Wealth Management
Top Trends 2021

Drivers, opportunities, and risks shaping Financial Services

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Executive summary

2020 reflections with our eyes on the future

When we published the Top Trends in Wealth Management 2020, little did we foresee the pandemic that would sweep through the world and disrupt life as we knew it. Yet, when we reviewed last year's trends, we found that many still hold. And, some have taken on even greater relevance.

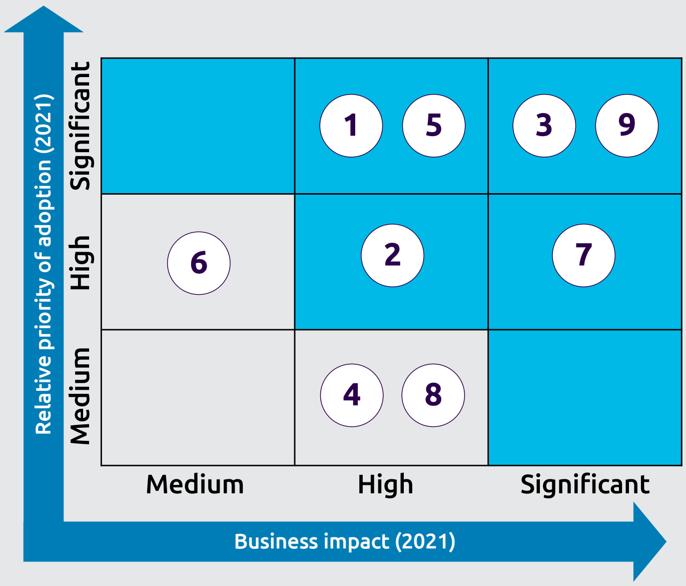
One such trend is sustainable investing, which had begun to gain prominence as investors became more aware of ESG considerations, and firms rolled out more sustainable investing offerings. In the wake of the pandemic, the demand for sustainable investing has only gone up, especially as ESG funds often outperformed broader indexes in 2020. Another trend that has accelerated in the post-COVID world is the importance of investing in omnichannel capabilities and technologies such as artificial intelligence (AI) to enhance personalization and advisor effectiveness. The pandemic has driven wealth management firms to accelerate their digital transformation journey, with some immediate focus areas being interactive client communications and digital advisor tools.

Wealth management (WM) firms are facing greater pressure than ever before on their revenues and margins. This year's report outlines a few strategies to bolster revenues and secure client relationships amid uncertainty, such as engaging underserved segments, exploring client engagement beyond investment advice, and technology-driven hyper-personalization. The report also captures market opportunities such as innovation in fees and the use of alternative data for gaining a unique advantage in providing investment returns.

There is no denying that time is of the essence. Yes, budgets are tight, but the Open X ecosystem offers wealth management firms opportunities to reimagine their operating models and deliver excellent customer experience cost-effectively.

Exhibit 1: Top wealth management trends 2021- Priority matrix

1. Pandemic opens the eyes of digital transformation laggards
2. As sustainable investing inches toward the mainstream, a holistic approach is needed
3. Technology-driven hyper-personalization will be critical for loyalty and growth
4. Underserved segments offer firms growth opportunity amid revenue and margin pressures
5. The new normal necessitates next-gen client reporting
6. Alternative data sources and real-time data are rewriting the investment playbook
7. The new market share battle may be decided by innovative fee structures
8. WM firms and WealthTechs go beyond investment advice to deepen client relationships
9. Ecosystem collaboration lights the path to capability building and profitable growth



Source: Capgemini Financial Services Analysis, 2020.

Priority of adoption refers to the urgency of adopting a particular trend to maximize value creation in 2021. This is a relative rating based on the identified trends for a normal wealth management firm operating in the current environment.

Business impact represents impact of an identified trend on the wealth management firm's business in 2021. The impact could be on customer experience, operational excellence, regulatory compliance, or profitability.

The matrix represents the view of Capgemini analysts for WM firms working in the current operating environment:

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

The matrix will vary for specific WM firms depending on their business priorities, geographic location, and several other factors. For specific requirements, please contact wealth@capgemini.com

Trend 01

Pandemic opens the eyes of digital transformation laggards

COVID-19 made the importance of digital channels and capabilities crystal clear, spurring wealth executives to prioritize digital transformation.

Context

The global health crisis caused disruptions and service delivery disconnects across the value chain to create an urgent imperative to accelerate digitization efforts.

- As face-to-face interaction became nearly impossible, only firms with digital channels and readiness could deliver seamless advice and service to skittish clients.
- The shift to a virtual workforce and severe margin pressures further intensified the importance of digital transformation throughout the value chain.

Catalysts

- Physical lockdowns across countries have forced wealth management firms to replace face-to-face meetings with virtual calls to address client needs.
  - More than 400 advisers said client interaction video conferencing climbed from 7% to 14% since the pandemic, a Fidelity survey reported.[1]
- As the demand for financial planning and advice increased, firms quickly evaluated their ability to digitally engage with prospects and clients.
- The pandemic highlighted the competitive edge that digital platforms provide when it comes to the online distribution of wealth products and services.

In a nutshell

- As a result of COVID-19, traditional wealth management firms encumbered by sluggish digital adoption face daunting challenges and economic shockwaves.
- Digital augmentation will become requisite trade tools as firms fast-track transformation, with 68% of firms saying, in July 2020, they were organizing their digital activity, a 20% increase over 2019.[2]
- WM firms no longer have the luxury of selecting the timeframe for digital transformation projects. Digital capabilities are now essential for ongoing feasibility.
  - Wealth firms boosted technology spending during the pandemic, focusing on digital tools investment – more than their FS counterparts, FinTechs, and professional services.[3]
- With the pandemic as the backdrop, digital advisory tools and platforms are gaining traction.
  - Merrill Lynch and Wells Fargo upgraded their technology capabilities — from robo-solutions to revamped workstations — to ensure their advisers have the robust tech tools needed in the new remote-work reality.[4]

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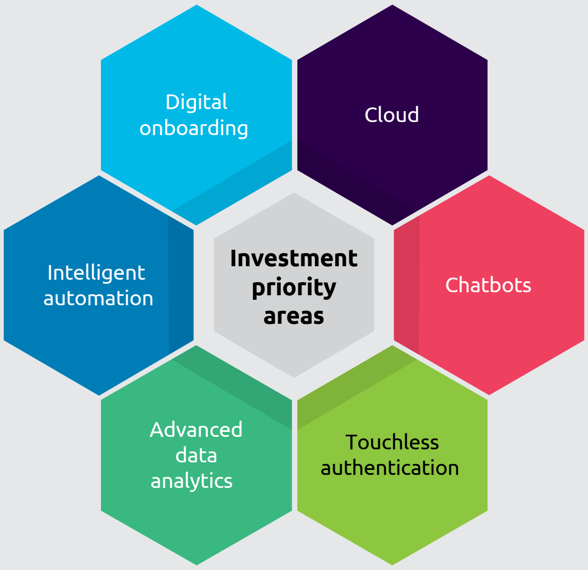
1 Investment News, "Fidelity research shows COVID-19 steering advisers toward technology," June 23, 2020.
2 IPE, "COVID-19 boosts digital agenda across asset managers, reveals gaps," July 14, 2020.
3 Financial Planning, "Wealth managers ramp up tech spending amid coronavirus," May 15, 2020.
4 Investment News, "Wirehouses race to upgrade adviser tech amid pandemic," July 23, 2020.

