Capgemini

Top-10 Trends in Wealth Management: 2019

What You Need to Know

Contents

Introduction

The wealth management industry has experienced a series of changes over the last few years. From the shift of world's wealth from North America to Asia-Pacific to the change in demographics from an aging population to women and millennial investors, the industry is in transition. Therefore, established wealth management firms must keep cognizant of emerging trends to capitalize on the market opportunity.

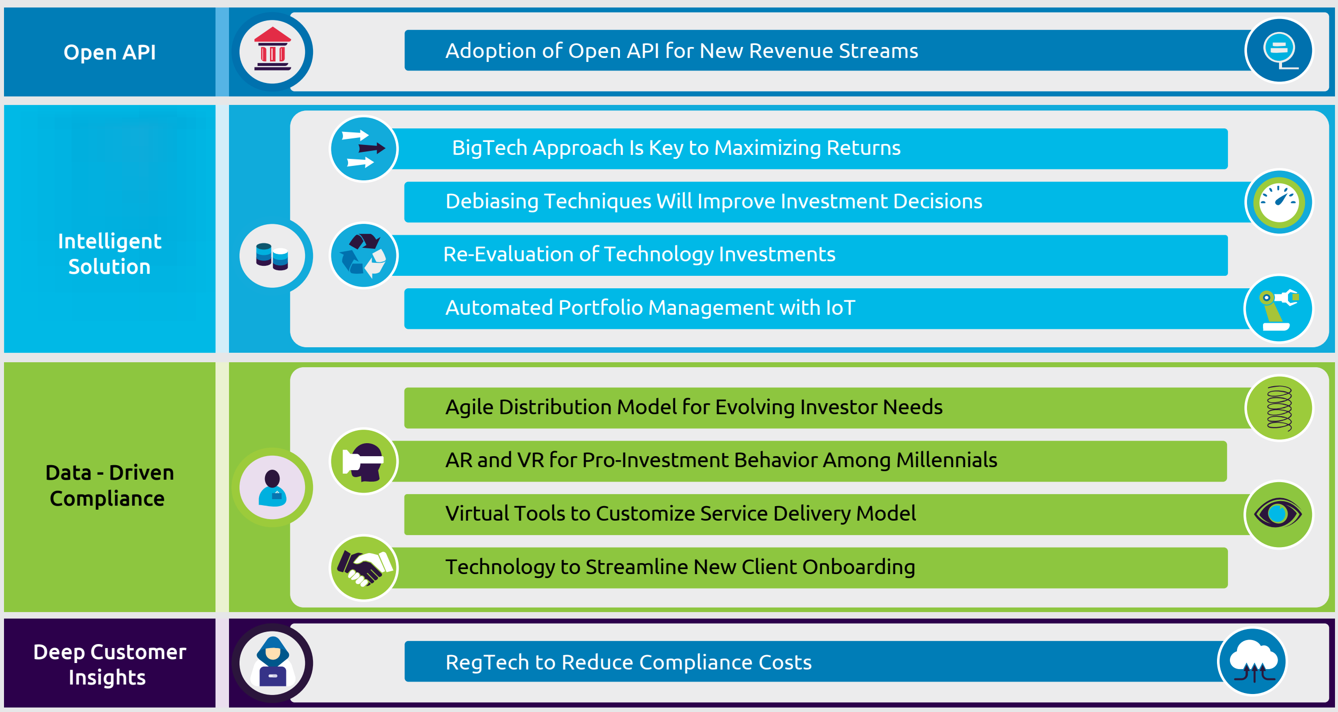
Customers are the heart of the wealth management business. With changing customer preferences and demands, it becomes mandatory for wealth managers to fulfill evolving customer demands and in most cases, pre-empt them to stay ahead of the competition and rising threat from BigTechs.

A fundamental way to stay ahead is to use customer data to extract **Deep Customer Insights** and identify critical demands and, then, to use that information to design products and services. This approach will help firms to create actionable strategies based on the large volume of customer information they have accumulated to provide relatable value propositions for clientele. Insights will enable development of personalized products that drive customer engagement and better retention.

To improve customer engagement, wealth management firms are leveraging artificial intelligence (AI) to drive **Intelligent Solutions** to spur new applications in both front- and back-end operations, dramatically improving operational efficiency. Wealth managers are also seeking third-party developers and FinTechs to create **Open API**-based plug-and-play services to develop new revenue streams in the wake of investment products that have returned less than stellar returns.

As customer data is a tremendous asset for all financial services firms, ensuring its security is critical. More and more regulatory measures are being enacted to maintain strict standards of data use, distribution, and protection. Consequently, **Data-driven Compliance** should be leveraged to ensure regulatory compliance while also driving firm goals, profitability, and reputation.

Exhibit 1: Wealth Management Influencers



Trend 01: Adoption of Debiasing Techniques Will Improve Investment Decisions[1]

Machine learning can enable fund managers to identify cognitive biases and suggest mitigating measures.

Background

- Historical data is used to quantitatively manage funds and value stocks but it overlooks fundamental analysis and subjective, forward-looking views that could augment decision making.
- Advanced analytics can help fund managers discover bias patterns that may lead to suboptimal trading decisions.
- Debiasing techniques can help reduce cognitive biases in fund managers' investment decisions. Based on machine learning algorithms and predictive analytics, these techniques can provide subjective insights as well as quantitative methods to improve investment decisions.

Key Drivers

- As active wealth management funds slip in profitability, firm margins have taken a hit making it difficult to retain customers.
  - Customers have been switching to cheaper passive index funds.
- More fund managers are strategically using Artificial Intelligence (AI), big data and other technologies to improve firm profits.

