to limit exposure to cryptocurrency volatility.[33]
- While interest in digital asset investments proliferates, challenges exist around volatility, regulatory uncertainty, and ESG considerations in using blockchain technology. Therefore, such investments may only form a smaller proportion of HNWI portfolios in the near term, with investors generally viewing them as a store of value or hedge against inflation.
- However, digital assets are becoming an emerging asset class and merit consideration by wealth management firms.

Figure 4: The expanding digital asset universe merits attention and suitable strategies



Sources: Capgemini Financial Services Analysis, 2021.

[30] The New York Times, "Are We in the Metaverse Yet?" July 10, 2021.
[31] CoinDesk, "Citi Launches 'Digital Assets Group' Within Wealth Management Division," June 25, 2021.
[32] Boston Globe, "Fidelity bites on bitcoin," August 16, 2021.
[33] FinExtra, "Wealthfront adds crypto exposure," July 30, 2021.

Impact

- Providing offerings to invest in digital assets will be critical for WM firms to meet client demand, especially from younger and tech-savvy investors.
- Digital assets also open opportunities for firms to provide clients access to previously unaffordable investments, such as in real estate and private equity, by enabling fractional asset ownership.
- At the same time, it will be necessary for firms to educate both advisors and clients about various digital asset investment options and risks and put safeguards in place that protect clients' from volatility and uncertainty.

> *Technology has opened more investment opportunities to a greater range of clients through new kinds of assets such as cryptocurrencies or tokenized Real Estate and provided access to individual investors to assets generally only accessible to institutional investors such as top-tier private equity funds."*

– **Solenne Niedercorn-Desouches**

(Non) Executive Director and Senior Advisor in FinTech/VC,
Host podcast - FINSCALE, Luxembourg

TREND 5

CYBERSECURITY BECOMES A TOP PRIORITY FOR WEALTH FIRMS

As more user data is collected to support accelerated digital transformation and hyper-personalized services, robust cybersecurity infrastructure is essential

Context

The wealth management industry collects vast client data and conducts massive financial transactions – making the sector vulnerable to various cyber attacks.

- The industry is going through a digital transformation wave, with some reports suggesting that 95% of WM firms either have or are in the process of creating a digital strategy.[34]
- Across industries, cyber-crime damages stood at USD6 trillion in 2021, up from USD3 trillion in 2015, and estimates say costs will jump to USD10.5 trillion annually by 2025. Clearly, cyber crime puts the wealth management industry in jeopardy, especially as the great wealth transfer begins.[35]
- With intensified digital transformation efforts across the value chain, the industry is vulnerable to cyber threats and damaging effects.

Figure 5: Cybersecurity threats to wealth management firms

Source: Capgemini Financial Services Analysis, 2021.

[34] CSO, "Why wealth management firms are investing in their own cybersecurity," June 25, 2020.
[35] Cyber Security Ventures, "Cybercrime-damages-6-trillion-by-2021," March 30, 2021.

Catalysts

- Wealth management organizations face unique data security, privacy, and compliance challenges.
  - A ranking by GlobalData's *Wealth Management Scorecard* assigned an average cybersecurity rating of 2.9 out of 5 to the world's top 60 wealth managers, leaving significant room for improvement.[36]
- Access to new data sources, digitization, legacy infrastructure, and most importantly, migration to the cloud and interconnectedness with third-party vendors make firms more vulnerable to cyber attacks.

In a nutshell

- Hackers are now going after small to mid-size organizations as easy targets, and banks and brokers/dealers must adequately cover their Registered Investment Advisors (RIAs).
  - Norfund, a North Sea wealth fund based in Norway, was exposed to an advanced data breach of its systems at the height of the pandemic and lost more than USD10 million in funds.[37]
  - A survey released by SVB-owned Boston Private, an integrated wealth management services provider, found that only 31% of small family offices had implemented cybersecurity measures, versus 60% of larger operations.[38]
- Investment in technology and collaboration with FinTechs and other firms are increasingly critical for firms to fraud-proof their infrastructure.
  - Goldman Sachs is likely to invest USD72.5 million in AI algorithms and data analytics for various purposes. The bank will leverage AI for cybersecurity detection and block fraudulent applications that collect customers' real-time data on a large scale.[39]
  - Belfius Bank, Belgium, partnered with Chicago-based OneSpan, a cybersecurity specialist known for multi-factor authentication and electronic signature software, to protect customers from cyber crime and mobile banking fraud.[40]
  - JPMorgan Chase invested in innovative cybersecurity FinTechs Akoya, Menlo Security, and Reversing Labs.[41]

Impact

- Wealth management firms must focus on implementing zero trust architecture.
  - Zero trust is a strategic initiative that helps prevent data breaches by eliminating the concept of trust from network architecture. *Never trust and always verify* principles protect modern digital environments by leveraging network segmentation, preventing lateral movement, providing Layer 7 threat prevention, and simplifying granular user-access control.[42]
- Proactive steps that encourage an organization-wide security-centric culture will help reduce the chance of potential breaches. Firms can train staff to be more vigilant.
- Leveraging advanced encryption technology such as multi-factor authentication or virtual private network (VPN) to secure communications and detect suspicious account activity will help prevent unauthorized access.