Figure 1: How are firms prioritizing their digital transformation investments?



Source: Capgemini Financial Services Analysis, 2020.

Impact

- The pandemic has changed the way different high net worth segments use digital tools. Less proficient with online tools than their younger counterparts, baby boomers have begun to embrace digital tools seamlessly.
- Client-facing wealth managers will need access to the right tools and technology to manage client portfolios and provide seamless digital service holistically.
- Firms will have to overcome three major obstacles for successful digital delivery: lack of investments, digitally incompatible organizational setups, and a need for cultural change across the business.[5]

[5] IPE, "COVID-19 boosts digital agenda across asset managers, reveals gaps," July 14, 2020.

Trend 02

As sustainable investing inches toward the mainstream, a holistic approach is needed

While sustainable investing was gaining ground even before COVID-19 (covered in last year's edition), the pandemic accelerated the trend further, forcing wealth management firms to build capabilities to cater to the rising demand.

Context

Environmental risks and pandemics present an unforeseen risk to the financial services industry, highlighting the importance of sustainable investing (SI).

- Sustainable investing has rapidly grown and evolved over the past few years, with the value of global assets applying ESG data for investment returns almost doubling in four years to reach USD40.5 trillion in 2020.[6]
- The pandemic bolstered interest in SI products as HNWIs view them as sound, less risky investments in disruptive times.
- Investors are also intrigued by the versatility and options provided by sustainable investing funds, and interest in and adoption of SI are on track to grow.
- The Sustainable Development Goals (SDG) adopted by the United Nations in 2015 has become the sustainability North Star, providing a boost for sustainable investment avenues.

Catalysts

- HNWIs are showing a higher propensity to adopt sustainable investing.
  - As per the World Wealth Report 2020, 27% of HNWIs expressed interest in sustainable investing (remarkably higher for younger ultra-HNWIs at 49%). They plan to allocate 46% of their portfolios to SI products by the end of 2021.[7]
- HNWIs cited higher returns and lower market risks as the top two reasons for selecting SI products.[8]
  - By avoiding exposure to specific industries, more than half of sustainable investing funds outperformed the broader global index in a bearish market in March 2020.[9]

In a nutshell

- Recent trends such as environmental change, greater client awareness, and regulatory changes have heightened investor preference for generating returns sustainably.
- While the focus had primarily been on the environment and governance, social sustainability is gaining ground and driving investment firms to evaluate corporations' engagement with other stakeholders – employees, suppliers, and society.
- Secondary impact investing – in which the business success litmus is practices versus products – is generating buzz.
  - Ball Corporation has been developing innovative aluminum packaging solutions for beverages and other household products to provide environmentally friendly sustainable alternatives.[10]

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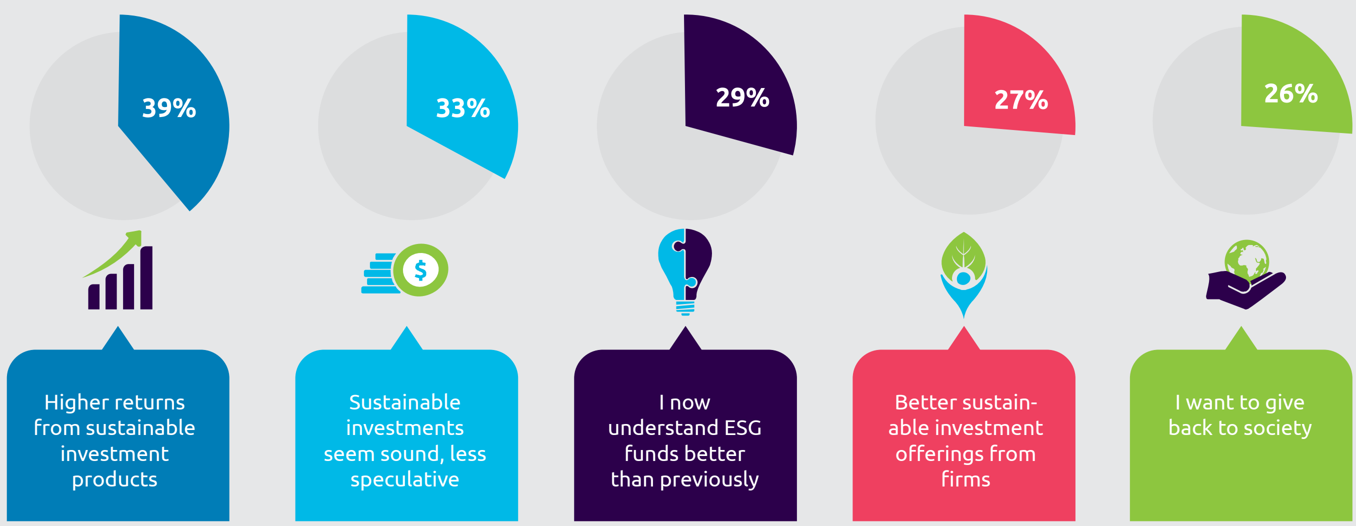
[6] Pensions & Investments, "Global ESG-data driven assets hit $40.5 trillion," July 2, 2020.
[7] Capgemini, "World Wealth Report 2020," July 9, 2020.
[8] Ibid.
[9] Financial Times, "ESG funds continue to outperform the wider market," April 3, 2020.
[10] Light Metal Age, "Ball Corporation Continues Its Dedication to Sustainable Aluminum Packaging," March 17, 2020.

- As the COVID-19 pandemic rattled markets, sustainability-focused funds attracted record capital in Q1 2020 with an inflow of nearly USD46billion into sustainable funds.[11]
  - Since early 2019, UBS's 100-percent sustainable investment portfolio in Asia has more than doubled to USD1 billion in assets, with increased demand since the COVID-19 outbreak.[12]
- Clients are demanding more data around sustainability for comprehensive investment decision making.
  - The number of S&P 500 companies that publish a sustainability report rose steadily from 53% in 2012 to a whopping 90% in 2019.[13]
- Advisors need capabilities to determine precise client portfolio ESG scores to recommend products that align with client preferences and risk appetite.
  - JP Morgan offers investment strategies to help clients achieve specific outcomes, financial returns, and a more substantial portfolio based on sustainability-related criteria.[14]
- Amid inconsistent disclosures, misleading information about companies' positive environmental impact (greenwashing), and no recognized framework, it is likely that a push for regulation will drive global sustainability standards, such as the EU's sustainable finance action plan.[15]
- As SI popularity grows, favorable policies toward companies that practice social and environmental goodwill may continue to attract investments long after the pandemic.