Trend Overview

- Cognitive biases in investment decisions are spurred by fund managers' internal biases and the external environment at the time of decision making.
- Machine learning techniques have been used to analyze a broad range of data, including investment decisions (buying, selling, etc.) as well as unstructured data such as communication between fund managers – behavior driven by emotions and reasoning.
- Analysis, with input from fund managers, can identify biases that anchor investment decisions under certain conditions.
  - London-based startup Essentia Analytics analyzes fund-manager historical data to identify damaging behavior. Asset management firms such as Union Investment and AXA Investment Managers partner with Essentia to understand potentially destructive behavioral patterns.[2, 3]
  - FinTech startup Capital.com uses AI to provide investors with tailored, behavioral analysis-based content to identify common trading biases.[4]
- Machine learning algorithms establish metrics to identify conditions in which cognitive biases may exist. Specialists in this space have developed prompts that trigger when the underlying conditions are met.

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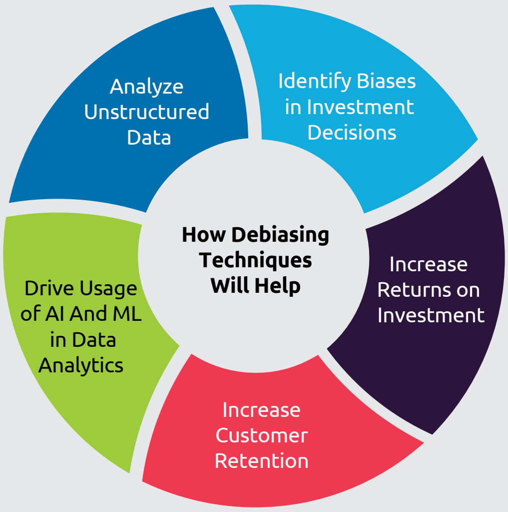
1 Debiasing techniques are methods that attempt to reduce the influence of cognitive biases in decision making, to enable people to think more rationally.

2 ***Debiasing*** techniques are ***methods*** that attempt to reduce the influence of cognitive biases in decision making, to enable people to think more rationally.
SimCorp Journal, "CXO: Dealing with behavioral bias", Clare Flynn Levy, September 30, 2015, https://www.simcorp.com/en/insights/journal/2015/behavioral-bias-in-investment-management

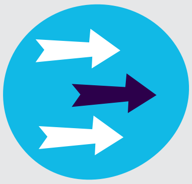
3 Essentia Analytics website, "Testimonials," https://www.essentia-analytics.com/testimonials, Accessed October 2018

4 World Finance, "Capital.com's innovation: can artificial intelligence combat behavioural biases", October 4, 2017, https://www.worldfinance.com/markets/can-artificial-intelligence-combat-behavioural-biases

Exhibit 2: Advantages of Debiasing Techniques



Source: Capgemini Financial Services Analysis, 2018



Implications

- Identification of actual winning behaviors as compared with one-off intuition-based win will enable wealth managers to develop a sustainable approach to wealth management and create more value for investors.
- Wealth management firms' profits will grow by reducing negative cognitive biases that affect investments and hurt margins.
- Removing cognitive biases improves the value proposition of actively managed funds, thus making them more attractive to clients due to higher returns.

Trend 02: Developing A BigTech Approach Is Key to Maximizing Future Returns

Wealth management firms need to leverage BigTech approaches to get the most out of customer data and to refine offerings to align with evolving customer demands.[5]

Background

- The new generation of HNW clients – especially those in their 20s and 30s –are increasingly looking to digital channels for their wealth management needs.
- While wealth managers have access to customer preferences and data, they lack the approach and tools to generate insights from customers' historical investment and behavior data.
- Wealth management firms can use predictive analytics on customer data to deliver targeted value propositions to their customers.

Key Drivers

- Gaining insight into customer preferences has been made easy due to the large amount of available customer data.
- Wealth management firms are looking to competitively differentiate themselves within a sector where ***one-size-fits-all*** investment portfolios are commonplace.
- A large portion of the customer base, especially those who are younger (82% of HNWIs are under 40) or those in Asia-Pacific (60% of the HNWIs), look for digital channels to fulfill their wealth management needs and are not averse to receiving it from non-traditional sources.[6]
- Clients' demand for BigTech-like personalized, proactive, and prescriptive interaction from their wealth managers.

Trend Overview

- Wealth management firms have begun to use analytics to increase share of wallet by up-selling and cross-selling investment products. Clients' historical buying patterns, behaviors, and lifetime value are studied to find the best fit regarding products and services.
  - JP Morgan augments its wealth and asset management processes with data analytics applications.[7]
- Models are being developed to study unstructured data such as client profile, behavior, transactions, etc. and use these insights to predict client behavior in each situation and to provide higher-quality services.
- Wealth management firms are partnering with FinTech companies to add technological capabilities to their kitty.
  - UBS has invested in San Francisco-based startup SigFig, hoping to target new customers through digital options for wealth management. Founded in 2007, SigFig enables established firms to offer digital services such as automated wealth management, or robo-advice.[8]

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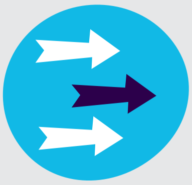
5 BigTech is a general term for data-driven tech firms not traditionally present in financial services: Amazon, Google/Alphabet, Alibaba, Apple, Facebook, and Tencent.

6 Capgemini, "Wealth in the Digital Age", March 8, 2016, https://www.capgemini.com/wp-content/uploads/2017/07/wealth_management_in_the_digital_age_2016_web.pdf

7 *American Banker, "JPMorgan Chase's Mary Callahan Erdoes: The Most Powerful Woman in Finance," September 23, 2018,* https://www.americanbanker.com/news/jp-morgan-chases-mary-callahan-erdoes-the-most-powerful-woman-in-finance-for-2018/