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[36] Private Banker International, "Cybersecurity still not a top priority among wealth managers," September 9, 2020.
[37] Norfund, "norfund has been exposed to a serious case of fraud," May 13, 2020.
[38] Financial Times, "Cyber attacks multiply on wealthy investors," May 6, 2020.
[39] Analytics Insights, "Goldman Sachs is betting on artificial intelligence to drive growth," April 30, 2021.
[40] Retail Banker International, "Belfius Bank taps OneSpan to combat mobile banking fraud," May 26, 2021.
[41] JP Morgan, "Technology: Strategic Investments," September 13, 2021.
[42] PaloAlto Networks, "What is a Zero Trust Architecture," accessed September 2021.

TREND 6

HUMAN-CENTERED DESIGN WILL BE CRITICAL TO WM FIRMS' DIGITAL TRANSFORMATION STRATEGIES

As firms step up digital transformation, they are embedding customer centricity and advisor centricity in product and interface designs to ensure a superior last-mile experience

Context

Digital transformation delivered evolutionary changes throughout the financial services industry, including wealth management. However, a human-centric digital makeover will be essential to securing client relationships.

- The wealth management industry has always been known for its reliance on human advisor expertise and personal connections. Thus, even as firms accelerate their digitization efforts, a combination of human touch and technology-driven efficiency will be an essential element in the future.
- A digital experience that prioritizes emotions and empathy will drive client satisfaction through the last mile.
- Hence, banks/industry participants will need to adopt and integrate technology with emotional engagement to attract new clients and tap into additional opportunities.

Catalysts

- Wealth management is a dynamic business in which success depends on the agile delivery of tailored advice and services. The post-pandemic world requires digitization and hyper-personalization to generate positive emotions in clients.
  - A study by Temenos found that emotional connections can increase customer lifetime value up to 800% for financial services firms.[43]
- Capgemini's HNWI and wealth manager surveys revealed low satisfaction with existing processes/interfaces. Therefore, it makes sense to add empathy in the design process to meet the growing demand for personalized and seamless solutions.
  - 52% of HNWIs did not find products and investment options easy to understand, and 47% of wealth managers agreed.
  - 51% of HNWIs and wealth managers were not satisfied with their firm's options regarding wealth manager/client communication channel choices.[44]

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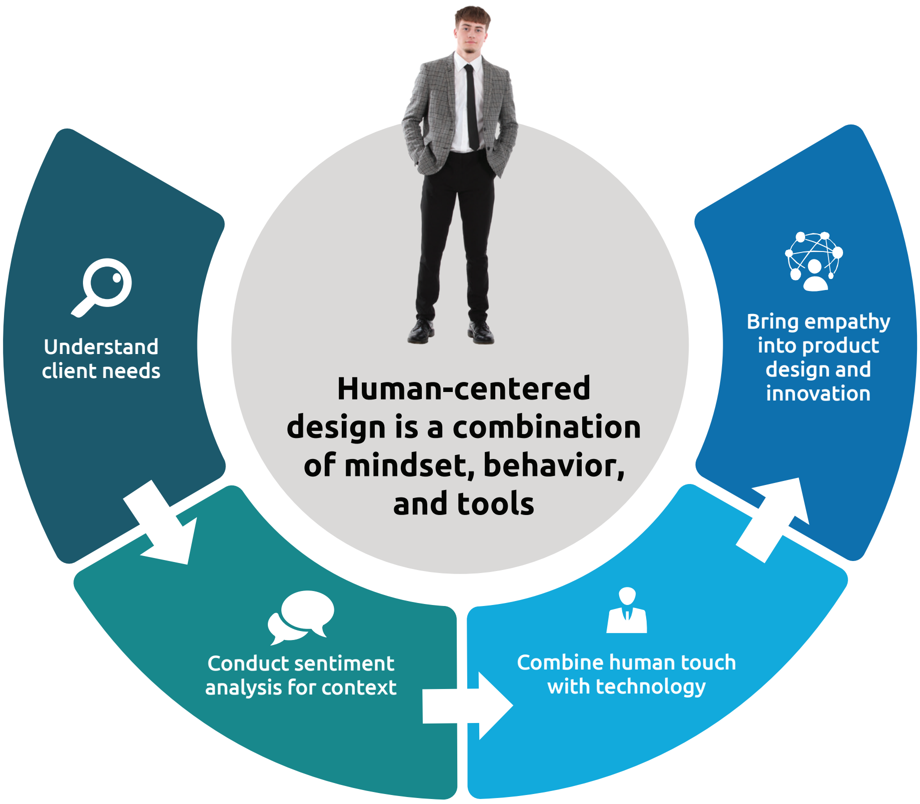
[43] Temenos, "Making Digital Banking Human in the Post-Pandemic World," March 30, 2021.
[44] Capgemini, "World Wealth Report 2021," July 9, 2021.

