DATA-FIRST THINKING

REFINITIV™

DATA IS JUST
THE BEGINNING

THE TRANSFORMATION OF **WEALTH MANAGEMENT**

Five Trends for 2020 and Beyond

FOREWORD

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The wealth management industry is still in the early stages of digital transformation, but with increasing urgency, wealth managers are rethinking the strategies and business models that define their business.

Since the global financial crisis of 2008, we have learned a host of valuable lessons and continue to ride the longest bull market in history, but now the industry must look to the challenges and opportunities that lie ahead. As we move into a new decade, our industry finds itself poised to surge forward into a complex digital landscape.

Let's consider the following:

- Rapid advancements in technology and digitalization, many of which are targeted directly to consumers calling for shorter innovation cycles, are forcing firms to rethink their business, technology, and client engagement models.
- Shifting regulations around the globe continue to change the playing field for wealth management firms, a process that is far from over and requires firms to modify their business models.
- Data is increasingly becoming the lifeblood of wealth management firms. While data used to be a byproduct of conducting business, it is now moving to center stage. Those firms that take their data seriously and harness its power will be more successful, agile, compliant, and in a good position to best serve their clients.

The clock is ticking for wealth management firms to adjust their businesses to these industry trends. While over 70% of the firms surveyed in this report say organic growth is a high priority, over 25% state inorganic as the primary source of growth over the next 5 years. Those leaning toward M&A spoke to the strength of their organization's outlook, capitalization and balance sheet to grow scale. We recently witnessed an example of the latter, with Schwab's $26 billion deal for Ameritrade, creating a behemoth wealth manager.

As the song goes, "times they are a-changing" and the time is now to take the proverbial bull by its horns, reposition business models and technology architecture, and get ready to face our future.

KEY FINDINGS

100%

of respondents consider wealth transfer to be one of their top 3 concerns and are therefore starting to tailor their offerings to the next generation.

90%

of wealth management firms have recently reviewed or revised their client segmentation models in line with the belief that a tailored and customized approach, which moves away from strict individual AUM thresholds, is key to future success.

The wealth management industry is still in the early stages of digital transformation, with

46%

of respondents only partly satisfied or not at all satisfied with their current digital offerings.

86%

of wealth management firms consider servicing clients as a highly important digital capability to acquire.

65%

of respondents view operational scale as 'very important', pointing to a clear appreciation of the fact that future profitability depends on fewer financial advisors serving more clients, more efficiently.

Data and analytics are quickly becoming the key differentiators for wealth managers, enabling them to serve clients more holistically, with

61%

of respondents viewing analytics and creating insights as "very important", and

39%

as "important", for their firms over the next 12-18 months.

80%

of respondents reported an increase in spending related to "change the bank" over the past few years.

INTRODUCTION

A DYNAMIC AND CHALLENGING ENVIRONMENT

Rapid advances in technology and ever greater moves towards digitalization in the industry are forcing wealth managers to rethink their business, technology, and client engagement strategies.

Furthermore, more than a decade after the global financial crisis, the wealth management industry continues to feel the impact of a tightening regulatory environment that periodically requires wealth managers to modify their business models in order to remain compliant.

Against this dynamic backdrop, data is increasingly moving front and center, becoming the lifeblood of wealth managers who must form a holistic picture of market risks and opportunities at speed if they are to remain competitive.

With some industry observers speculating that the end of a record-length bull run might be near, wealth management firms that have not yet repositioned their business models and technology architecture should urgently future-proof their businesses before potentially challenging economic pressures become a reality.

Our latest research has revealed five key trends that will shape the industry over the next few years, and wealth managers should take heed of these as they strive to position themselves as profitable, client-centric, agile, and compliant industry players.