Figure 2: Higher returns and lower risk drive HNWI interest in SI products, Jan–Feb 2020



Source: Capgemini Financial Services Analysis, 2020.

Impact

- With more SI regulations, institutional investors will need to rethink capital allocation strategies as more than 170 new ESG regulations were passed since 2018, more than the previous six years combined.[16]
- Firms will have to consider multiple frameworks to measure the unique impact of sustainable investing because a standard impact framework will not serve the varying purposes/requirements of different investors.[17]

[11] CNBC, "Sustainable investing is set to surge in the wake of the coronavirus pandemic," June 7, 2020.
[12] Bloomberg Quint, "Virus Boosts Rich Asian Interest in Sustainable Investing Trend," April 3, 2020.
[13] GlobeNewswire, "90% of S&P 500 Index Companies Publish Sustainability Reports in 2019, G&A Announces in its Latest Annual 2020 Flash Report," July 16, 2020.
[14] JP Morgan, "Building Stronger Portfolios," July 2020.
[15] European Commission, "Sustainable finance," accessed September 2020.
[16] FT Advisor, "ESG regulations and their impact on advice," May 18, 2020.
[17] OECD, "Managing and measuring the impact of sustainable investments," June 3, 2020.

Trend 03

Technology-driven hyper-personalization will be critical for loyalty and growth

Hyper-personalized offerings will help wealth management firms address evolving HNWI expectations and lock in high-potential customer segments at crucial transition points.

Context

While various HNWI segments have unique goals and needs, wealth management firms have typically fallen behind in personalizing their offerings adequately, leaving them vulnerable to BigTech competition.

- WM firms face increasing competition in lower wealth bands from digital advice models by WealthTechs, especially since the pandemic.
- Various customer segments have unique goals and needs, and addressing these needs is critical, especially during today's uncertain environment, which is exacerbated by the public health crisis.
  - Less than half of young and old HNWIs say their wealth management firm understands their unique needs.[18]

Catalysts

- HWNI clients expect best in class services at various customer touchpoints, such as personalized updates about new products/services or receiving educational market information.
  - According to World Wealth Report 2020, more than 40% of customers say a good experience at these touchpoints have a high impact on their overall firm perception.
- BigTechs pose a potentially significant competitive threat if they enter the industry, with 74% of HNW clients saying they would turn to the tech giants for wealth management services based on their proven ability to offer personalized CX.[19]
- Access to new data sources and cutting-edge technologies such as AI and analytics enable incumbent firms to process structured and unstructured data to personalize client offerings at scale.

In a nutshell

- Technologies such as artificial intelligence (AI) and analytics can enhance customer experience by personalizing solutions and services in diverse areas.
  - **Bespoke risk profiles:** Advancements in behavioral sciences and sentiment analysis can granularly interpret client risk profiles versus restriction to five or six predefined profiles.
  - **Personalized portfolio construction:** Data analytics and machine learning (ML) tools can assess an investor's trading history to help firms customize portfolios to achieve clients' specific financial goals.
    - Tata Mutual Fund uses ML to create intelligent investment portfolios. The ML-powered fund framework can maximize returns during up-trending markets while minimizing losses during downturns.[20]

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[18] Capgemini, "World Wealth Report 2020," July 9, 2020.
[19] Ibid.
[20] Economic Times CIO, "How Tata Mutual Fund uses ML to create intelligent investment portfolios," January 14, 2020.

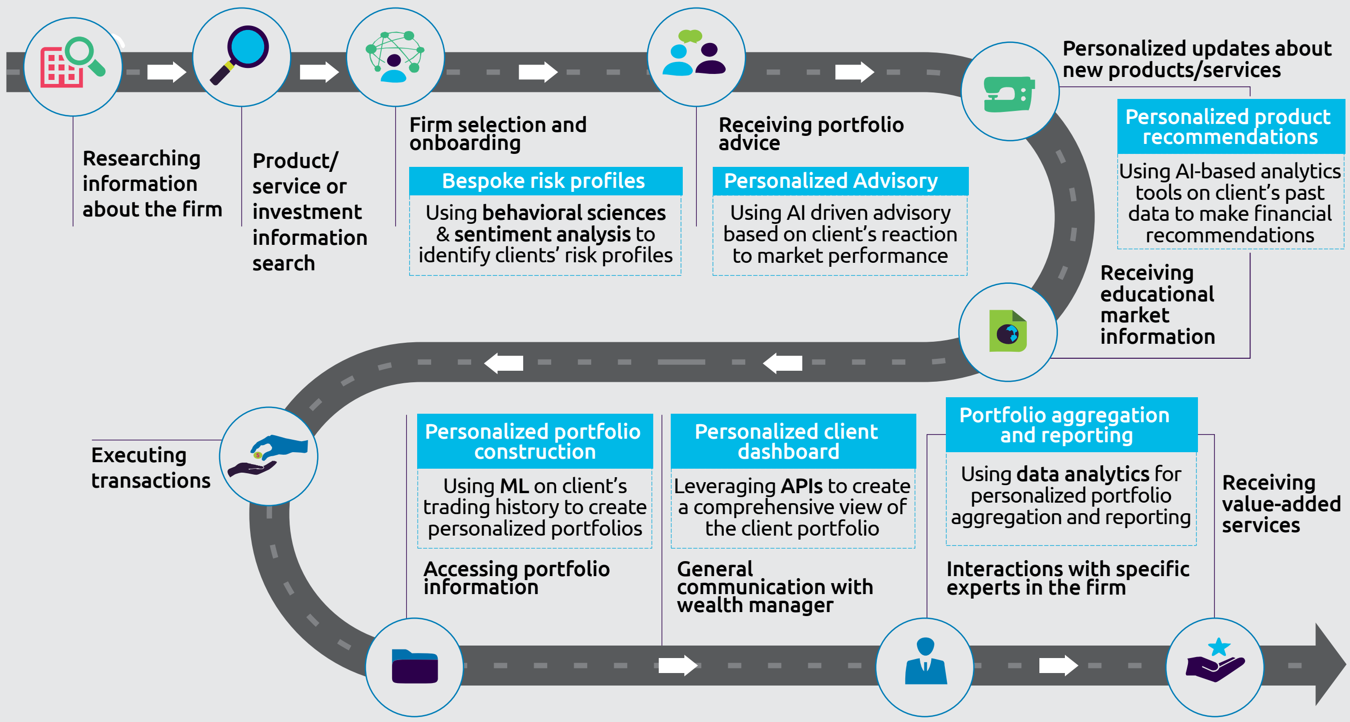
– **Tailored advice:** Firms are leveraging technology to provide financial advice during critical situations in which emotions can influence client behavior and investment decisions.
  - Charles Schwab's Project Bear program uses AI to identify clients who may react quickly to market volatility to stem poor investment decisions.[21]

– **Client-specific product recommendations:** AI and APIs can create recommendation engines that consider a user's historical bank data to make the most appropriate financial recommendation.