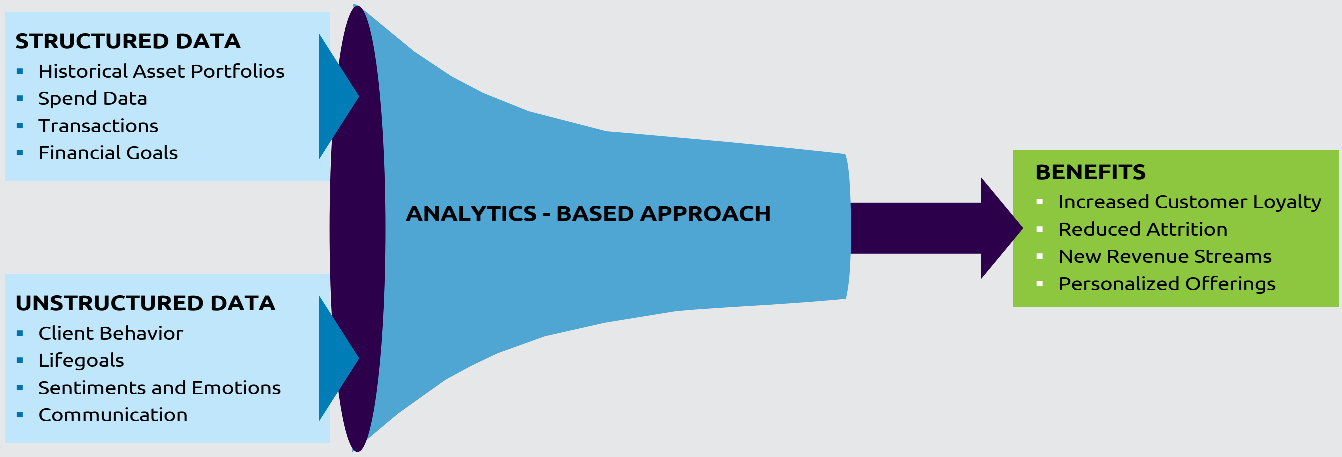
8 *Financial Planning, "UBS tightens relationship with tech developer SigFig", August 29, 2018,* https://onwallstreet.financial-planning.com/news/ubs-tightens-relationship-with-tech-developer-sigfig/



Implications

- Customer loyalty will improve as big data and analytics are used to predict customer behavior, and insights are used to increase returns on investment.
- Wealth management firms will be able to provide a BigTech-like customer experience regarding personalized product and service offerings through a complete customer view.
- New revenue streams and geographies will be open to wealth management firms as they explore partnering with BigTechs to leverage customer data.

Exhibit 3: Analytics-Based Solutions in Wealth Management



Source: Capgemini Financial Services Analysis, 2018

Trend 03: Wealth Management Firms to Adopt Agile Distribution Models to Serve Evolving HNWI Needs

Adoption of agile distribution models to make wealth offerings more responsive to customer needs will become a norm in the future.

Background

- With the advent of new classes of high-net-worth individuals (HNWI), wealth management firms need to identify the preferences of each demographic to be able to serve them better.
- Wealth management firms are also evolving to make sure they can provide a comprehensive suite of services to cater to customer preferences for all client segments by adopting new distribution models that are more agile, responsive, and customer-centric.

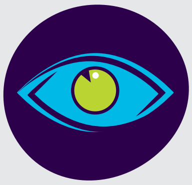
Key Drivers

- There is a market push for wealth management firms to transition from a product orientation to a customer service orientation.
- Wealth management firms are investing more in agile technology to improve their compliance readiness in a changing regulatory environment.
- Younger HNWI demographic groups are more responsive to digital distribution channels.
  - Clients expect their wealth managers to have expertise in digital channels, a strong digital service footprint, and agility to respond to market changes.
  - They also expect personalized services based on data about their finances, purchases, and savings, which are readily available to wealth management firms affected by the implementation of the PSD2 directive in Europe.
- Within today's competitive market, wealth management firms need to quickly respond to client needs and to promote new products and offerings.

Exhibit 4: Drivers of Agile Models in Wealth Management

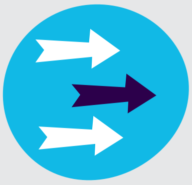
Source: Capgemini Financial Services Analysis, 2018

Trend Overview



- Wealth management firms have been slow to adopt microservices and traditionally rely on legacy infrastructure. With a plug-and-play model in place, they could deploy new services quickly and scale up or down as required.
- Firms have begun to leverage client data to cross-sell and up-sell services using agile models. Analytical capabilities are used to predict the likelihood that a client will respond to a certain product or service and agile distribution is used to deliver the offering to the client.
  - Morgan Stanley implemented an AI-based tool to identify opportunities to connect with clients. It equips the advisors with a next best action (NBA) course to follow with customers.[9]
- Big data and analytics are also being used to attract clients through the self-service channels of distribution. These clients typically are not willing to pay the fee for advice, however, have the potential of evolving into strategic customers for the wealth management firms in future.
  - Online advisory firm Betterment.com does not charge customers for a zero-balance account and offers a free investment checkup. It manages assets of $10 billion globally.[10]

Implications



- Implementation of digital channels will offer wealth management firms better access to new clients, especially younger HNWIs.
- By using already-available data, wealth management firms can provide targeted products and services that will lead to better customer engagement and reduce customer attrition.
- Wealth management firms will be better equipped to respond to the changing regulatory environment and proactive in meeting customers' changing demands.

9 *Financial Planning OWS, "Morgan Stanley plays the long game on AI," Jessica Mathews, July 12, 2018,* https://onwallstreet.financial-planning.com/news/morgan-stanley-plays-the-long-game-on-ai

10 *Betterment website,* https://www.betterment.com/pricing, *Accessed October 2018*