1

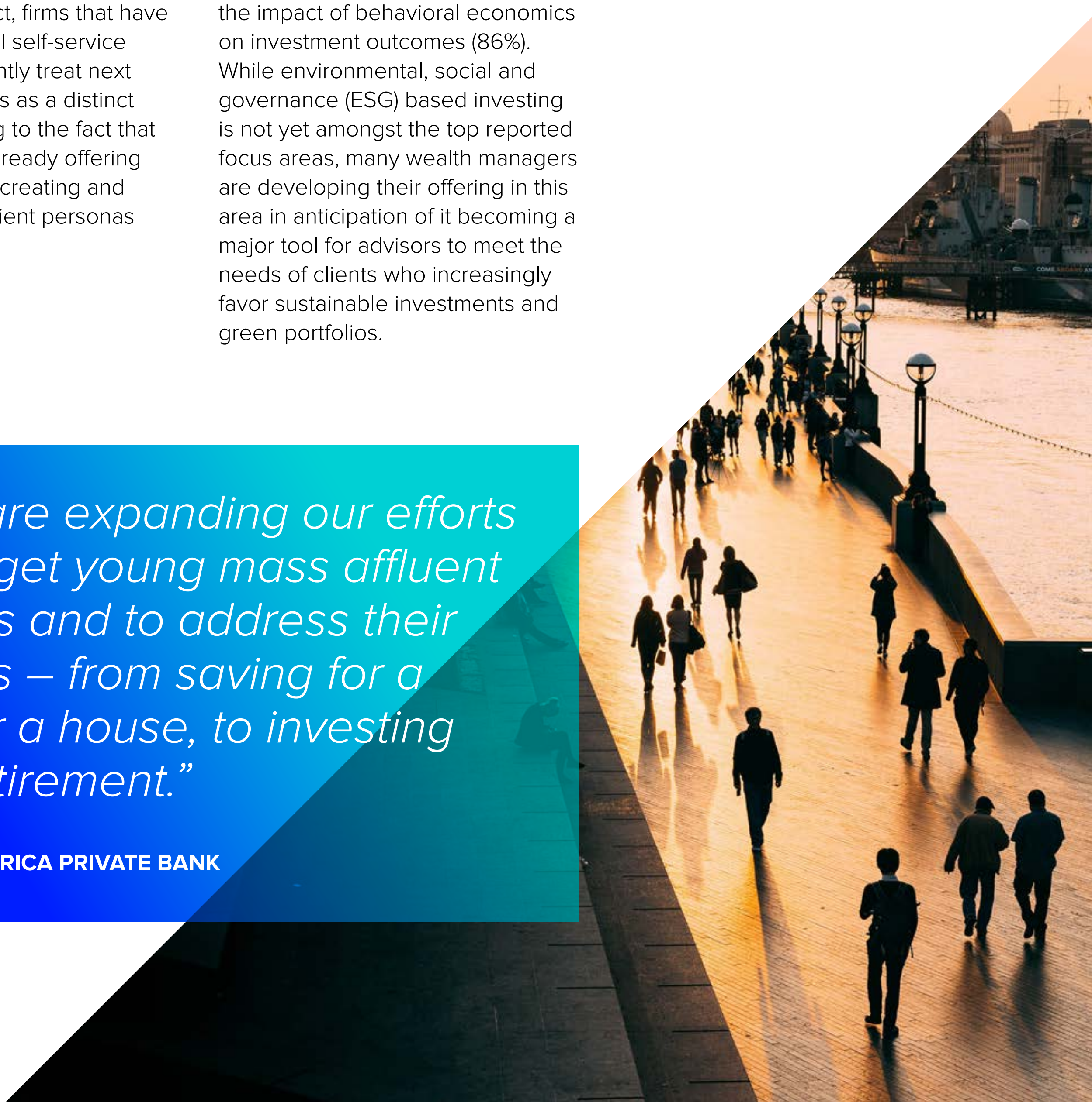
CUSTOMIZATION: THE END OF ONE-SIZE-FITS-ALL

100% of firms focus on supporting their advisors in the context of wealth transfer.

Therefore, it comes as little surprise that firms are starting to tailor their offerings to the next generation. In fact, firms that have invested in digital self-service platforms frequently treat next generation clients as a distinct persona, pointing to the fact that digitalization is already offering concrete help in creating and understanding client personas more effectively.

Other key focus areas include the development of model marketplaces (92%) and assessing the impact of behavioral economics on investment outcomes (86%). While environmental, social and governance (ESG) based investing is not yet amongst the top reported focus areas, many wealth managers are developing their offering in this area in anticipation of it becoming a major tool for advisors to meet the needs of clients who increasingly favor sustainable investments and green portfolios.

> *"We are expanding our efforts to target young mass affluent clients and to address their needs – from saving for a car or a house, to investing for retirement."*
>
> **LATIN AMERICA PRIVATE BANK**



90%

of interviewed wealth management firms have recently or are currently reviewing and revising their segmentation models.

A clear appreciation of the need to tailor and customize portfolios has seen many firms starting to develop strategies for targeting specific client segments and offering fully customized offerings to meet the needs of those segments. In line with this, almost all (90%) interviewed wealth management firms have recently or are currently reviewing and revising their segmentation models.

Current models are largely based on assets under management (AuM) – with an element of recognition of a client's life stages – but existing segmentation models typically lack taking behavioral differences between clients into account and as such don't provide much foundation for differentiated client engagement. Unfortunately, incorporating factors other than AuM into client segmentation requires access to data and analytics that are commonly not available or not of sufficient quality.

While aiming for mass customization would suggest that firms would have to expand their product lines to meet the needs of a diverse client base, the opposite has been observed. Aiming to define front office processes that are efficient, take into account client requirements holistically, and meet regulatory frameworks such as MiFID II, firms are actually narrowing their traditional product shelves and emphasizing firm-defined model portfolios that are tailored to the client's risk profile and shift more focus onto relationship building.

While a narrowing product shelf in the greater scheme of things is the industry trend, selectively, firms which cater to the UHNW segment need to differentiate or target more specific needs. They do so by offering their clients investment clubs, financing, trusts and estates, concierge services, and other tailored specialized advice covering art collections and sports teams. They are also expanding product offerings in certain areas, such as adding high quality alternative investments (for example, hedge funds, liquid alternatives, or private equity funds) through due diligence processes that are thoroughly vetted by the firm.