– **Customized client dashboard:** Firms are creating a single comprehensive view of each client's investments with the help of APIs from multiple data sources.

– **Portfolio aggregation and reporting:** Data analytics can help clients make more informed, data-driven investment decisions via aggregated portfolio reports.
  - WM platform Addepar uses data analytics to offer registered investment providers personalized client portfolio aggregation and reporting.[22]

Figure 3: Hyper-personalization to safeguard customer base and future growth



Source: Capgemini Financial Services Analysis, 2020.

Impact

- By taking advantage of real-time data and cutting-edge technology such as AI, hyper-personalization is defining the digital future of wealth management.
- Wealth management firms will be better positioned to address competition from non-traditional players in a post-COVID world in which the battleground is digital.
- Firms that effectively capture customer data from multiple sources to create a comprehensive individual profile will be able to use predictive analytics to generate relevant recommendations and products that delight clients.
- A customer-data-centered operating model can help WM firms better understand clients and move from a fixed product mindset to a customized proposition across the wealth management client journey.

[21] Fortune, "Schwab's 'Project Bear' Uses A.I. to Predict When Investors Are Getting Nervous – And Warn Them Against Making Bad Decisions," July 10, 2019.

[22] Addepar, accessed September 2020.

Trend 04

Underserved segments offer growth opportunity amid revenue and margin pressures

WM firms that address women's unique needs and preferences and the mass-affluent segment will untap significant opportunities.

Context

Women and mass affluent investors are becoming increasingly prominent wealth segments but remain underserved.

- 60% of the UK's wealth will be in women's hands by 2025, according to the Centre for Economics and Business Research (CEBR).[23]
- In the United States, the mass-affluent market holds around USD9 trillion in assets across more than 20 million households.[24]
- With increasing workforce participation by women and millennials and the booming tech industry, this trend is similar worldwide.

Catalysts

- As more women actively participate in the workforce and entrepreneurship, they increasingly join the HNWI ranks through wealth creation.
- With the great wealth transfer as a backdrop, women are likely to inherit significant wealth from spouses or parents.
- Technology advances enable firms to more profitably engage with mass-affluent customers, making this an increasingly attractive segment.

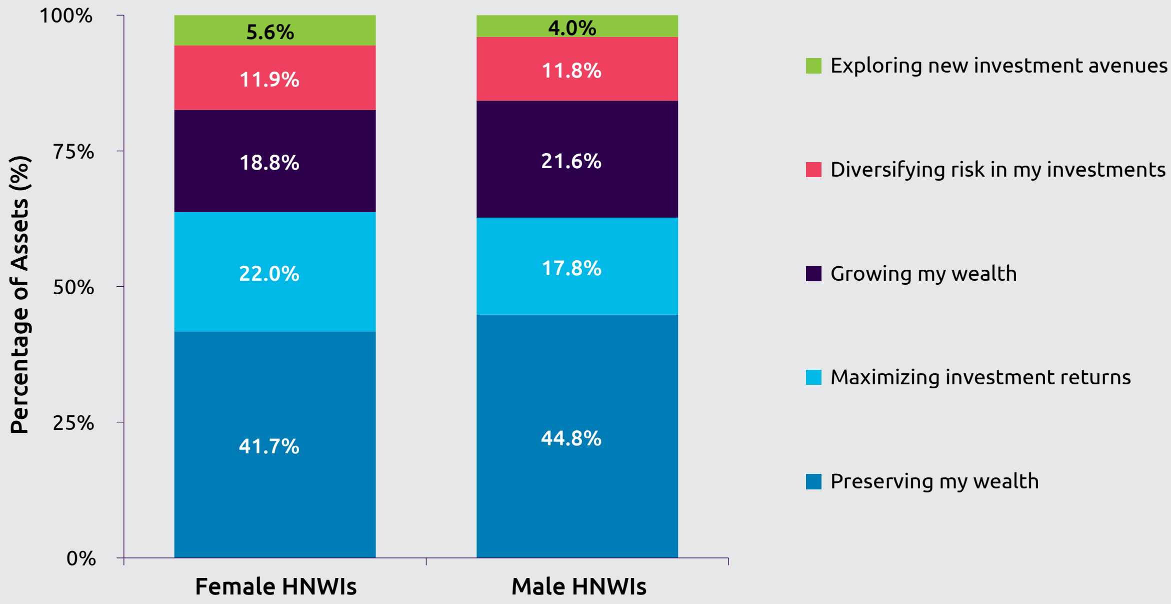
In a nutshell

- In the face of revenue pressures, wealth management firms can tap a significant growth opportunity by proactively engaging with women and mass affluent investors.
- At the same time, it will be necessary for firms to understand these segments' unique needs and preferences to cater effectively to them.
- The World Wealth Report 2020 found that when the economy is bleak, female HNWIs prioritize maximizing investment returns and exploring new investment avenues more than their male counterparts.
- WealthTech firms such as Ellevest and Portfolia offer platforms tailored to female investors.[25]
- Barclays Private Bank is a founding partner of WealthiHer, a network designed to support women's growth, protect their wealth, and help the financial services industry meet women's unique financial needs more efficiently.[26, 27]
- New, digital players are actively engaging the mass-affluent segment through robo-advisory models and offerings tailored to their specific needs.

[23] International Adviser, "How can the wealth industry better support female investors?" March 9, 2020.
[24] American Banker, "Goldman Sachs plans wealth product aimed at mass affluent," April 15, 2019.
[25] Quartz, "Women in financial services, are tackling an underserved market: themselves," December 30, 2019.
[26] Barclays, "Podcast: the diversity of women's wealth," May 2, 2019.
[27] WealthiHer, accessed September 2020.

- In addition to its robo-advisory service, Wealthfront launched Autopilot to automate client holdings between savings and investment accounts based on user-defined configurations. The feature helps clients conveniently optimize the allocation of and returns from their savings.[28]
- Incumbent firms may find it challenging to attract members of the mass-affluent segment who begin their HNWI journey as digital natives.
- However, some incumbents – such as UBS – use digital tools to engage mass-affluent investors and prioritize their needs.[29]

Figure 4: Female HNWIs assign greater importance to maximizing investment returns in a poor economic outlook, Jan–Feb 2020



Source: Capgemini Global HNW Insights Survey 2020.

Impact

- In the present uncertainty, exploring untapped segments can bolster wealth management firms' revenues and bolster a future client base.
- Wealth management firms should also prepare their workforce to better engage with women by hiring more female advisors and sensitizing both male and female advisors to women's unique investment needs.[30]
- To effectively engage the mass-affluent segment, it will be necessary for wealth management firms to develop capabilities for personalization at scale and offer the right mix of digital self-service and advisory services.