In a nutshell

- Human-centered design incorporates empathy into engagement and business strategy, which can help WM firms consistently consider client needs, context, behaviors, and emotions when developing products and services.
- A user-centric model is crucial for an enhanced experience, product innovation, and solution development.
- Firms are exploring various client-centric offerings such as personalized updates, smooth onboarding, and keeping investors well informed about proprietary products and services before a buy decision is made.
  - Northern Trust updated its client-facing tool, *Online Report Center*, with a redesigned user interface by incorporating human-centered design principles. It created a modern-day user experience enabling global clients to access an extensive range of information.[45]
  - The National Wealth Management Bank (NWM), Canada, revamped its website to offer a consistent digital user experience for better communication and reliability for clients and advisors.[46]
  - Schwab Advisor Services developed a *Digital Account Open* tool and enhanced onboarding to streamline advisors' workflow and make the onboarding process seamless for clients.[47]

Figure 6: How does human-centric digital transformation work?



Source: Capgemini Financial Services Analysis, 2021.

[45] Northern Trust, "Northern Trust Launches Cloud-Based Report Center for Global Asset Servicing Clients," May 5, 2020.
[46] UX Design, "Wealth Management website revamp: a fintech case study," August 22, 2020.
[47] ThinkAdvisor, "Schwab: Digital Onboarding, Money Transfers Sxurge Amid Pandemic," May 6, 2020.

Impact

- The wealth management industry will seek new modes of engagement to meet clients' evolving expectations; hence, human-centered design principles will come into play.
- In 2022 and beyond, as the industry faces increased competition from new digital players and the potential entry of BigTechs, offering superior digital CX will become table stakes.
- Embedding advisor centricity into interfaces will enhance advisor satisfaction and enable the performance of better client service.

"The battleground for customer mindshare will be in how firms provide advice and content at scale in a way that is personalized. Firms can achieve this by replicating human personalization and augmenting advisor capabilities with the help of technology."

– **Marc Van de Walle**

Global Head, Wealth Management, Standard Chartered Bank, Singapore

TREND 7

HYBRID ADVICE CAPABILITIES WILL UNLOCK NEW REVENUE STREAMS

To meet evolving client expectations and capture the rising mass affluent market, transitioning to a personalized, hybrid advisory approach is inevitable.

Context

Hybrid advice is a modular, personalized, pay-as-you-go model that puts clients in the driver's seat and empowers them to choose a mix of automated self-service and human-assisted approaches. Hybrid advisory models are becoming more relevant now than ever before.

- While firms have been engaging the rising mass-affluent segment through robo-advisory models, in a VUCA (volatile, uncertain, complex, and ambiguous) world, investors increasingly seek more sophisticated support.
  - According to US-based FinTech investment management company Diaman Partners, 54% of UK investors aged 18–25 said they lost trust in robo advisors during pandemic market volatility. Sixty-seven percent said they wanted a digital experience that also enables interaction with a human advisor.[48]
- Digital and hybrid advisory competition from non-traditional players is increasing. WealthTech firms such as Betterment, Personal Capital, and Ellevest provide access to financial advisors for services ranging from financial education to investment advice.[49]

Catalysts

- Technology advancements – automation, artificial intelligence, and digital communication – enable firms to provide services across the spectrum of self-service and human advisory to suit client preferences.
- COVID-19 spurred the adoption of digital channels and tools and boosted consumer interest in wealth management to create demand that hybrid advice models could meet.