2

DIGITALIZATION: **TIME TO DIGITALIZE OR DIE**

The global wealth management industry is still in the early stages of digital transformation, but our research suggests that firms are acutely aware of the importance of acquiring digital capabilities and are taking action.

All respondents plan to incorporate digital capabilities in one form or another into their service models, but despite the appreciation of the need to focus on building out digital assets, advisor-led business models remain the mainstay of wealth management firms. This is largely because the service element of client relationships is viewed as a key success factor for differentiation. The industry will ultimately move towards hybrid client engagement.

A significant 86% of respondents rank servicing clients (including managing daily tasks, account opening, and onboarding) as a highly important digital capability, followed by 69% who view the provision of information (for example, statements and performance reports) as 'highly important'.

Acquiring digital capabilities is not without challenges, though, with many wealth managers around the globe lacking a coherent digital strategy and the organizational consensus to implement digital capabilities. Some of the most common challenges for the adoption of digital capabilities cited include, cost, speed of delivery, and integration with legacy systems.

> *"Even though our business is advisor-led, we would like to introduce technology urgently. We are somewhat behind the curve and trying to catch up."*
>
> **CEO OF WESTERN EUROPEAN PB DIVISION**

FIGURE 1: IMPORTANCE OF DIGITAL CAPABILITIES

Please rate the level of importance in providing digital capabilities for the following front-end/client-facing activities?

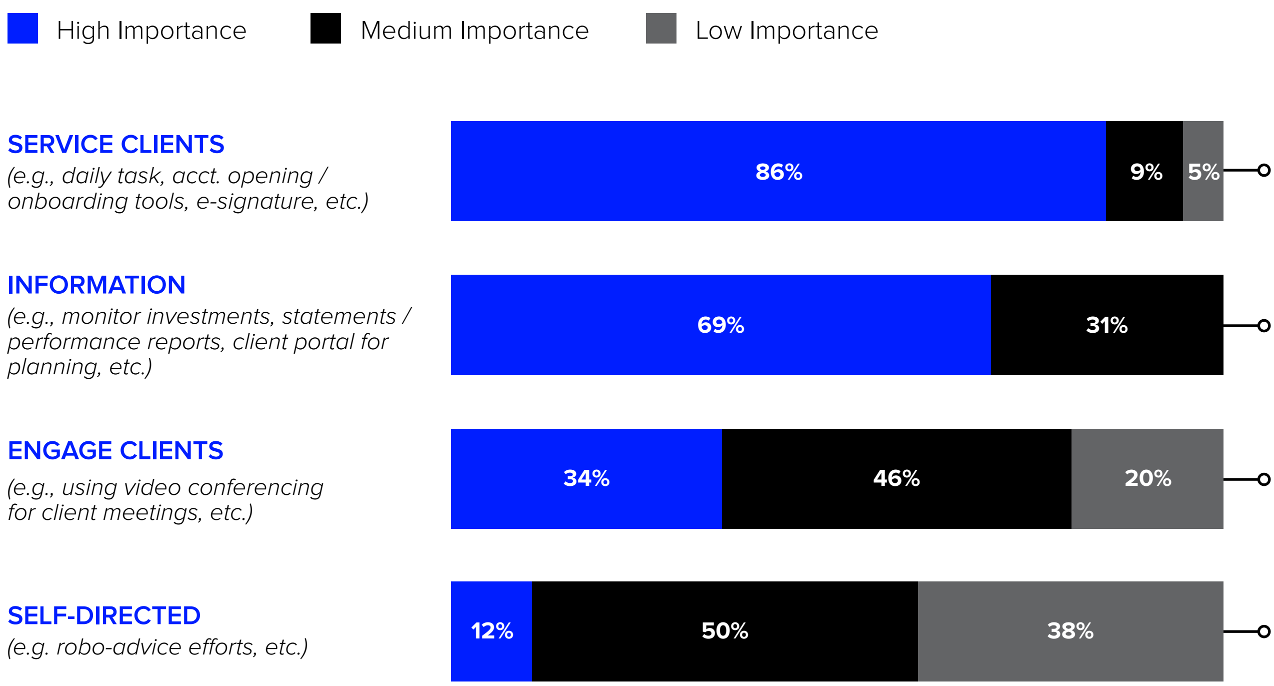
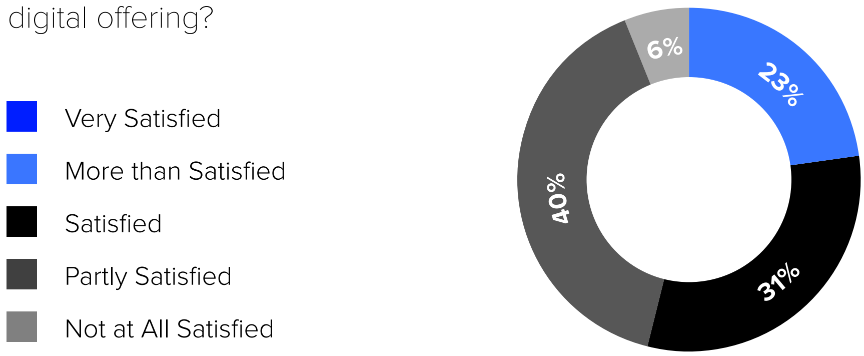