[28] Financial Planning, "Building clients' wealth by putting excess cash on 'Autopilot,'" September 2, 2020.
[29] Investment News, "UBS looking to deploy fintech to reach mass affluent," October 31, 2019.
[30] Forbes, "Women and Wealth: How Investment Managers Can Better Serve Women Clients," June 23, 2020.

Trend 05

The new normal necessitates next-gen client reporting

These days, clients want easy, dynamic access to information, and leading-edge and interactive client reporting can help firms engage better with clients.

Context

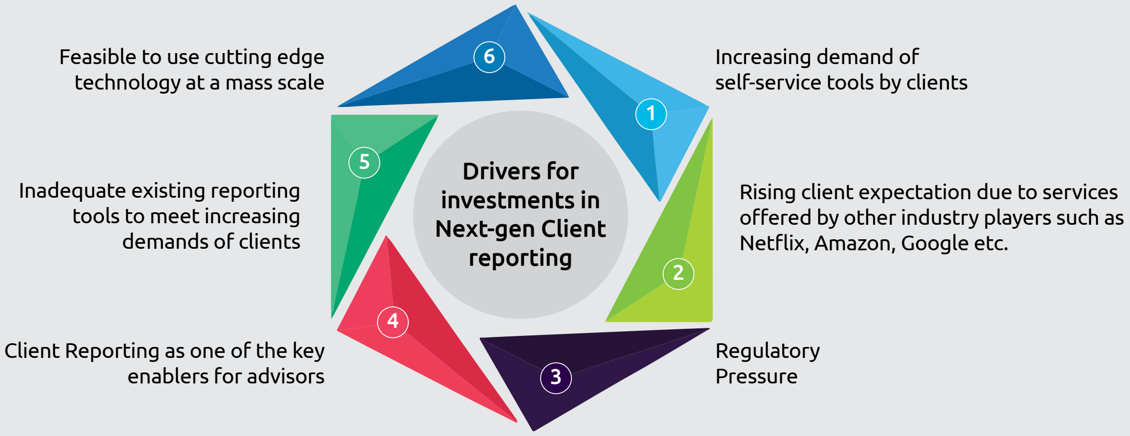
Wealth management client reporting has evolved recently beyond meeting standard regulatory and compliance measures. Now, firms seek to meet investor expectations through incremental improvements while also wowing clients through interactive and sophisticated solutions.

- Personalized communication and reporting have become critical for various customer segments.
- Offerings from tech giants – such as Google, Amazon, Facebook, and Apple – have redefined customer expectations. These days, WM clients want Google-style interaction, which is both personal and interactive.
  - Google has made several prehistoric creatures and historical artifacts available to view in augmented reality with its Arts and Culture app.[31]
- In an age when client time and attention is increasingly precious, shifting from static data-heavy reports to easy, interactive presentations will be critical for engagement.

Catalysts

- Millennials and Gen X most prefer self-service via the web, and they expect a hyper-personalized experience.
  - 77% of HNWIs prefer self-service through a firm's website to access portfolio information.[32]
- Tech-based solutions such as gamification and innovative visualization make interfaces more interactive so clients can view their portfolio performance by launching a visualized and optimized PDF on any device.
- WealthTech account aggregation solutions make a more comprehensive view of client assets possible.

Figure 5: Key Drivers for increased spending on Client Reporting



Source: Capgemini Financial Services Analysis, 2020.

[31] The Verge, "Google makes NASA artifacts and prehistoric crustaceans viewable in AR," August 25, 2020.
[32] Capgemini, "World Wealth Report 2020," July 9, 2020.

In a nutshell

- Wealth management firms are developing interactive reports that allow clients to view complex portfolios through a digital reporting platform on multiple devices. Investors create, manage, and configure their reports, and wealth managers can record and evaluate all activity.
  - BNP Paribas Securities Services provides interactive and dynamic reporting to clients through its data visualization tool DNA. Clients access reports on portfolio performance, performance attribution analysis, and Environmental, Social and Corporate Governance Risk Analytics (ESGRA) in the format, frequency, and device they require.[33]
- Gamification-driven simulation of portfolio strategies with real data across multiple portfolios can help customers visualize various what-if scenarios and provide them better clarity to understand the impact of each of their investment strategies on their portfolio.
  - New York-based Assentis Technologies offers self-service solutions to a European private bank that enables its affluent, HNWI, and ultra-HNWI clients to visualize portfolio data dynamically.[34]
- WealthTech firms are devising account aggregation solutions that provide HNWIs a more holistic view of their assets across all their accounts.
  - Credit Suisse partnered with US-based WealthTech Canopy to take CX to the next level. Canopy aggregates each Credit Suisse client portfolio to its fullest extent, allowing investors to share information with their relationship manager to ensure the most informed advice.[35]

Impact

- With the help of emerging technologies, firms can transform how clients consume investment and fund-related information, moving from static offline data-heavy formats to more interactive, multi-channel engagement.
- Effectively meeting clients' information needs during uncertainty can cement client trust and loyalty with the firm and act as a market differentiator.
- With interactive reporting, all customer activities can be recorded and evaluated, helping relationship managers understand and cater to client needs.
- The onus is now on WM firms to use AI and NLP (natural language processing) technologies at the core to understand clients and incorporate gamification, innovative visualization, and data-storytelling into their offerings.

[33] BNP Paribas, "Investment Analytics," accessed September 2020.
[34] Assentis, "Client Reporting: Deliver Consistent and Professional Reports Across all Channels," accessed September 2020.
[35] Canopy, "Canopy via Credit Suisse," accessed September 2020.

Trend 06

Alternative data sources and real-time data are rewriting the investment playbook

Alternative data sources are paving the way for the future of trading and investment analysis.