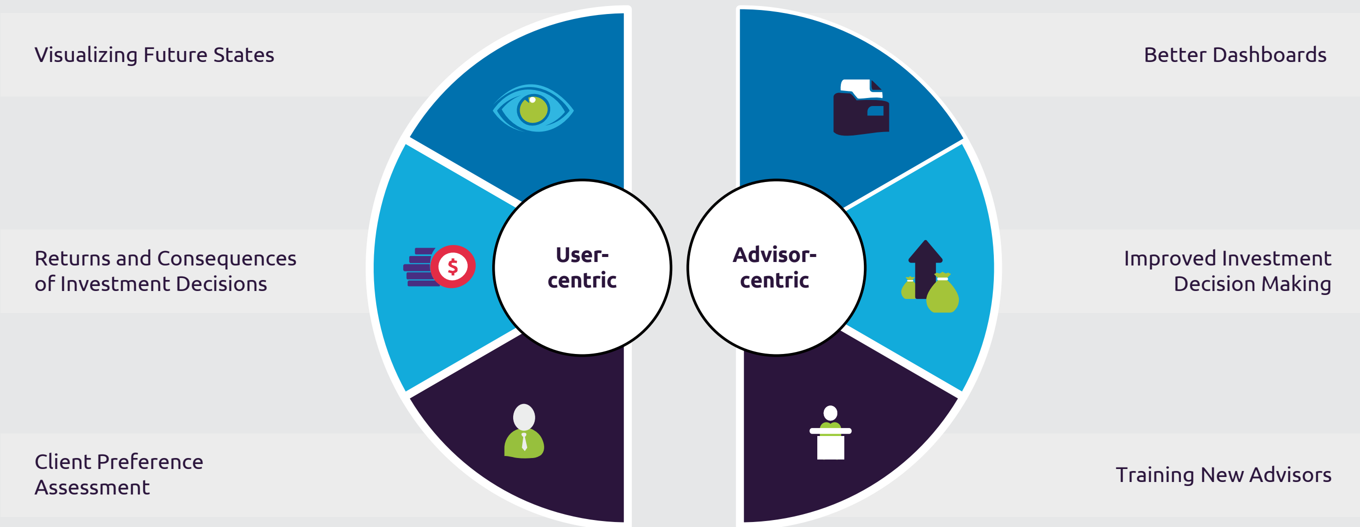
Trend 04: AR and VR Will Spur Pro-Investment Behavior Among Millennials and Drive New Customer Acquisition

Wealth management firms are using AR and VR to make financial planning more intuitive for their clients and attract millennials towards managed investments.

Background

- The adoption of Augmented Reality (AR) and Virtual Reality (VR) in wealth management is set to pick up as technologically advanced advisors look to make their clients more engaged and in-touch with their finances.[11, 12]
- With gamification being implemented in other areas of the financial services industry, wealth managers are looking to use AR and VR to attract younger HNWIs.[13]

Exhibit 5: Benefits of AR and VR in Wealth Management



Source: Capgemini Financial Services Analysis, 2018

11 Augmented Reality (AR) is a technology that superimposes additional information on the user's view of the real world to provide a composite view. The additional computer-generated information can include one or more of the following data: visual, auditory, haptic, olfactory

12 Virtual Reality (VR) refers to a computer-generated interactive experience that takes place in the simulated environment. It usually includes auditory and visual sensory feedback but may also include others like haptic.

13 Gamification refers to application of typical elements of game-playing to other areas to encourage engagement with a product or service.

Key Drivers

- As the demographics of HNWI shifts to a younger, more technologically-savvy client base, it is natural to expect that they will look to innovative ways to interact with their wealth managers.
- Clients seek the same kind of digital experience in all areas of their daily lives, and that is why wealth managers cannot afford to lag compared to the digital services provided by their retail banking counterparts.
- A key driver behind the use of AR and VR in wealth management is to attract millennials and educate them about the potential benefits of managed investments.

Trend Overview

- VR can be used to educate clients effectively about investment performance through a visual medium and to visualize the impact of their investments in the future.
  - Fidelity Labs, the technology incubator of Fidelity Investments, has been exploring the use of virtual reality to help clients understand financial concepts and product offerings better.[14]
  - The VR experience can be designed as a comprehensive self-help channel for wealth management, enabling investors to understand the market better and maximize their returns.
- Complex financial industry is generating massive data set which needs to be analyzed. Being able to visualize data by leveraging AR and VR will help wealth managers to make informed decisions.
- AR and VR can be used to create a virtual trading experience for the advisors. It will help to train them by simulating client interactions and investment environments.

Implications

- VR will empower customers to visualize and understand the impact of different investment scenarios.
- Wealth managers can better assess client profiles as the clients are put through real-life situations.
- Wealth advice will improve when wealth managers understand client needs better and match those needs with offerings; keeping in mind the possible financial environment.

14 Financial Planning, "Virtual reality in wealth management? It's happening," May 23, 2018, https://www.financial-planning.com/news/virtual-reality-games-being-tested-for-wealth-management/

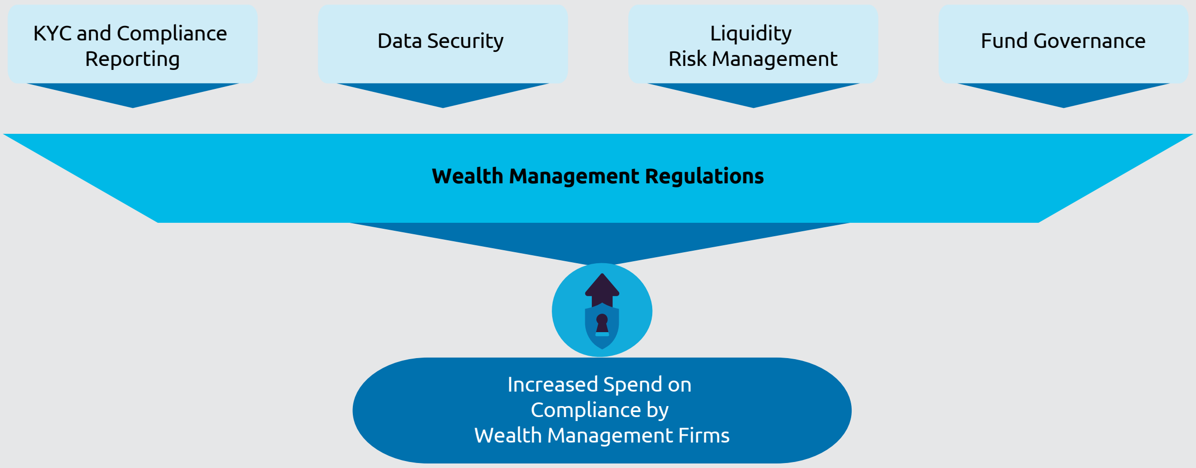
Trend 05: RegTechs Will Reduce Wealth Management Compliance Costs[15]

RegTechs will simplify reporting processes, drive efficiency and optimize the cost of operation in financial reporting and compliance.