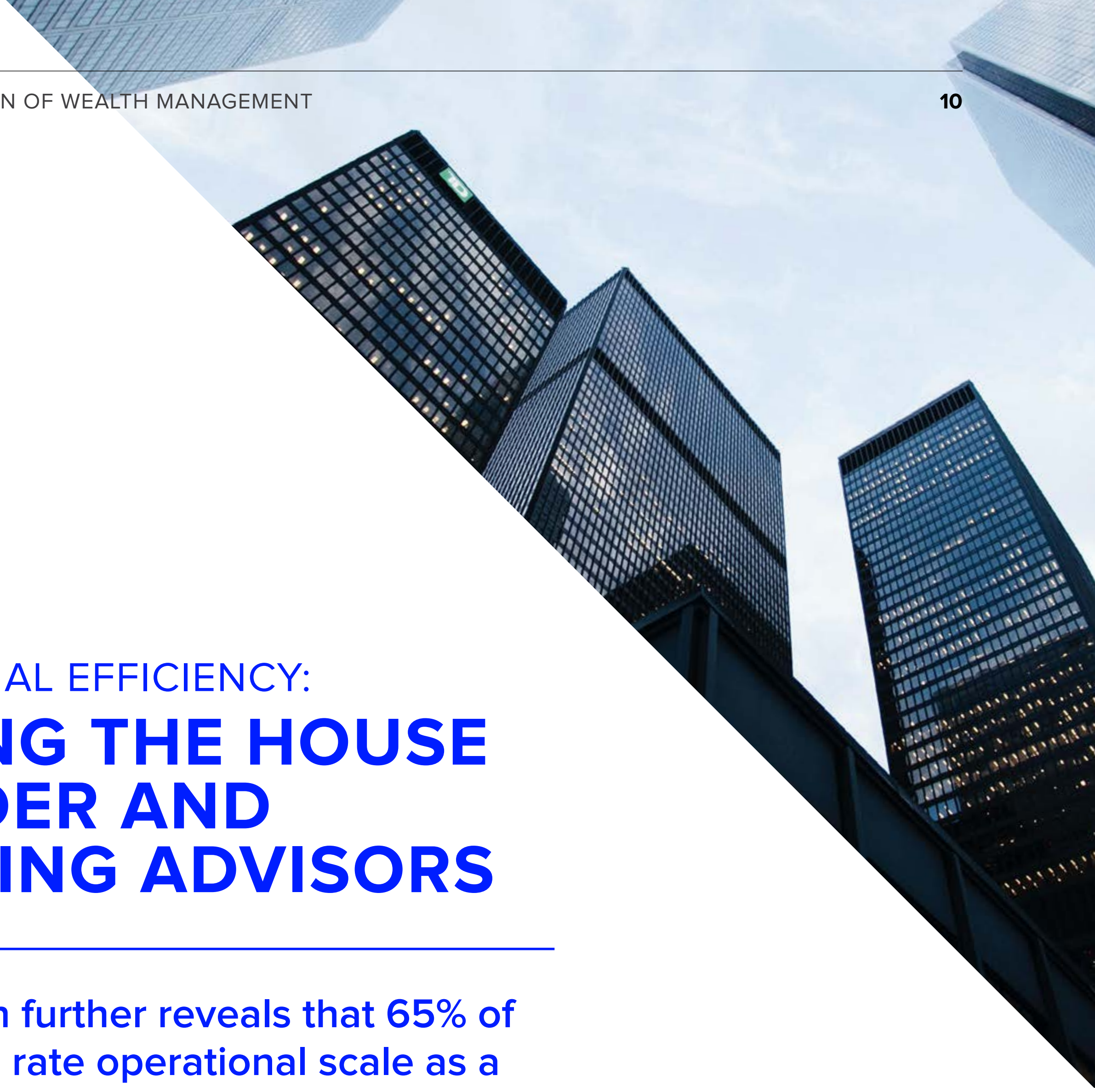
FIGURE 2: DIGITAL CAPABILITY SATISFACTION

What is your level of satisfaction with your current digital offering?



North American firms are generally considered to be further along the digitalization curve, with many of the early efforts in the region centered on adding a white-labeled robo-advice platform to an existing full-service wealth management model. Interestingly, this has not led to higher satisfaction levels, but the early adopters are now able to leverage the experience gained from these early digital initiatives as they build second-generation solutions.

While firms realize the importance of digital capabilities, nearly half (46%) of respondents stated that they are only partly satisfied or not at all satisfied with their current digital offerings. Importantly, no respondents were 'very satisfied' with their capabilities in this critical area.