Context

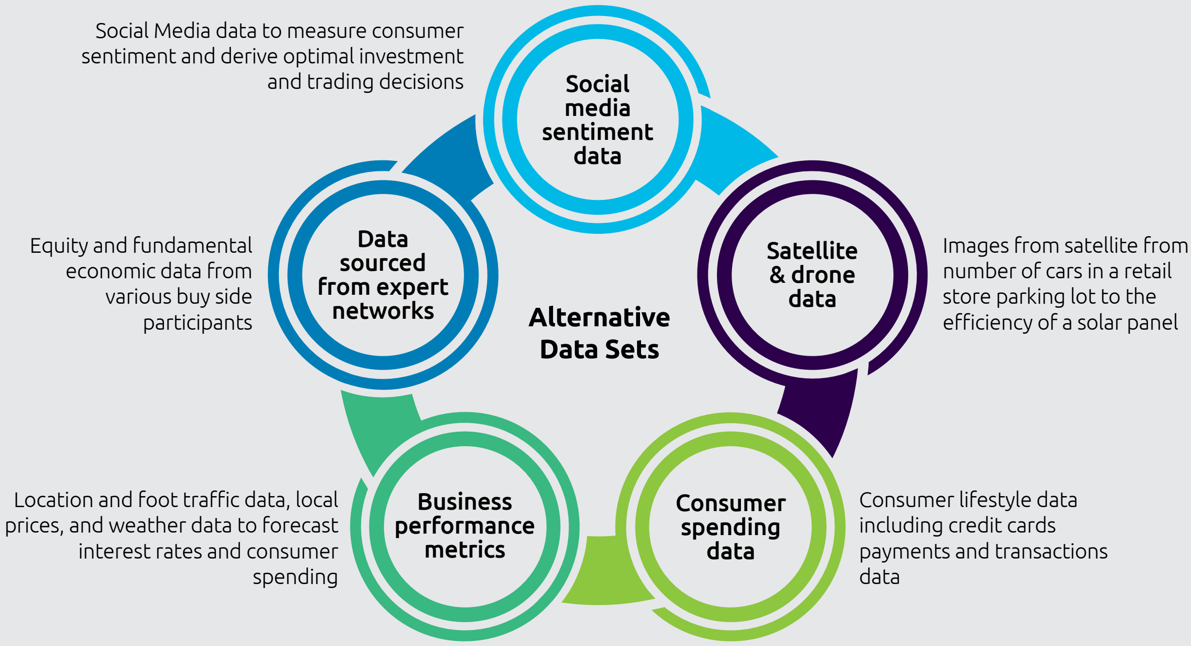
Wealth managers, hedge fund managers, and traders are exploring alternative data sources to generate higher investment returns to meet client demands.

- The traditional way of consuming data for market players is limited. Analysts and investment managers sourced data from financial statements and regulatory filings, and for additional information, analysts turned to specialized financial news outlets.
- Firms are now looking into alternative data sets such as sentiment data, geolocation data, credit/debit card transaction data, satellite data, and email receipts data to forecast financial performance.
- Advanced predictive analytics capabilities, such as machine learning, are deciphering large data sets to aid business operations.

Catalysts

- As data – such as a company's background and financial statements – became readily available to the public online, the information's value fell to zero.
- Now, wealth and fund managers must generate results that outperform market indices. To achieve this, they require meaningful insights that might impact the long-term performance and sustainability of AUM.
- The internet offers access to vast amounts of alternative data, and with the advent of predictive technology, it is easier for firms to generate meaningful analysis from these data sets.

Figure 6: Most Used Alternative Data Sets



Source: Capgemini Financial Services Analysis, 2020.

In a nutshell

- Alternative data use is up, with firms tapping transaction data, satellite imagery, weather analysis, sentiment analysis, geolocation, and video capture. Eagle Alpha Ltd, an alternative data provider, projects spending on alternative data sources to reach USD900 million by 2021.[36]
- More than half of hedge fund managers now use alternative data to gain a competitive edge.
  - According to a joint study by AIMA (Alternative Investment Management Association) and SS&C, out of around 100 global hedge fund managers that collectively managed about USD720 billion in assets across strategies, 69% of the market leaders said they now used alternative data to boost performance.[37]
- Over the past 30 years, alternative data providers have grown from about 20 in 1990 to just over 400 in 2018.[38]
- Alternative data sets include web-crawl data, social media sentiment, consumer spending/lifestyle information (including payments), data sourced from expert networks, and business performance metrics. 62% of market-leading hedge funds use four or more data sets to improve their asset performance.[39]
- Apart from generating better investment returns, WM firms can also tap information from extended data aggregators for alternative advanced customer modeling to boost marketing efforts.
  - WealthComplete by Equifax estimates client household assets based on estimated total liquid financial assets within similar US household segments. It utilizes alternative data to analyze wallet opportunity and asset allocation to optimize offline and online prospect applications.[40]

Impact

- Firms will need to add new talent, such as specialists in financial and technological resources, to efficiently use alternative data sets.
- Navigating the regulatory environment to use alternative data may be challenging. Although regulations, such as GDPR, are fueling investment in foundational data capabilities, firms now operate under strict data protection policies that ensure data is certified and compliant with local laws.
- Alternative data sets are highly unstructured, and formats are inconsistent. Still, the practical use of quality data and astute data selection can deliver more accurate investment insights and an attractive return on investment (ROI).

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[36] Bloomberg Quint, “How Big Investors Cash In on ‘Alternative Data,’" November 11, 2019.
[37] AIMA, “Casting the Net,” accessed September 2020.
[38] Ibid.
[39] Ibid.
[40] Equifax, “WealthComplete: Measure your share of wallet and find opportunity with total household invested assets estimates,” accessed September 2020.

Trend
07

The new market share battle may be decided by innovative fee structures

In response to fee structure disruption spurred by FinTech innovations in the wealth management industry, big firms devise strategies to attract digitally savvy HNWIs – as margin and revenue pressures grow.

Context

High minimum balances and fees have kept a section of investors away from mainstream wealth management for ages. Now, fast-paced technology innovation is changing the status quo.

- The COVID-19 pandemic disrupted consumer behavior and stirred interest in savings and investment apps, primarily those offered by FinTechs.
- Increasingly, investors are adopting robo-advisors to simplify complicated market-related decisions and avoid hefty service fees.
- As competition and technology bring easy access to the market with significantly lower fees, customers seek a one-stop digital solution for all their financial needs.

Catalysts

- As revealed in the World Wealth Report 2020, 50% of HNWIs want performance- and service-based fee structures.[41]
- FinTechs make investing accessible to a broader base of affluent clients by reducing complexities and lowering fees.
  - Retail brokerage firm Robinhood took the market by storm with its zero-fee trading services. It currently serves 10 million users and is expected to expand its product offerings in the coming years.[42] Following suit, Italian FinTech FinecoBank also launched a zero-commission trading solution.[43] And in Hong Kong, Huatai International replaced charging commissions with a flat USD1 monthly fee.[44]

Figure 7: HNWIs want a performance/service-based fee structure vs. asset-based fee structure, Jan–Feb 2020

Fee structure	Existing	Desired
Based on investment performance	26%	35%
Based on overall service quality (not just investment performance)	11%	15%
As a percentage of assets	24%	13%

Source: Capgemini Financial Services Analysis, 2020.

[41] Capgemini, "World Wealth Report 2020," July 9, 2020.
[42] FinTech Futures, "The rise of investment apps," January 28, 2020.
[43] PR Newswire, "FinecoBank Launches Free Trading on Equity CFDs," May 14, 2020.
[44] Bloomberg Quint, "Hong Kong Gets Zero-Fee Trading in Blow to Brokers," July 12, 2020.