In a nutshell

- With digital channel adoption up within even the most traditional client segments, HNWIs may seek more hybrid advice options for greater flexibility and control in managing their wealth while benefitting from expert advice when required.
- HNWIs are already inclined to manage basic transactions and access information independently.
  - 71% of HNWIs in Asia-Pacific (excl. Japan), 63% in Europe, and 53% in North American say they prefer to autonomously conduct transactions and access information versus depending on human assistance.[50]

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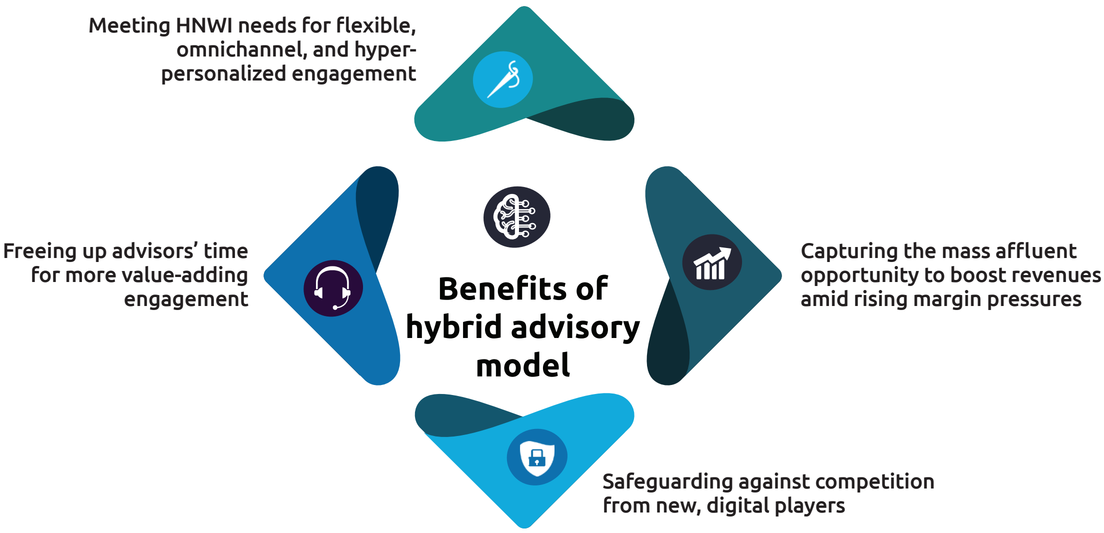
[48] WealthBriefing, "How COVID-19 Boosts Case For Hybrid Advice Models," September 7, 2020.
[49] Robo-Advisor Pros, "8 Hybrid Robo-Advisors With Human Touch and Digital Investment Advice," July 28, 2020.
[50] Capgemini, "World Wealth Report 2021," June 29, 2021.

- At the same time, wealth managers play a critical role for HNWIs in more complex areas such as building and managing portfolios.
  - Globally, 60% of HNWIs still count on research and investment advice from their wealth management firm, while 17% delegate all their investment decisions to their firm.[51]
- Wealth management firms are leveraging hybrid advisory models to better serve existing clients and tap into the growing mass affluent segment profitably.
  - UBS Manage Advanced – *My Way* – enables clients to build their portfolio with their advisor using ≈60 different building blocks. The iPad app's intuitive interface lets users drag and drop selected building blocks, adjust variables, and obtain in-depth portfolio analysis. The hybrid digital wealth management platform attracted USD3.7 billion in its first year.[52, 53]
  - Standard Chartered launched the *MyRM* app to allow customers to authorize on-the-go investment transactions or connect with their relationship manager to discuss wealth planning.[54]
  - Vanguard's *Personal Advisor Services* offers automated portfolios and access to human advisors and has become a leading robo-advisor with USD231 billion in AUM.[55]
- Firms are also exploring FinTech partnerships to ramp up their hybrid advice capabilities.
  - M&G Wealth is collaborating with Ignition Advice to build a hybrid advice service scheduled to deploy by Q4 2021. The firm aims to address the advice gap by providing a lower cost, streamlined service for clients with limited investment capital.[56]

Figure 7: Hybrid advisory models will unlock market opportunities and hedge against competition



Source: Capgemini Financial Services Analysis, 2021.

Impact

- Hybrid advice models can enable firms to cost-effectively engage with a broader client base to boost revenues amid rising margin pressures.
- Virtual branch models can make the overall wealth management experience seamless for clients while freeing up advisors' time for value-adding tasks.
- However, firms will need to overcome initial hybrid advisory model challenges, such as the high cost of acquisition and legacy system constraints.
- Firms will need new and re-skilled advisors to leverage hybrid models and cater to a more extensive and diverse client base.

51 Ibid.
52 UBS, accessed August 2021.
53 Reuters, "UBS ramps up 'Netflix' of banking to tap into stream of millionaires," June 7, 2021.
54 Standard Chartered, accessed August 2021.
55 Forbes, "Top Robo-Advisors: 10 Robos With The Most Assets Under Management," September 22, 2021.
56 Professional Adviser, "M&G Wealth appoints firm to create hybrid advice service," May 27, 2021.