3

OPERATIONAL EFFICIENCY:

GETTING THE HOUSE IN ORDER AND ENABLING ADVISORS

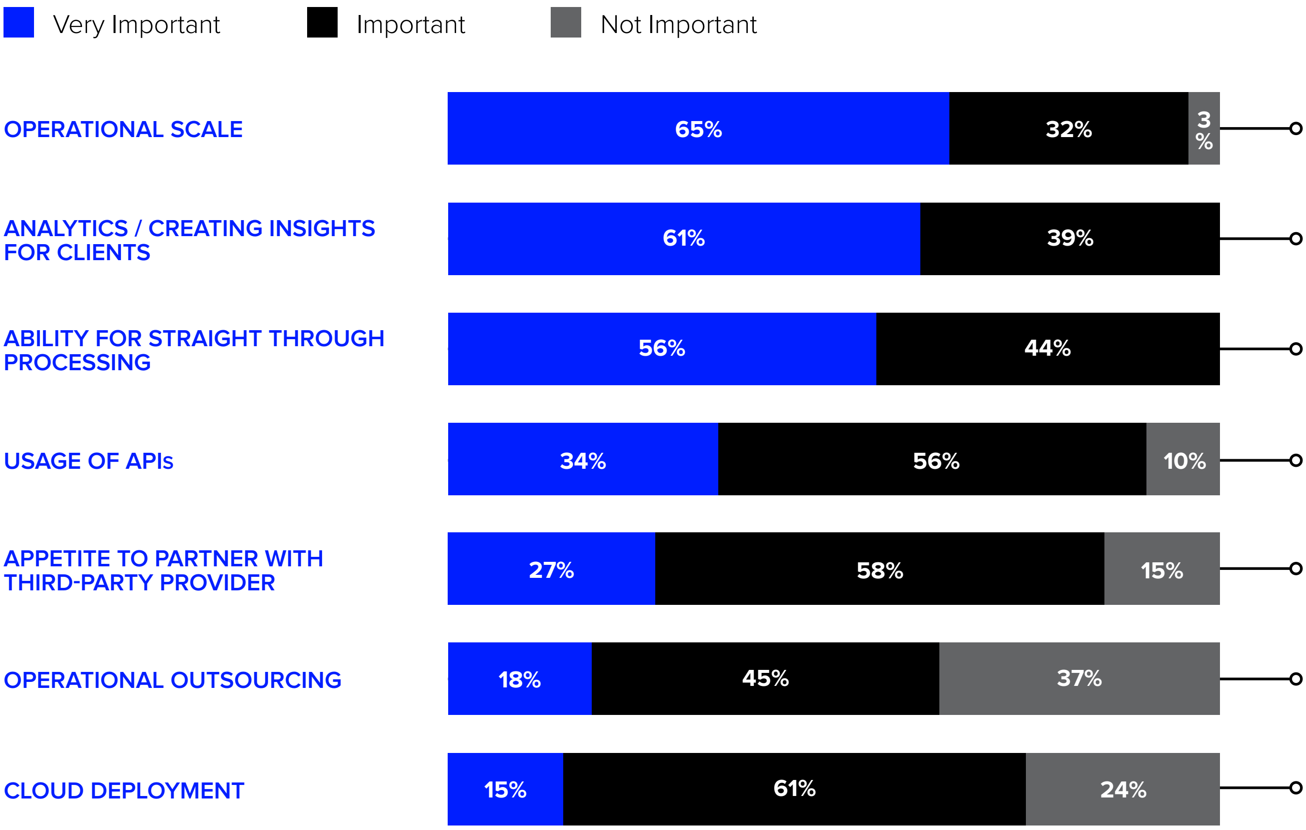
Our research further reveals that 65% of respondents rate operational scale as a 'very important' focus area over the next 12-18 months – but while they strive to improve their ability to scale operations through creating efficient workflows and automation, many are battling a fragmented back office infrastructure, often complicated by multiple product silos and legacy systems.

In pursuit of operational efficiency, over 60% of the firms surveyed are willing to leverage outsourcing propositions to enhance lacking capabilities, scale, or in-house resources. The degree of willingness ranges from 58% in Europe to 70% in Asia and the Americas.

Financial institutions are more willing than ever to strike key partnerships with fintech providers in order to take advantage of their unique capabilities. Larger institutions even go as far as taking stakes in their fintech partners and/or acquiring the partner outright. Some larger firms have created venture arms that allow them to keep track of innovative startups, invest in them, and take advantage of newly created solutions.

FIGURE 3: KEY AREAS OF FOCUS FOR WEALTH MANAGERS

Please rate the level importance of the following topics for your firms over the next 12-18 months.