In a nutshell

- There is a growing demand to supplement traditional Assets Under Management structures with hourly or retainer fees or replace the AUM structure with alternative-fee models.
  - Fidelity is the latest firm to adopt a subscription-based fee pricing model to attract young investors, shifting from an asset-based pricing model.[45]
- More and more WM firms are considering robo advice models with tiered and subscription-based fee structures to attract new client segments.
  - Betterment provides a low cost and varied investing experience to a wide range of investors, one of a handful of robo-advisors that also provide sustainable investing products.[46]
- Large banks realize the importance of attracting millennial investors and are on track to launch online savings accounts and mass-market robo-advisors. Ultimately, firms will earn differentiation on value, not price.
  - Barclays launched robo-advisor service Plan & Invest in partnership with Munich startup Scalable Capital to target checking account clients with a minimum USD6,362 (GBP5,000) to invest.[47]
- WM clients want to clearly understand their advisory value proposition and more pricing flexibility through customizable investment strategies. A move in this direction will help increase transparency and reduce the cost of account management.
  - Firms are experimenting with pricing models in which clients can access third-party advisors with no additional fees. Options to select sustainable investing or personalized tax management services are available for an additional fee.[48]
- While there is no one-size-fits-all fee-model solution, open innovation is a step in the right direction.

Impact

- Competitive fee models add to revenue and margin pressures, making it even more imperative for firms to leverage data analytics and AI to pursue new revenue opportunities.
- A long-term strategy to bring a robo-advisor in-house will help WM firms stem asset loss as tech-savvy millennials leave for robo-advisory firms.
- Firms must collaborate to source technology and access an established platform that enables new revenue streams without impacting existing operating models.

[45] Financial Planning, "Fidelity's $3 challenge to Schwab: The latest twist in digital advice subscription pricing," July 29, 2020.
[46] HBS Digital Initiative, "Betterment: Winning in the wealth management space," February 11, 2020.
[47] Fintech Futures, "Barclays launches Robo-advisor for £5k investments with Scalable," July 15, 2020.
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Trend 08

WM firms and WealthTechs go beyond investment advice to deepen client relationships

Wealth management and WealthTech firms expand their services to give clients holistic financial support through value-added services and new products.

Context

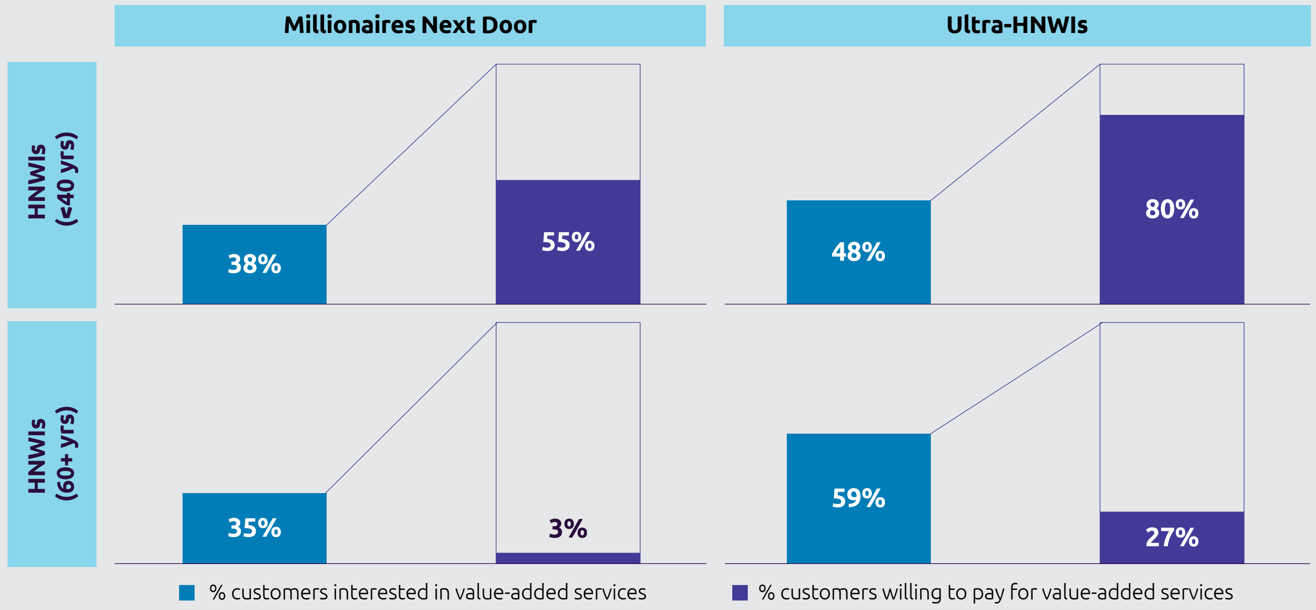
Rising customer expectations amid a challenging economic and competitive environment drive the imperative for wealth management firms to explore beyond investment advice.

- HNWIs are scrutinizing cost structures and expect more value for fees charged. A third of HNWIs interviewed for the World Wealth Report 2020 said they were not comfortable with fees charged in 2019. A top concern was value delivered.
- Traditional revenue streams are under pressure because of the challenging macroeconomic environment, zero-fee trading commission trends, and a push to unbundle fee structures.

Catalysts

- Based on their experience in other industries, investors expect a more personalized and holistic financial services provider experience.
- APIs and technologies such as AI and analytics make it possible to build a 360-degree customer view to offer more personalized services.
- Ultra-HNWIs younger than 40 are especially interested in receiving value-added services from WM firms.[49]

Figure 8: Ultra-HNWIs under 40 are very interested and willing to pay for value-added services, Jan–Feb 2020



Source: Capgemini Financial Services Analysis, 2020.

[49] Capgemini, "World Wealth Report 2020," July 9, 2020.

In a nutshell

- WM firms are providing more holistic financial support to personalize CX and bolster relevance across multiple scenarios.
- In addition to investment advice, firms provide personalized value-added services to help investors meet their financial goals.
  - With the great wealth transfer looming, Singapore-based UOB Private Bank created the Next-Generation Programme to bring young HNWIs together to network, exchange ideas with peers and learn about digital trends from leading tech. The initiative encourages participants to brainstorm as they prepare to take the reins of their family businesses.[50]
  - Morgan Stanley has leveraged acquisitions – E*TRADE and Solium – to provide value-added services through a comprehensive suite of financial wellness solutions. The firm also expanded its student loan capabilities through E*TRADE's *Gradifi*.[51, 52, 53]
- Firms can also provide value-added advisory services (tax planning, real estate investment, and lifestyle planning) as clients seek budgeting and investment perspective support in a post-COVID-19 world.
- Wealth management and WealthTech firms are also expanding their offerings to other financial services such as banking and insurance to meet changing client needs.
  - In the wake of the COVID-19 crisis, Morgan Stanley launched P&C insurance to acknowledge that emerging risks arising are as much a threat to individuals' net worth as volatile markets.[54]
  - As clients consider wealth reallocation to safe assets such as cash, WealthTech firms Betterment, Wealthfront, and Robinhood are launching cash management solutions to retain clients within their ecosystem. These solutions typically include a checking account with FDIC insurance, debit card, and payment services. They enable clients to easily manage and transfer funds across their checking and investment accounts without leaving their platform.[55, 56, 57]
- AI and advanced analytics enable next-level analyses of customer portfolios so that WM firms can more accurately refinance client debt to achieve individual financial goals.