TREND 8

AS SUSTAINABLE INVESTING EVOLVES, BUILDING CAPABILITIES TO MEASURE ESG IMPACT IS THE NEXT STEP

HNWIs are demanding more information on sustainable investing and ESG impact, making it essential for companies to develop the necessary ESG scoring capabilities

Context

Pandemic disruption is among numerous events encouraging corporations and investors to pick a lane regarding environmental, social, and governance (ESG) standards.

- Interest in ESG is taking center stage as investors channel more funds into vehicles that deliver societal impact along with financial returns.
- A Bloomberg Intelligence Report predicts that global ESG assets will exceed USD53 trillion by 2025, accounting for approximately a third of total projected assets under management – USD140.5 trillion.[57]

Catalysts

Growing concerns related to environmental risks, further augmented by the pandemic, led to a paradigm shift in investment choices, gravitating towards sustainability, with ESG investing being the headline act.

- As sustainable investing becomes mainstream, wealthy segments, especially the young affluent, demand a portfolio that is integrated with socially responsible strategies.
- Wealthy investors want a multi-dimensional approach that facilitates a quick flow of information. Therefore, wealth managers will be expected to align portfolio choices with evolving narratives around sustainability.

In a nutshell

- As the demand for sustainable investing (SI) matures, HNWIs will expect more information on sustainable investment impact and customized solutions.
  - ~43% of ultra-HNWIs and 39% of HNWIs younger than 40 are likely to request an ESG score for products offered by their firm.
  - Also, one in five wealth managers says their clients' preferred sustainable investing approach is to optimize the ESG score of their existing portfolio.[58]

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[57] Bloomberg, "ESG assets may hit $53 trillion by 2025, a third of global AUM," February 23, 2021.
[58] Capgemini, "World Wealth Report 2021," July 9, 2021.

- To capture the trend, firms need to evaluate their ability to offer the desired services quickly, even as they currently grapple with measuring the impact and returns from sustainable investing.
  - A top challenge for 41% of WM firms and 36% of wealth managers is finding accurate ESG impact data.[59]

Figure 8: HNWIs seeking sustainable investing want ESG scoring embedded into their portfolios

Source: Capgemini World Wealth Report 2021.

- Incumbent wealth management firms are trying to enhance their ESG scoring capabilities either internally or by partnering with WealthTechs to overcome the daunting challenge of collecting timely, accurate data and assessing impact.
  - Citi collaborates with Truvalue Labs to combine traditional sources with real-time, AI-driven ESG data to get a more comprehensive view of companies' ESG impact.[60]
  - BlackRock launched *Aladdin Climate* and invested in Clarity AI to help investors gain actionable insights and better understand and incorporate sustainability criteria into their portfolios.[61]
  - BNY Mellon offers a cloud-based ESG data and analytics application that customizes portfolios to meet clients' ESG investment preferences.[62]

Impact

- Wealth management firms need to sidestep *greenwashing* when providing ESG disclosures. For example, firms should avoid giving false impressions or sharing misleading information that suggest a company or its products are environmentally friendly.[63]
- Standardized ESG reporting and data collection will aid in practical and timely investor advice, as demanded.
- Along with ESG scoring capabilities, wealth management firms will need to empower advisors by educating them on ESG offerings and their impact.
- Next, WM firms need to identify ecosystem partners such as WealthTechs to build ESG scoring capabilities quickly.

"An ESG-driven investment approach is the future. The world, not only the financial one, is looking at this segment. There is a growing demand for cleaner, greener portfolios and strategies that focus on environmental, social, and governance principles. It is only a matter of time until this is the new normal."

– **Stefano Schrievers**
Head of Wealth Management Italy, BNL BNP Paribas, Italy

[59] Ibid.
[60] Markets Media, "Citi Develops ESG Platform To Transform Research," September 30, 2020.
[61] ESG Today, "BlackRock Invests in Clarity AI, Will Integrate Sustainability Analytics & Reporting Capabilities in Aladdin," January 14, 2021.
[62] BNY Mellon, "ESG Data Analytics Application," September 9, 2021.
[63] Greenwashing is the process of conveying a false impression or providing misleading information about how a company's products are more environmentally sound.

TREND 9

BEHAVIORAL ANALYTICS ENABLE FIRMS IN EFFECTIVE CLIENT INTERACTIONS

Firms are weaving behavioral analytics into business models and client engagement practices.

Context

Behavioral finance enables firms to study the impact of psychological and emotional influences on the investment behavior of clients and advisors. Behavioral analytics can help firms better understand their clients and engage with them accordingly.