Improving operational efficiency is, of course, only possible if technological change is accompanied by advisor education. Rapidly evolving business models, product lineups, digital engagement platforms and regulations are also necessitating advisors being continuously kept up to date. Advisor education is therefore a central element of efficiency change, with training increasingly being delivered digitally. But it is not only the advisor force that has to be trained – wealth management firms have an increasing need to educate their clients as product and service offerings change and digital capabilities evolve. This might be paired with in-person sessions through advisors or seminars, particularly in the highest-tier segments.

> *“The firm focuses on tech and process training, which will help drive the adoption of tools and services to improve operational efficiency.”*
>
> **U.S. BROKER-DEALER**

4

DATA AND ANALYTICS: PAVING THE ROAD TO CLIENT CENTRICITY

Data and analytics are quickly becoming key differentiators for wealth management firms, enabling them to serve clients more holistically and generate relevant, timely, and actionable insights for clients and advisors alike.

When asked to rate the level importance of different topics over the next 12-18 months, a significant 61% of respondents rated analytics/creating insights for clients as ‘very important’.

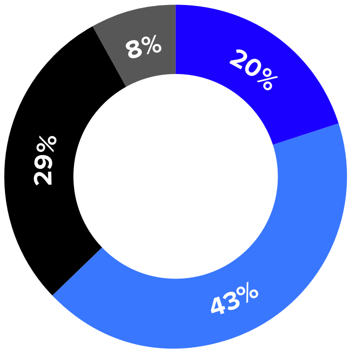
The big data powered e-commerce players such as Amazon provide ample evidence that tomorrow’s industry leaders will be those firms that are able to master the data and analytics challenge – but many wealth managers are still struggling with data that is inconsistent, dispersed across the organization, and frequently hard to consolidate.

The top concern associated with developing advisor analytic capabilities is building a clean database of advisor metrics, while cost and other competing priorities – including concern about employee attrition, uncertainty about the future, the quality of data, and integration challenges to name but a few – were also highlighted by respondents.

FIGURE 4: DEVELOPING ADVISOR ANALYTICS

What stage is your firm at in developing advisor analytics capabilities?