Impact

- As new normal situations and needs change for clients, WM firms that step up and provide more comprehensive offerings are likely to benefit from deeper client relationships and better client retention.
- New offerings and value-added services can also help firms engage new client segments and tap opportunities to cross-sell advisory services to these segments.
- Investment in APIs and technologies such as AI and analytics will form a critical foundation for developing more personalized services.
- Equally critical is encouraging and training advisory talent to adapt to the new paradigm to give clients a holistic financial experience.

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Trend
09

Ecosystem collaboration lights the path to capability building and profitable growth

Wealth management firms are exploring Open X collaboration to boost capabilities, expand reach, and achieve cost efficiencies.

Context

The financial services industry has entered the era of Open X, which is sparking opportunities for firms to rethink their operating models.

- Open X is an ecosystem characterized by a seamless **eX**change of data and resources to **eX**pedite product innovation for excellent customer **eX**perience.
- Instead of a siloed approach to innovation, financial services firms are augmenting their capabilities by collaborating with players such as FinTechs in the Open X ecosystem.
- As traditional financial services firms and non-traditional, digital players have complementary strengths, such collaborations lead to benefits for the partners involved and the customers.

Catalysts

- There is a growing B2B WealthTech ecosystem with a range of offerings to digitize and streamline processes.
- BigTechs, too are starting to leverage their strengths in technology, digital customer experience, and digital distribution to build win-win partnerships with wealth management firms.
- As firms face a fast-changing and financially challenging environment, the need to add new capabilities quickly and cost-effectively becomes critical.

In a nutshell

- Wealth management firms collaborate with ecosystem players such as WealthTech and BigTech firms in three primary areas.
  1. To enhance specific digital capabilities that can position them to provide better services.
     - Deutsche Bank's wealth management business and Munich WealthTech firm QPLIX partnered to provide bank clients access to a digital platform for holistic management and control of large assets.[58]
  2. To expand their reach.
     - In 2019, Vanguard and Ant Financial Services Group announced a partnership to offer retail consumers in China a streamlined, broadly available investment advisory service. [59]
     - Marcus, the first consumer banking offering from Goldman Sachs, resulted from partnerships with GE Capital Bank, Clarity Money, Apple, and others. [60]
  3. To tighten budgets by adopting cost-effective WealthTech solutions in increasingly pricey specialty areas such as onboarding and compliance.
     - Canadian portfolio manager Marksman Asset Management launched on the digital platform of Pascal Financial, a Toronto WealthTech, to improve client onboarding, client management, and compliance oversight. The streamlined platform enables Marksman to focus on strengthening client relationships. [61]

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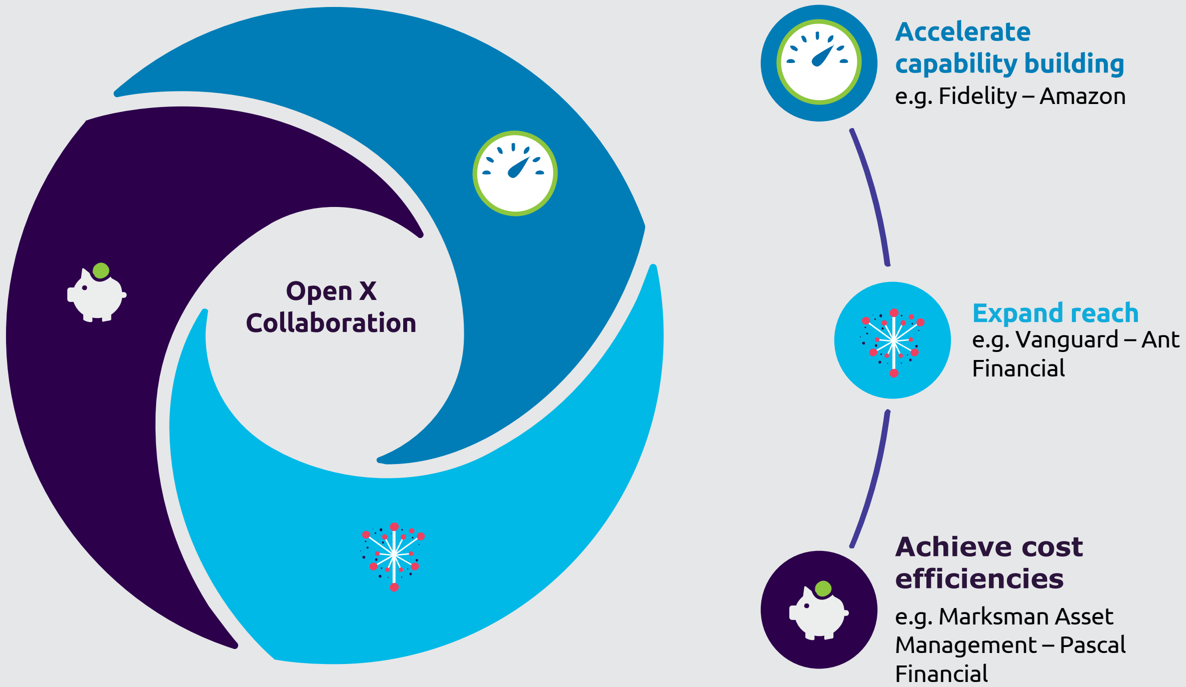
Figure 9: Open X collaboration can help wealth firms achieve profitable growth amid uncertainty



Source: Capgemini Financial Services Analysis, 2020.

Impact

- Ecosystem collaboration will play a critical role in accelerating wealth management firms' digital journeys to meet evolving client needs in the post-COVID-19 world.
- Firms that prepare for collaboration readiness on People, Finance, Business, and Technology dimensions will be most likely to ensure seamless partnerships.[62]
- Those that quickly tap collaboration synergies stand to gain a strong competitive advantage and cement best-fit Open X ecosystem positions.

[62] Capgemini, "World FinTech Report 2019," June 4, 2019.

Conclusion

In an extraordinary year that demanded business resilience, traditional wealth management became more virtual and experiential. COVID-19 is a catalyst for WM firms to prioritize digital transformation and build digital channels and capabilities across the value chain. Sustainability-focused investing topped the agendas of both HNWIs and firms and will remain a 2021 focus. Customer-centric firms will leverage technology to enhance loyalty and growth by focusing on hyper-personalized services and engaging beyond investment advice.

As the pandemic forces WM business model resiliency, it emphasizes intelligent business processes for post-pandemic relevance. Data-driven capabilities will be critical to the implementation of intelligent processes, as alternative data sources pave the way for the future of trading and investment analysis. Investment in futuristic and interactive client reporting can also help firms engage better with clients.

FinTech innovations continue to disrupt the wealth management industry in fees, products, and services. Wealth management firms have started exploring Open X collaboration to boost capabilities, expand reach, and cut costs.

Our 2020 *lessons learned* were to expect the unexpected and prepare to act swiftly to keep customers informed, engaged, and delighted.

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