- An increasing number of financial services firms – powerfully equipped with artificial intelligence and data analytics capabilities – are applying behavioral precepts to enhance corporate culture and operations and guide clients down desired investment paths.[64]
- During the onset of the pandemic and in a period of unprecedented volatility, firms say behavioral finance helped advisors gain new clients, cement trusting relationships, and keep clients invested for their long-term goals.
  - According to the *BeFi Barometer 2020*, 66% of WM respondents said they gained clients in the first three months of 2020 thanks to the aid of behavioral finance, compared with 36% who did not use behavioral tools.[65]

Catalysts

- Behavioral analytics boosts confidence in individuals who lack expertise in managing their wealth. It explains that success in generating wealth from investment management comes from managing emotions in addition to financial expertise.
- When advisors understand client biases, they can incorporate behavioral analytics' principles into the portfolio construction processes. Behavioral analytics can help recognize client preferences, philosophy, and what they value from their investments, which results in better client outcomes and more robust, longer-lasting relationships.
- Behavioral analytics can help WM firms develop client stickiness by identifying investment patterns – from a prospect's initial thoughts about the firm to offering appropriate CX to grow the client relationship.

In a nutshell

- According to a 2020 study by Charles Schwab, 81% of advisors use behavioral finance techniques while interacting with clients, up from 71% in 2019.[66] Early adopters use it to design personalized investment propositions, such as portfolios based on an individual's risk adversity, anxiety sparked by market volatility, and emotional response to investments.
- FinTechs and neobanks use behavioral finance to help clients invest, save, and manage loan payments on their digital platforms.
  - Betterment, a New York-based robo-investment provider, employs behavioral science techniques and partners with corporations in offering 401(k) retirement plans.[67]

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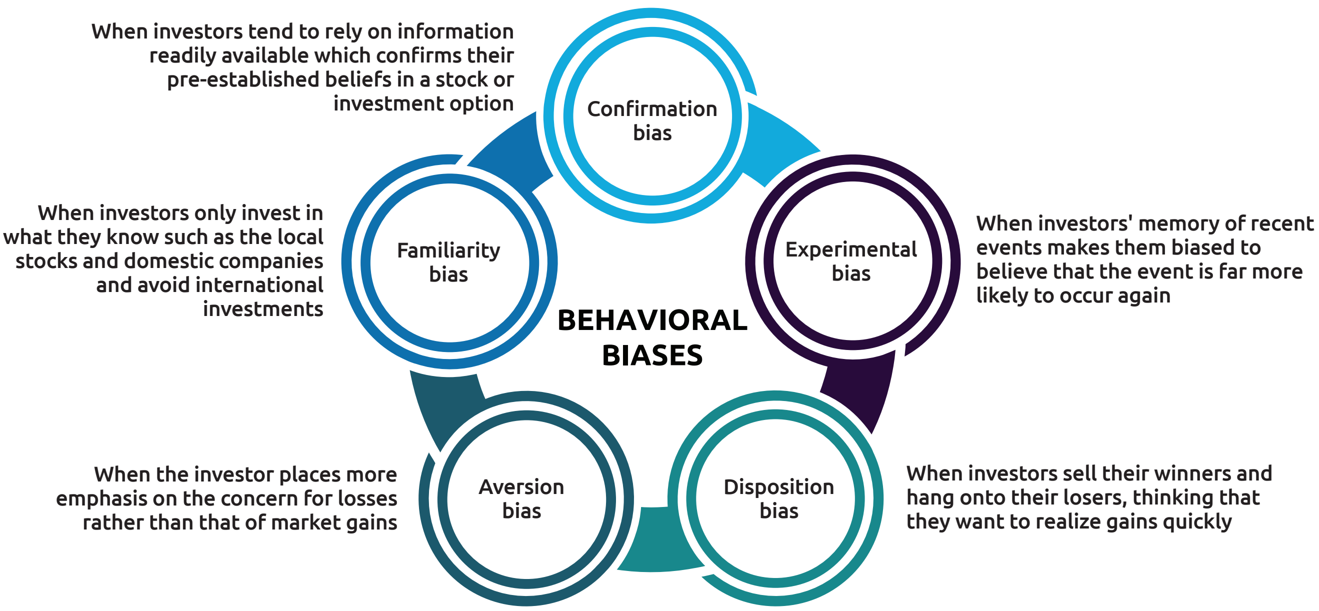
[64] GARP, "Behavioral Finance Theory Gets Real in Risk Management," July 9, 2021.
[65] WealthBriefing, "Wealth Advisors Increasingly Use Behavioural Finance To Win, Counsel Clients," September 10, 2020.
[66] Ibid.
[67] GARP, "Behavioral Finance Theory Gets Real in Risk Management," July 9, 2021.