Background

- The wealth management regulatory landscape is undergoing frequent changes and becoming more fragmented across various geographies.
- Wealth management firms are leveraging RegTech solutions to streamline compliance and regulatory processes and make them more cost-efficient.
- Partnerships with RegTech firms will help wealth management firms to quickly respond to the changing regulatory landscape and help them save on costs.

Exhibit 6: Regulatory Areas Driving RegTech Adoption in Wealth Management



Source: Capgemini Financial Services Analysis, 2018

15 A FinTech movement subset, RegTech uses new technologies such as machine learning and AI to help firms meet regulatory monitoring, reporting, compliance and risk management directives, while driving down compliance-related costs.

Key Drivers

- Data privacy regulations (such as GDPR guidelines) continue to be a priority, driving firms to seek effective compliance solutions.
- As regulators increase the use of technology and related resources to oversee compliance, wealth management firms are adopting the same method.
- Wealth management funds have been subject to increased scrutiny regarding their liquidity risk-management approach.
- Data privacy law implementation (MiFID II and GDPR in Europe, and the Fiduciary Rule in the United States), has shifted the focus to data governance, culture, and conduct.
- New regulations are spurring concern among wealth managers about the growing cost of compliance.

Trend Overview

- Wealth management firms are moving away from legacy solutions and are more open to partnering with RegTech firms.[16]
  - New York-based RegTech firm Droit Financial Technologies launched a fully digitized MiFID II trade compliance engine for institutional investment firms with Goldman Sachs Asset Management as its first buy-side client. UBS, BNP Paribas, and CACIB are also considering the solution.[17]
  - Silverfinch, part of the CSS MoneyMate Group, creates a secure central venue for regulatory data exchange between asset managers, fund distributors, and investors. It has also created the MiFID II solution for institutional investors.[18]
- Anti-Money Laundering/Know Your Customer are also areas in which wealth management firms have deployed RegTech strategies.[19]
  - Dublin-based Fenergo offers a Client Lifecycle Management (CLM) solution to manage end-to-end client due diligence at ABN AMRO and BBVA. The solution is flexible and responsive to evolving regulatory, KYC, and AML compliance demands.[20]

Implications

- As RegTech solutions help wealth management firms reduce compliance costs, firms will require less capital investment in systems to meet changing regulations.
  - Technology investments helped reduce overall year-over-year industry costs by 3% from 2015 to 2016.[21]
- RegTechs will help automate manual tasks and increase operational efficiency about reporting obligations.
- The KYC process for clients will be smoother and faster by implementing RegTechs that incorporate robotic process automation and AI.
- RegTech will be instrumental in improving liquidity monitoring for wealth management firms through enhanced dashboards and increased visibility.

16 The legacy applications refer to software that is either developed in-house or bought from a large enterprise to solve their compliance issues.

17 PR Newswire, "Major Banks Adopt Droit Fully-Digitized MiFID II Trade Compliance Solution", March 28, 2018, https://www.prnewswire.com/news-releases/major-banks-adopt-droit-fully-digitized-mifid-ii-trade-compliance-solution-300620522.html

18 Silverfinch, "Data security for MiFID II needs to be paramount, warns Silverfinch," June 28, 2017, https://www.silverfinch.com/data-security-mifid-ii-needs-paramount-warns-silverfinch/

19 Anti-Money Laundering (AML) rules help detect and report suspicious activity such as terrorist financing, securities fraud and market manipulation

20 GoMedici, "How European Banks Are Using RegTech Solutions", June 6, 2018, https://gomedici.com/how-european-banks-are-using-regtech-solutions

21 Verdict, "Regtech will reduce wealth management compliance budgets", February 2, 2018, https://www.verdict.co.uk/private-banker-international/comments/regtech-will-reduce-wealth-management-compliance-budgets

Trend 06: IoT and Big Data Will Enable Automated Portfolio Management

Internet of Things (IoT) and big data will allow wealth management firms to identify new ways to use client data and improve offerings.

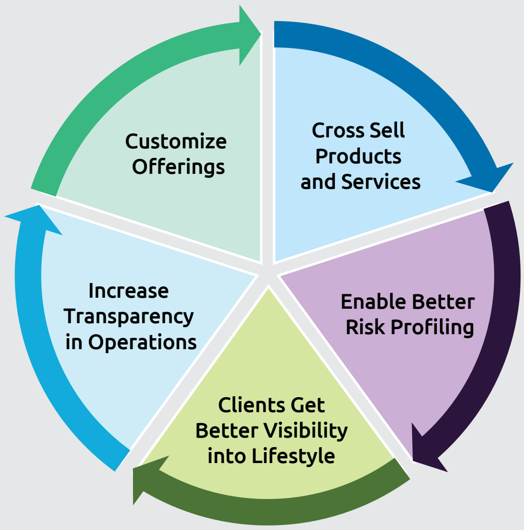
Background

- Increasingly, wealth management firms are adopting robo advisors to cater to the needs of younger-generation HNWI.
- The next step to fully automated portfolio management is moving from rule-based client data capturing to more intuitive and less intrusive client profiling.
- Firms have started using IoT and big data to collect information that is relevant and can be used to customize services and products.[22]

Key Drivers

- Younger HNWI clients seek a seamless digital experience in all life areas.
- Fast and easy access to technology is a driving force behind a competitive marketplace that highly values customized products and services.
  - New-generation wealth products and services are often customized based on data generated through customers' online and offline spend.
- Wealth management firms are looking for non-traditional sources of data to provide a less intrusive way to profile a client's lifestyle and assess their future financial needs.

