



# Wealth and Asset Management 2021:

*Preparing for Transformative Change*

White Paper



A white paper produced in conjunction with:

Bank of Montreal, Broadridge, CFA Institute, Cisco, eToro, Schroders, SEI, and State Street

# Table of Contents

- Preface.....2
- 1.** The Big Shift.....5
- 2.** The Rapidly Evolving Investor.....13
- 3.** Rethinking Product and Market Approaches.....19
- 4.** The Future Wealth Advisor.....28
- 5.** The Road Ahead: Driving Digital Transformation.....38

# Preface

Everywhere you look, the signs of change are there. The demographics of wealth are shifting dramatically around the world—from the growing dominance of women investors in North America to the rising middle class in emerging markets. As part of this shift, the wealth industry will see trillions of dollars of wealth transfer from baby boomers to a new generation of digital natives with very different investment behaviors.

At the same time, technology is linking billions of people and devices through real-time connections, reinventing how investors communicate, interact, and make decisions. Artificial intelligence, virtual reality, blockchain, and real-time analytics are just some of the smart technologies investment providers are embracing. Over the next five years, the impact of these economic, demographic, and technological megachanges on the wealth profession will be profound.

To help wealth executives understand the far-reaching implications, Roubini ThoughtLab, an independent thought leadership consultancy, teamed up with a coalition of leading organizations from the wealth industry to conduct a rigorous study, titled **Wealth and Asset Management 2021: Preparing for Transformative Change**. The complexity of these issues and the scope of the project required a comprehensive research program based on extensive quantitative analysis of 2,000 investors and 500 wealth firms across 10 world markets; economic modeling and forecasting across 25 countries; and expert opinions from more than 40 market leaders, economists, technologists, and investment specialists.

We would like to thank the sponsors of Wealth and Asset Management 2021: Preparing for Transformative Change, who contributed financial and intellectual support to this ground-breaking research program. Without their kind support, this study would not have been possible.

### **Bank of Montreal**

- Terry McDougall, Head of Marketing, US Wealth Management and Global Asset Management

### **Broadridge**

- Steve Scruton, President of Broadridge Advisor Solutions
- Traci Mabrey, Head of Wealth Solutions at Broadridge Financial Solutions

### **Cisco Systems**

- Leni Selvaggio, Global Marketing Lead, Financial Services Industry
- Joseph Pagano, Practice Advisor, Financial Services Digital Transformation Group

### **CFA Institute**

- Bob Dannhauser, Head of Global Private Wealth Management
- John Bowman, Managing Director, Americas

### **Schroders**

- Duncan Lamont, Head of Research and Analytics
- Magnus Grimond, Research Contributor

### **SEI**

- Al Chiaradonna, Senior Vice President, SEI Wealth Platform<sup>SM</sup>, North America Private Banking
- Kevin P. Barr, Executive Vice President of SEI and Head of SEI's Investment Management

### **State Street**

- John Bolton, Vice President, Thought Leadership, Global Marketing
- Meredith Kaplan, Vice President, Research, Global Marketing

### **eToro**

- Yoni Assia, Founder and CEO
- Elad Lavi, Executive Assistant to CEO

We would also like to thank the advisors to our project, who offered their guidance and valuable insights. These include Bill Janeway, Managing Director, Warburg Pincus; Rodolfo Castilla, Global Head, Wealth Management Products and Platforms, Citi Consumer Bank; Daniel Tu, Chief Innovation Officer, Ping An; Amit Sahasrabudhe, Head of Wealth Management Strategy and Digital Solutions, RBC; Stefan Tirtey, Managing Director, CommerzVentures; Joseph Pawson, Vice President, Bank of Tokyo-Mitsubishi UFG; Andy Nusbickel, Senior Manager, Financial Advisors Marketing, Vanguard; Dimple Shah, Senior Vice President, Head of Corporate Strategy, LPL; and Nancy Davis, Managing Partner and Chief Investment Officer, Quadratics Capital.

We would like to extend special thanks to Dr. Nouriel Roubini, who generously shared his time and provided us with a valuable vision of the future. His team of macroeconomists modeled the impact of demographic and economic trends on the wealth landscape.