- Firms are collaborating with other ecosystem players to get the behavioral finance expertise for integrating behavioral tools into wealth management.
  - Collaboration between TD Wealth and the University of Toronto's Behavioural Economics in Action research center helped TD advisors learn about clients' blind spots in financial decision-making. TD Wealth's personality tool unlocks insights about client personalities and helps drive more personalized advice and planning conversations.[68]
- Wealth management firms can follow the lead of major players from other industries that have successfully used behavioral analytics to garner customer retention and drive growth.
  - Walmart leverages salience bias by setting up *Action Alley* in the middle of an aisle, where the retailer features its best deals. Even though the placement interrupts shopping, Walmart guarantees that consumers act on the deals.[69,70]
  - What's more, in Q2 2021, Walmart filed to trademark *Hazel by Walmart*, a FinTech startup created in partnership with Silicon Valley investment firm Ribbit Capital, which may signal a distant warning sign to wealth management firms.[71]

Figure 9: Behavioral biases influence financial decisions



Source: Wizely, 2020; Capgemini Financial Services Analysis, 2021.

Impact

- Behavioral finance is a trend that will continue to gain momentum as advisors equip themselves to tackle extreme market volatility. Firms that prepare clients about such events can mitigate the recency bias, through which recent news or experiences influence individuals.
- In an era where competition for clients and loyalty is high, behavioral analytics offer a pre-emptive heads up that an investor may move elsewhere – giving the WM firm time to mitigate attrition.
- Behavioral analytics can also complement firms' segmentation strategies to provide insights into the needs and expectations of various client segments such as women, mass affluent, etc.
- In 2022 and beyond, expect traditional firms to partner with WealthTech specialists to quickly build/roll out behavioral capabilities.

[68] Advisor's Edge, "TD extends partnership with behavioural economics centre," September 2, 2020.
[69] Salience Bias is the cognitive bias that predisposes shoppers to focus on items that are more prominent or emotionally striking.
[70] Medium, "5 Genius Ways Walmart Used Psychology to Become the World's Biggest Retailer," October 5, 2021.
[71] Bloomberg, "Walmart Files for Trademark for Fintech Unit: 'Hazel by Walmart'," April 8, 2021.

TREND 10

THE EMBEDDED WEALTH MANAGEMENT REVOLUTION OPENS GREATER ECOSYSTEM COLLABORATION OPPORTUNITIES

The recent emergence of embedded wealth by FinTechs is disrupting industry dynamics and incumbents.

Context

By embedding wealth management offerings with their existing services, FinTechs help clients increase their wealth and provide a new channel to communicate and engage.

- FinTechs and WealthTechs are tapping into mass-affluent consumers by providing more financial planning services to these traditionally underserved segments in wealth management.
- Existing FinTech clients with large cash balances who don't diversify their cash reserve because of low or zero-yielding savings accounts can benefit from wealth management services and investment products.

Catalysts

- Embedded wealth management provides FinTechs with a new revenue stream. By embedding third-party investments, customers access these value-added services beyond the conventional services offered already, with minimal friction, improving banks' income streams while lowering churn risk.
- With the advent of embedded solutions, integrating investment services and products is no longer a barrier for tech firms, thus making wealth management services available to a broader customer base not restricted as a service from larger financial institutions.
- More and more banking services are increasingly being embedded into large technology platforms to turn them into a super app for customers, which makes a case for wealth management to be one of the embedded services.

In a nutshell

- Embedding wealth management is a win-win situation for FinTechs and their clients. It enables customers to increase their wealth, and it helps FinTechs grow their customer base via a new engagement channel.
  - Since Swiss retail bank PostFinance introduced branded investment services in 2020, it has added nearly USD34.5 million a month in assets under management; and its 2020 annual report said it had 2.7 million clients and +USD133 billion in customer assets.[72]