- Have Launched
- In Development
- In the Planning Stages
- Not Started

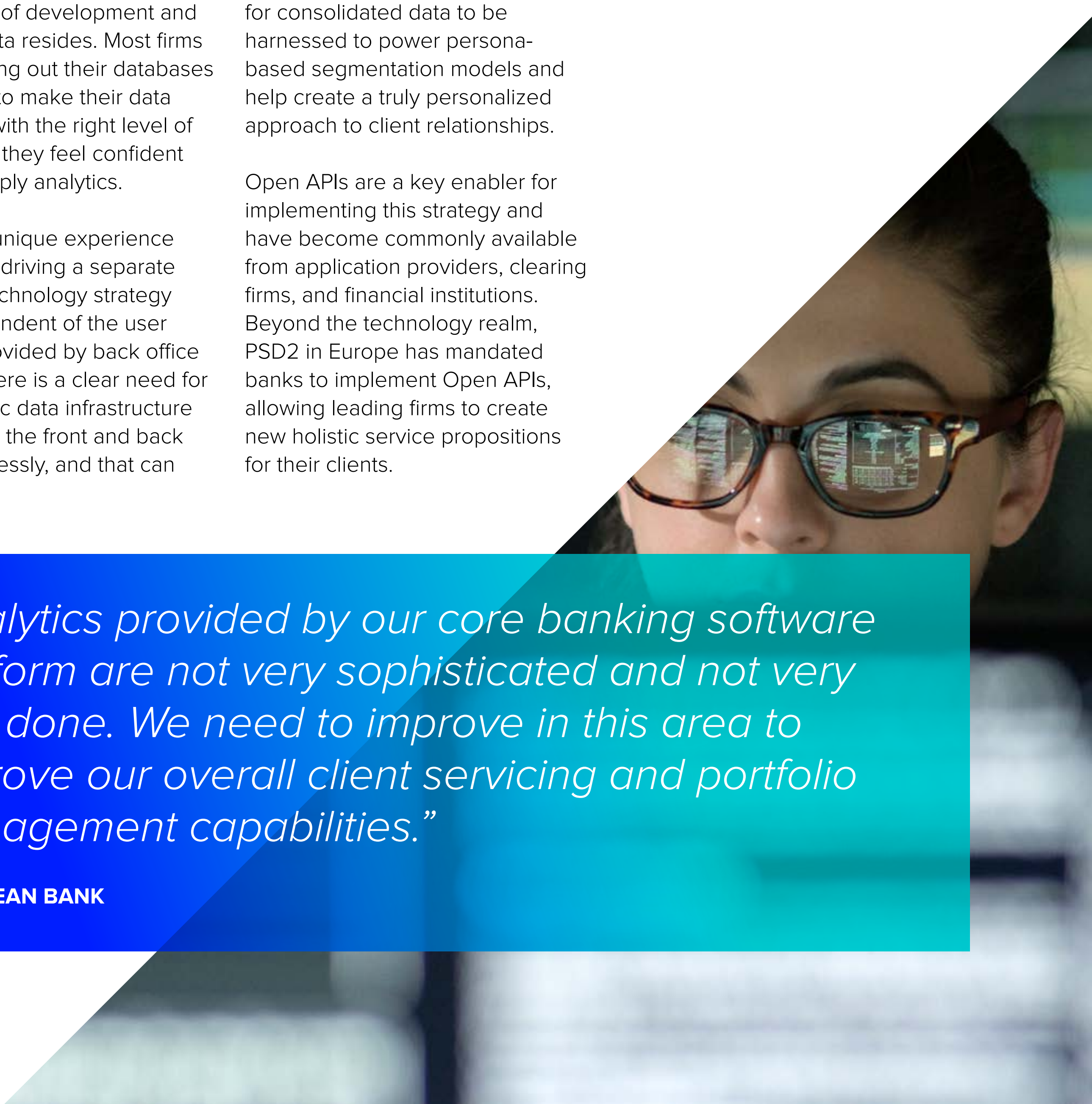


Although over 60% of firms are developing advisor analytics capabilities, the truth is that many firms are focused on building their advisor and client analytics but vary in their stage of development and where the data resides. Most firms are still building out their databases and working to make their data cleaner and with the right level of depth before they feel confident enough to apply analytics.

Delivering a unique experience also requires driving a separate front office technology strategy that is independent of the user interfaces provided by back office platforms. There is a clear need for a client-centric data infrastructure that connects the front and back offices seamlessly, and that can consolidate multiple product silos and legacy systems.

Infrastructure such as this would deliver a significant opportunity for consolidated data to be harnessed to power persona-based segmentation models and help create a truly personalized approach to client relationships.

Open APIs are a key enabler for implementing this strategy and have become commonly available from application providers, clearing firms, and financial institutions. Beyond the technology realm, PSD2 in Europe has mandated banks to implement Open APIs, allowing leading firms to create new holistic service propositions for their clients.



"Analytics provided by our core banking software platform are not very sophisticated and not very well done. We need to improve in this area to improve our overall client servicing and portfolio management capabilities."

EUROPEAN BANK

5

CLIENT RELATIONSHIPS:
THE ROLE OF THE ADVISOR IS CHANGING

Regulations and digitalization are reshaping wealth management business models and the result is that financial advisors are becoming less product focused and more relationship orientated.

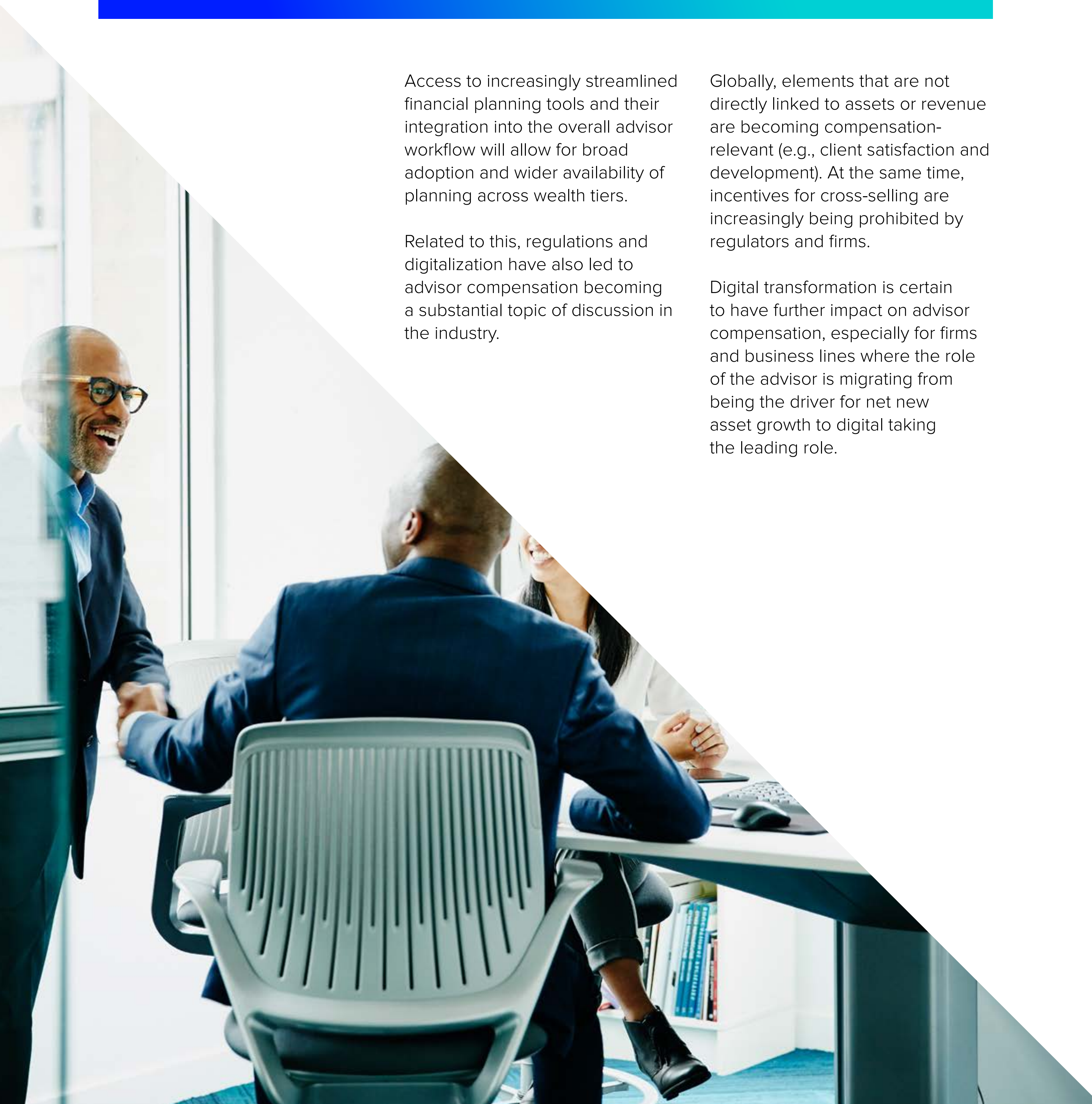
As the wealth industry continues to shift away from products and towards services, the role of financial planning is taking center stage in the client/advisor relationship.