The project has brought together an extraordinary group of executives and experts from across the wealth ecosystem – including private banks, family offices, personal wealth advisors, mutual funds companies, full-service banks, alternative investment firms, fintechs, technology companies, and consultancies. The result is fresh, evidence-based research providing actionable insights into how investment providers are rethinking their strategies, products, and processes to succeed in a rapidly transforming marketplace. We are proud to be part of this initiative and hope it will help wealth executives cope with the challenges and enormous opportunities that lie ahead.

Lou Celi  
CEO  
Roubini ThoughtLab

# 1. The Big Shift



*By 2021, the convergence of technological, economic, and demographic trends will transform the wealth industry, unlocking immense global wealth across a diverse universe of investors. But these investors will also have rising expectations, and the willingness to switch providers if their demands are unmet. In such a fast-changing marketplace, investment providers need to fully understand their customers' priorities and behaviors, and leverage technology to meet their changing needs.*

## Winds of change

Change is a constant in the global wealth industry. “The business moves in cycles, and some are severe,” says market veteran, Bob Reynolds, President and CEO of Putnam Investments. But even for experienced professionals, recent market turns have been particularly tumultuous. Since the sub-prime meltdown and Great Recession of 2008, industry leaders have needed to navigate their firms through a Eurozone debt crisis, an emerging market slowdown, and a collapse in oil prices.

With monetary policy losing its efficacy, “mediocre growth and low interest rates have become the new normal,” according to economist Dr. Nouriel Roubini. He sees a dangerous storm looming: a rising tide of nationalism that can shake the very bedrock of global markets. “Brexit is the proverbial canary in the coalmine,” says Roubini, “It signals a broad populist backlash against globalization, labor migration, and open markets.” While Roubini does not think this is a “Lehman moment,” he sees a higher risk of EU and Eurozone disintegration and other potential global disruptions.

But Dirk Klee, COO of UBS, believes the biggest market upheaval will come from within the industry itself. “The wealth sector is going through a tremendous, fast shift,” says Klee, “not because of regulation or low interest rates, but from customers and their desire for a digitally enabled experience.” Investment advisors like Clark Blackman II, Founder and CEO of Alpha Wealth Strategies, agree: “This is a watershed moment for the investment advisory business.”

Indeed, our research shows that a convergence of technological, economic, demographic and consumer trends will turn the wealth profession on its head by 2021, reshaping customer expectations, disrupting business models, and altering advisor roles. These new realities will require investment providers to drive wide-ranging digital transformation or face extinction at the hands of competitors both old and new.

## Technology changes the game

Wealth service providers and investors agree that technology is revolutionizing the industry. Of the top five external forces of change cited by surveyed investment providers, three relate to technology: new technology, including mobile, analytics, and social media; a greater range of competitors, including fintechs (financial technology companies); and threats to cybersecurity. Similarly, in a separate survey, investors put three technology-related issues on their top-five list: cybersecurity threats; a greater range of wealth providers, including fintechs; and digital access to investment providers. (See Figure 1-1.)

As Rodolfo Castilla, Global Head of Wealth Management Products and Platforms at Citi Consumer Bank, puts it: “Across all generations, all demographics, all segments, digital and omnichannel interaction will be mandatory for our clients in the very, very short term.”

Likewise, Julius Baer, a Swiss private bank, sees technology as a game-changer. “It will have a tremendous impact on wealth managers in private banking,” says Burkhard Varnholt, until recently the bank’s Chief Investment Officer. “Technology will – and must – dramatically lower the cost of advisory services.”

As always, technological change will have its strongest impact through business transformation. Joseph Pagano, Practice Advisor, Financial Services Digital Transformation Group at Cisco Systems, explains, “It’s very likely we’re going to see major changes in business models. The iPhone was launched only nine years ago. Think about all the different industries that have changed in dramatic fashion, and how quickly, since.”

But technology is a double-edged sword able to stir up new competition, both from fintechs and nimble incumbents. Indeed, both providers

(46%) and investors (52%) see heightened competition and the rise of fintechs as the main driver of change over the next five years. Some providers, such as mutual funds (63%) and alternative investment firms (50%), foresee even tougher competition ahead.