Exhibit 7: How IOT will Empower Wealth Management



22 The Internet of things (IoT) is the network of physical devices, vehicles, home appliances, and other items embedded with electronics, software, sensors, actuators, and connectivity which enables these things to connect, collect and exchange data – this information can be used to provide customized services

Trend Overview

- Using IoT to capture lifestyle data will help increase transparency in wealth management.
- When clients have visibility into their expenditure data, they can understand savings and future returns potential if they maintain a similar lifestyle.
- Combining data captured by IoT sensors and its analysis using big data and analytics, wealth managers can improve offerings and services.
- It will be easier for wealth managers to customize their services to suit the needs of their clients and give targeted advisory services.
- A client's risk appetite can also be better assessed by using real-time data about his spend, savings, and other investments.
- The information about the financial inclinations of a potential customer can also be used to offer other relevant products at the time of onboarding.

Implications

- Wealth managers will be able to offer high level of personalization based on clients' needs.
- Better assessment of a client's financial needs and the kind of returns required to maintain or to improve their lifestyle.
- With the mass proliferation of IoT, wealth management firms can provide intuitive interfaces for client interaction, for purposes of profiling and data capturing.

Trend 07: Firms are Reassessing Their Technology Investments to Maximize Returns

In the wake of minimal returns on huge technology investments over a period, firms have started to reassess and reprioritize investments with a view to maximizing returns on technology investment.

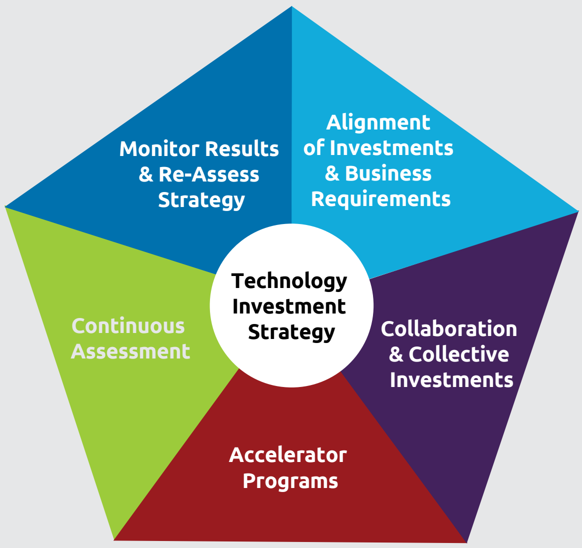
Background

- Over the past few years, wealth management firms have been investing heavily in technology in expectation of better performance and an upturn in results.
- However, the returns have not always been up to expectations, which has led firms to reassess their investment decisions.
- The need of the hour is for these firms to tweak their approach by constantly reevaluating and reassessing the effectiveness of the adopted technologies and related investments.

Key Drivers

- Wealth management firms want to maximize returns from their investments in technology, given that technologies often become obsolete within three to five years.
- Technology standardization is difficult across firms due to the high variability in the operating model.
- Wealthy clients are not comfortable interacting with technology alone, thereby calling for a balanced approach between human touch and the use of technology for services.

Exhibit 8: Technology Investment Strategy



Source: Capgemini Financial Services Analysis, 2018

Trend Overview

- To outperform competition, wealth management firms have been experimenting with creating technology applications in their mainstream operations, most of which has not been profitable for the firms.
  - These firms now realize the importance of strategically aligning investments to their business requirements and are re-aligning investment priorities.
  - For example, UBS found it difficult to sell the robo-advisory concept to ultra-HNW clientele due to the disconnect between clients and their digital requirements. The bank concluded that the program's potential was limited; and to cut down further losses, the intellectual property related to UBS Smartwealth was sold to U.S.-based FinTech firm Sigfig. Interestingly, UBS joined the group of VCs in a US$50 million funding round for SigFig in June 2018.[23, 24]
- Wealth management firms are also launching accelerator programs for FinTech startups. The collaboration with innovative FinTech startups will help firms to tackle legacy technology problems.
  - Schroders, a UK-based asset management firm launched Cobalt, an accelerator program, to provide funding and collaboration opportunities for FinTech startups. The focus will be on technology companies that offer innovative ideas in the wealth management space.[25]

Implications

- Technological investments will be more aligned with business requirements thereby lowering the risks involved with the successful implementation of the system.
- With the clients expecting improved tools of engagement, financial advisors will be able to serve the clients in a better and efficient manner at lower fees.

23 Fund Selector Asia, "UBS mass market push ends with robo-advisor sale", Sonia Rach, August 31, 2018, https://fundselectorasia.com/ubs-mass-market-push-ends-with-robo-advisor-sale/

24 *Finextra*, "UBS comes back for seconds in $50 million SigFig raise", June 19, 2018, https://www.finextra.com/newsarticle/32278/ubs-comes-back-for-secondsin-50-million-sigfig-raise

25 *Finextra*, "Schroders offers a home to fintech startups", March 26, 2018, https://www.finextra.com/newsarticle/31868/schroders-offers-a-home-to-fintech-startups

Trend 08: Virtual Tools Such as Smart Assistants and Whispering Agents Will Enable Customized Service Delivery Models

In the face of cost, resource and regulatory pressures, wealth managers must turn to technology to enable new service delivery models to delight, retain and acquire customers.

Background

- Wealth advisors have historically dedicated time and resources to clients based on the assets they manage for each client. This has been observed to be an inefficient way – premium investors might not require frequent advisor interactions if they can get monthly reports on performance of assets.
- Virtual tools will help advisors have frequent automated check-ins with clients, allowing them to re-focus on new clients, thus making their business more scalable.[26]
- With virtual sales assistants, chat bots, and whispering agents, wealth managers can use technology to drive real-time wealth advisory and offer a completely personalized experience for clients.[27]

Key Drivers

- Delivering a customized service will ensure that customer preferences are being heeded to and strengthen the client relationship.
- Advisors will be able to increase customer engagement by focusing on clients that require more interaction, thus creating more value for their firm.
- Private banks and wealth management firms are under cost pressure, and there is a dearth of wealth management talent. Therefore, it is beneficial to use bots for automating interaction with clients.
- The evolving nature of regulations (such as increased focus on liquidity risk management) adds further cost and resource pressure on wealth management firms. As a result, technology adoption is critical to identify and respond to customer's individual demands.
- Technology will also allow private banks and wealth management firms to tap into the enormous client data to create personalized products and services to increase client engagement and drive retention.