Consequently, building and attracting the right advisor skillset will become increasingly important for success. Client centricity and effective engagement will be key and advisors will increasingly be guided by product specialists, such as the CIO, and/or technology platforms when it comes to selecting products for the client. Firms should therefore implement efficient front office processes that enable the interaction between advisor, product specialist and platforms that can provide compliant guardrails for advisors when working with clients.

> *"We are trying to move advisors away from being specialist to generalist but have to increase support since we can't expect advisors to be an expert in all areas."*
>
> **U.S. BROKER-DEALER**

"Staying up to date and complying with regulations has made the banks offering more standardized and clearer, offering a better product selection managed by the CIO office."

EUROPEAN PRIVATE BANK EXECUTIVE



Access to increasingly streamlined financial planning tools and their integration into the overall advisor workflow will allow for broad adoption and wider availability of planning across wealth tiers.

Related to this, regulations and digitalization have also led to advisor compensation becoming a substantial topic of discussion in the industry.

Globally, elements that are not directly linked to assets or revenue are becoming compensation-relevant (e.g., client satisfaction and development). At the same time, incentives for cross-selling are increasingly being prohibited by regulators and firms.

Digital transformation is certain to have further impact on advisor compensation, especially for firms and business lines where the role of the advisor is migrating from being the driver for net new asset growth to digital taking the leading role.

CONCLUSION

LOOKING AHEAD

These trends bear testament to the substantial degree of change that wealth management firms are facing.

It is therefore not surprising that nearly 80% of respondents reported an increase in spending related to ‘change the bank’ over the past few years. Going forward, firms have indicated that they are becoming more careful with this spending, as management teams analyze the impact and ROI of past and existing digital projects.

Nevertheless, client needs are constantly evolving, meaning that only those firms that have the ability to invest in ‘change the bank’ initiatives will be able to remain relevant players in the future.

Given this dynamic environment and the many challenges facing wealth managers, firms need to develop a clearly-defined strategy, supported by reliable and holistic data and the right tools to help them thrive in a changing market.

With the right mix of reliable content, leading-edge technology and trusted human expertise, wealth managers will be able to evolve in line with industry trends, remain compliant with tightening regulations and harness the power of digitalization to accelerate growth into the next decade and beyond.

“Wealth managers are digitally transforming all aspects of their business and require scalable, open and flexible solutions in a digital-first environment. As the wealth management industry continues its digital transformation, firms need solutions that provide the data, technology and insight to empower better decisions and user engagement.”

CHRISTOPHER SPARKE

GLOBAL HEAD OF FRONT OFFICE AND DIGITAL, WEALTH MANAGEMENT AT REFINITIV

ABOUT THIS RESEARCH

Refinitiv commissioned global research and advisory firm, Aite Group, to conduct executive interviews with leading wealth management firms around the globe. The results of this research have shone a spotlight on a range of trends and developments that are set to impact the wealth management arena over the next few years. The Aite Group conducted qualitative telephonic and in-person interviews with business leaders across a range of wealth management firms in the Americas, Europe and Asia. Additional quantitative research focused on a number of key questions within a subset of these firms. In both instances, respondents were equally split across the three regions.

ABOUT REFINITIV WEALTH MANAGEMENT SOLUTIONS

Refinitiv Wealth Management solutions empower clients with the content, technology and expertise to accelerate growth. Our front, middle and back office solutions help wealth management firms improve decision-making, deepen client engagement and optimize business performance.

Refinitiv serves over 40,000 institutions in approximately 190 countries. It provides leading data and insights, trading platforms, and open data and technology platforms that connect a thriving global financial markets community - driving performance in trading, investment, wealth management, regulatory compliance, market data management, enterprise risk and fighting financial crime.