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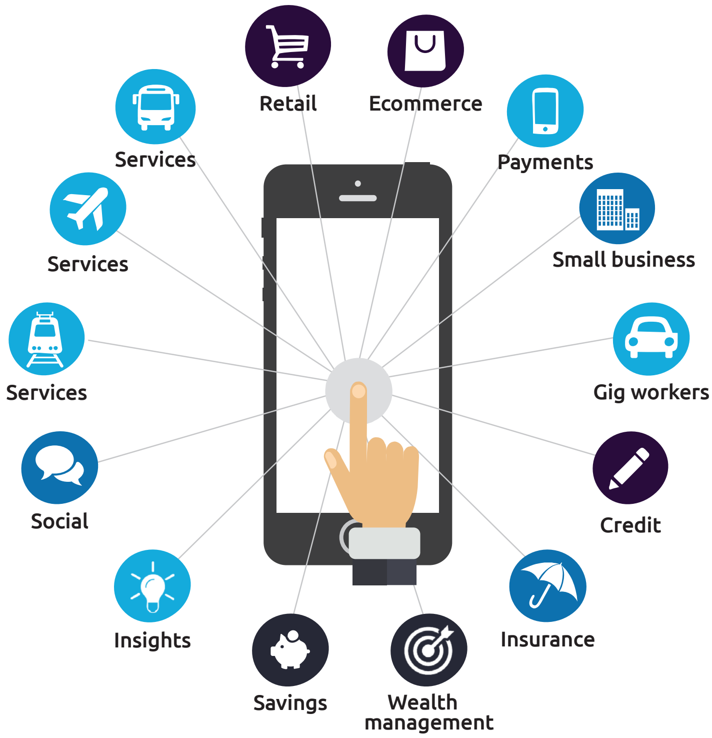
[72] PostFinance, "Smart Banking – Made for Switzerland," accessed September 2021.

- Digital banks are venturing into partnerships and acquisitions to provide embedded wealth management services to their customers.
  - Aion Bank acquired robo-advisor ETFmatic after collaborating with the London-based FinTech to integrate its application programming interface (API) into Aion's banking app with a step-by-step guide to help users choose investment options.[73]
- Major global banks are looking to acquire or partner with technology players to boost digital wealth management distribution.
  - JPMorgan Chase acquired digital wealth manager Nutmeg to strengthen its retail digital wealth management offering internationally over the long term. The acquisition bolstered Chase's September 2021 launch as a digital bank in the UK.[74]
  - UOB Asset Management partnered with communications technology firm Singtel to offer robo-advisory investment services to individual investors through Singtel's Dash mobile wallet.[75]

Figure 10: The rise of the super app



Source: Capgemini Financial Services Analysis, 2021.

Impact

- For incumbents, partnering with technology firms presents an opportunity to boost revenues by expanding to new client segments already being captured by new, digital players.
- Incumbents can also benefit by embedding wealth management services to augment distribution through various platforms.
- Traditional concepts of the banking function are beginning to fade with the advent of robust technology platforms capable of embedding banking. Thus, it is safe to say that future wealth management services will be available to the masses through embedding the service in existing large technology platforms.

[73] Fintech Futures, "Aion Bank acquires robo-advisor ETFmatic," March 10, 2021.
[74] CNBC, "JPMorgan is buying UK robo-advisor Nutmeg to boost overseas retail banking expansion," June 17, 2021.
[75] United Overseas Bank Asset Management, "Singtel's Dash and UOB Asset Management to make investing more accessible with robo-advisory collaboration," December 14, 2020.

SUMMARY

As we slowly move out of the pandemic, financial services firms have learned the criticality of virtual engagement to business resilience. Wealth management firms have prioritized digital transformation and built digital channels and capabilities across the value chain. However, in 2022 and beyond, we expect human-centered design to take on more importance as a means to empower clients and wealth advisors.

Sustainable investing will remain high on the agendas of both HNWIs and firms. Still, the onus will be on wealth managers to supply credible data about the ESG impact of their investment offerings. Firms will leverage behavioral analytics to staunch client attrition and drive customer loyalty in an increasingly competitive landscape in which client loyalty and stickiness are indispensable.

The industry will face fundamental market forces, such as the great wealth transfer, that generate new-age clients and spark interest in digital asset classes and family office models. Therefore, firms will need capabilities to cater to new-age clients and deliver new-age services. Cybersecurity will become a more significant concern for incumbents as the industry grows increasingly virtual, especially for the most susceptible small players and wealth advisors.

Expect FinTech innovations to continue wealth management industry disruption – particularly as FinTechs focus on super apps that cater to various client needs from one platform. Future-focused WM firms will continue to explore ecosystem collaboration to boost capabilities, expand reach, and cut costs.

Recent lessons about anticipating and preparing for future opportunities will be invaluable in 2022 as firms act swiftly to keep customers informed, engaged, and delighted.

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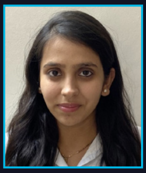

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ACKNOWLEDGMENTS

We would also like to thank the following teams and individuals for helping to compile this report:

Elias Ghanem, Chirag Thakral, and Tamara Berry for overall leadership; Dinesh Dhandapani Dhesigan for drafting the findings.

Marion Lecorbeiller, Pranoti Kulkarni, Swathi Raghavarapu, Sai Bobba, and Anirudh Malyala for their overall marketing leadership for the report, and the Creative Services Team for producing the report: Suresh Chedarada, Kalasunder Reddy Dadi and Sushmitha Kunaparaju

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