Trend Overview

- In today's competitive market, it is essential for wealth management firms to customize their offerings and actively listen to client needs to understand their thought processes.
  - By actively analyzing the customer data at their disposal, firms can proactively use it to pre-empt client demands by suggesting advisory services.
  - The use of technology will enhance customer relationships by evolving Customer Relationship Management (CRM) to Customer Interaction Management (CIM).[28]

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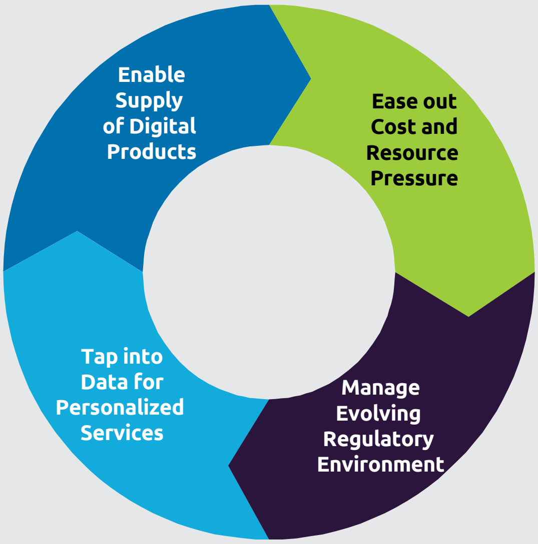
26 The virtual tools include chatbots, smart virtual assistants and whispering agents for salespersons that can offer advice based on real-time data.

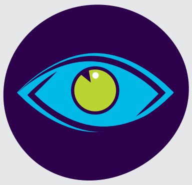
27 Whispering agents are smart virtual assistant technology that guides sales people in real-time conversation with clients to help them sell.

28 Celent, "Next Generation of Sales Assistants in Banking: From CIM to Smart Bots and Whispering Agents," https://www.celent.com/insights/636487880, Accessed October 2018

Exhibit 9: Drivers of New Service Delivery Models

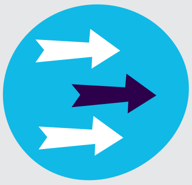


Source: Capgemini Financial Services Analysis, 2018



- – The introduction of smart assistants that can understand customer queries, provide in-depth responses, and convince clients to buy products that meet their requirements.
- – The sales person will be assisted by whispering agents that suggest the smart dialogue to enable better client engagement leading to customer delight.
- – This will be especially important for advisors who serve clients in the mass affluent market segment, and they need to use data and technology to provide personalized services and scale up quickly.

- Use of an AI-based Next Best Action tool for advisors to recommend actions to take for clients is streamlining advisory roles in wealth management.
  - – Morgan Stanley's Next Best Action tool has been enabling the firm's 15,700 advisors to make sound recommendations about asset allocation, tax situations, wealth restructuring based on a client's preferences, and values as identified by the AI-based tool. The tool is also equipped to help wealth managers handle emotionally-charged situations.[29]



Implications

- Wealth management firms will engage their clients better with omnichannel digital presence driven by virtual assistants and chatbots.
- New delivery models driven by technology will have lower costs of operation compared to historical models that involved high cost of resources.
- With automated functions to aid regulatory compliance measures, wealth management firms will be able to manage the regulatory pressures better.
- Use of technology will enable wealth management firms to drive behavioral changes such as making the firms more data-driven to provide personalized products and services.

29 Financial Planning, "Morgan Stanley plays the long game on AI," July 12, 2018, https://onwallstreet.financial-planning.com/news/morgan-stanley-plays-the-long-game-on-ai

Trend 09: Data and Technology to Be Used to Streamline New Client and Advisor Onboarding

Wealth management firms can look to technology to streamline client and advisor onboarding to provide a better customer experience.

Background

- A key issue across the financial services industry is client onboarding.
  - Numerous Know Your Customer (KYC) checks make it time consuming and cumbersome to board new customers onto a bank's platform.
- While firms realize the challenge, compliance mandates often make it difficult to streamline onboarding processes.
- Wealth management firms are currently experiencing high attrition among staff, and the firm's dependence on managers to grow business makes efficient advisor onboarding critical.

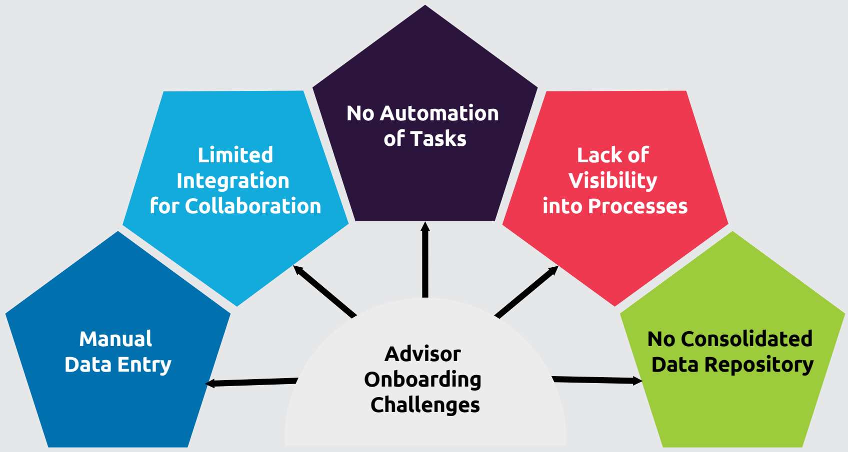
Key Drivers

- HNWI clients demand a seamless customer experience and visibility into onboarding.
  - Onboarding today can take weeks to months, while clients seek a days' long process which they can monitor.
- There is a low level of transparency on the process update as wealth managers complete the onboarding process manually.
- Productivity is lost in middle- and back offices due to duplication of onboarding efforts as these two departments are not integrated.
- The high attrition rate of wealth managers is forcing firms to rethink strategy to retain advisory talent.

Trend Overview

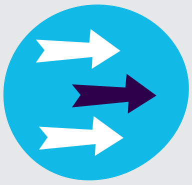
- As FinTechs enter wealth management domain, customers are demanding a similar seamless onboarding experience.
- Wealth management firms can take weeks to months to onboard a new client depending on the type of account. Intricate KYC and Anti-Money Laundering (AML) regulations add complexity to the process.
  - Firms that use technology can offer a more seamless client experience and attract new investors.
- While it will be difficult to circumvent complex regulatory checks, managers can offer investors an instant micro-investment platform.
  - Such an offering will attract investors and help firms appeal to mass affluent investors who require a basic account and fewer advisory services.
  - Wealth management firms can also customize such an offering by allowing potential clients to download an app, sign in and check app features to understand the firm's services quickly.

Exhibit 10: Advisor Onboarding Challenges



Source: Capgemini Financial Services Analysis, 2018

- Wealth advisors are leaving firms because of competitive market dynamics, reduced fees and earnings, and regulatory and cost pressures.
  - Firms can improve the work environment by streamlining advisor onboarding.
- A variety of issues stymie the current advisor onboarding process. (Exhibit 10)
  - Manual data entry of advisor details takes up valuable time and resources and can be easily automated to increase efficiency.
  - Limited integration between front- and back offices due to the nature of wealth manager functions stifles collaboration and leads to effort duplication.
  - Systematic workflow is repressed because teams work in silos and readily available information is not shared among teams.
  - Poor collaboration also blocks visibility regarding client service and satisfaction. Measuring feedback is important to process improvement and a lack of visibility hampers organizational development.



Implications

- Streamlined client onboarding will enhance customer satisfaction and as wealth managers become more transparent to clients regarding their processes, investor trust will be reinforced.
- Use of technology to automate most onboarding processes (client and advisor) will increase workplace productivity and efficiency.
- An efficient advisor onboarding process will ensure quicker learning curve and improve advisor satisfaction, thus helping in better client management and curbing advisor attrition.

Trend 10: Wealth Management Firms to Increase Adoption of Open APIs for New Revenue Streams

Wealth management firms must look to partner with third-party innovation firms to provide new applications and create new revenue streams.

Background

- With open banking a mandate in Europe and seen as a necessity in American and Asian financial hubs, it is important for wealth management firms to change their approach toward meeting customer requirements.
- With historically-low interest rates, profitability margins have been squeezed and firms are being forced to identify new revenue streams.
- With widespread adoption of technology-based solutions, wealth firms are pursuing partnerships with third-party innovators and FinTechs to develop novel revenue streams.
- Based on FinTechs deft ability to innovate and deploy new solutions, wealth firms are collaborating with these agile newcomers to bring cutting-edge wealth solutions to market quicker than through in-house development.

Key Drivers

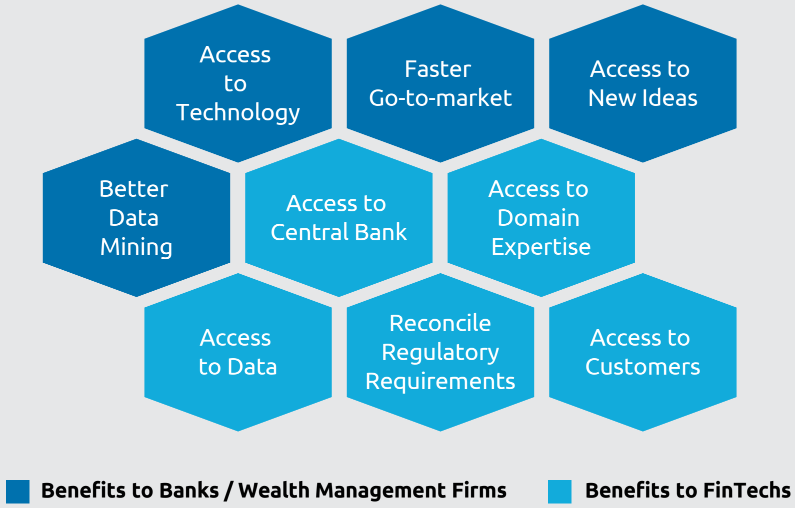
- Firm profits are down because of high cost, lower interest rates, and regulatory pressures.
- Wealth management firms have been slow to innovate, but clients seek an innovative digital user experience.
- With BigTechs and other financial services newcomers providing investment products at low rates to new mass affluent clients, wealth management firms need to partner with third-party firms to attract new investors.
- Working with nimble FinTech players is essential to addressing the innovation challenges of established wealth firms.

Trend Overview

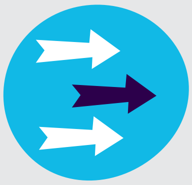
- Banks and wealth firms realize that traditional business models are not sustainable in light of growing competition from non-traditional players.
  - FinTechs offer customers cutting-edge solutions at lower costs, which is leading to customer attrition for wealth management firms, especially among mass affluent segments.
  - BigTechs have set the standard for a platform economy in which third-party innovators promote their applications by using the BigTech user bases.
- Banking-as-a-Platform offers competitive advantages to both wealth management firms and third-party developers/FinTechs.[30] (Exhibit 11)
  - Wealth management firms gain access to new technology, faster solution deployment, and data expertise techniques.
  - FinTechs gain access to a captive customer base and data, domain knowledge, and expertise about clearing mechanisms and regulations.

30 Banking-as-a-platform refers to banks redefining their business to embrace innovation from outside the bank through open interfaces and collaborative business models in partnership with innovators that will build on the banks' capabilities.

Exhibit 11: Benefits of Banking-as-a-Platform



Source: Capgemini Financial Services Analysis, 2018



Implications

- Innovative, state-of-the-art products and services at lower costs will help firms retain existing customers and attract new prospects.
- Easier and faster deployment of services to clients for a seamless omnichannel customer experience.
- New revenue streams from APIs will add to the top line and increase profitability.
- FinTech partnerships will help wealth management firms use and adopt technology, shifting away from a manual-processing culture.

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