For Andrew Wilson, SVP and Head of Asset Managers Solutions EMEA at State Street, the direction is clear: “Technology may endanger many existing players. But it will also provide great opportunities to those who embrace it correctly.”

## The future trajectory of wealth

Demographic shifts and continued wealth creation, particularly in emerging markets, will work symbiotically with technology to drive radical market change and fresh opportunities by 2021. Roubini ThoughtLab economists forecast massive wealth creation over the next five years, with household assets rising \$89 trillion – from \$207 trillion to \$296 trillion – in 25 top world markets (representing about 60% of world GDP). The rise in household assets in these markets alone will pump about \$50 trillion into the wealth industry.

Noted economist Dr. Nouriel Roubini sees several demographic forces driving wealth creation. “In emerging markets, populations are going from low per-capita income to medium per-capita income – and creating a middle class that will save more. This is happening in many parts of the world, from India to China, and from Latin America to Asia.” Dr. Roubini also believes the aging of populations, especially in mature markets, will boost savings. “If we’re going to live longer, then when we work, we need to save more to have enough savings for old age.”

This tectonic shift will redefine the topography of wealth, requiring investment providers to increase their knowledge of a heterogeneous set

---

***“Technology may endanger many existing players. But it will also provide great opportunities to those who embrace it correctly.”***

- ANDREW WILSON , HEAD OF ASSET MANAGERS SOLUTIONS EMEA at STATE STREET

Figure 1-1

## External shifts with largest impact

Providers		Investors	
New digital technology	49%	Data security and privacy threats	57%
More competitors, including fintechs	43%	Balancing investment and life goals	53%
Globalization of markets	43%	More competitors, including fintechs	51%
Economic and market volatility	38%	Concerns about ethics/transparency	48%
Data security and privacy threats	38%	Easy digital access to wealth firms	47%

Source: Roubini ThoughtLab

of customers across new markets. Our analysis shows that the largest proportional increases in household wealth between now and 2021 are likely to be in emerging markets, such as Poland (106%), China (106%) and Mexico (84%). Some developed markets are also likely to see robust growth, such as Australia (83%), Israel (62%), France (52%), and Canada (50%). (See Figure 1-2.)

Kevin Barr, EVP of SEI and Head of SEI's Investment Management, notes that "investment providers will need to serve clients in emerging economies that are now some of the wealthier parts of the world." State Street's Wilson agrees. The wealth services "industry will move," he says, because "other parts of the world, such as the BRIC countries or other emerging economies, are going to be a mass area of wealth, not just in the aggregate, but also in the number of high-net-worth individuals."

This is already happening: According to Capgemini, Asia's millionaires saw their wealth grow by 9.9% in 2015, driven partly by a 16.2% rise in China. More generally, BCG projects that, by 2020, the Asia Pacific (including Japan) will overtake Europe as the second-richest region of the world, after North America.

Even in traditional wealth centers, money will be growing and changing hands. The Roubini analysis found that the US will enjoy the largest single absolute increase in household

assets between now and 2021, an estimated rise of more than \$44 trillion, bringing total household wealth to \$152 trillion. (See Figure 1-3.)

The asset owners, however, will differ. In the years ahead, a large percentage of today's \$168 trillion in global wealth will be transferred via inheritance from baby boomers to Gen X and millennials – generations that have repeatedly shown sharp differences in behavior. The composition of the investor base by gender is also changing, notes Amit Sahasrabudhe, Head of Wealth Management Strategy and Digital Solutions at RBC: "In the next five to seven years, in Canada and the US, the majority of wealth will be managed by women investors – because of both inheritance and their own accumulation."

At the same time, technology will enable wealth firms to reach investors whose small savings would have previously made them unprofitable to service. Pagano expects this development to reach a logical extreme. "Everyone with a bank account is going to become an investor," as large numbers of technologically enabled micro-investors generate small average amounts, but an enormous aggregate pool of capital. Futurist Alex Tapscott, Founder and CEO of Northwest Passage Ventures, concurs, "There are huge untapped markets made up of people who are currently unbanked. À la carte digital services could tap into trillions of dollars in the so-called gray economy in the developing world."

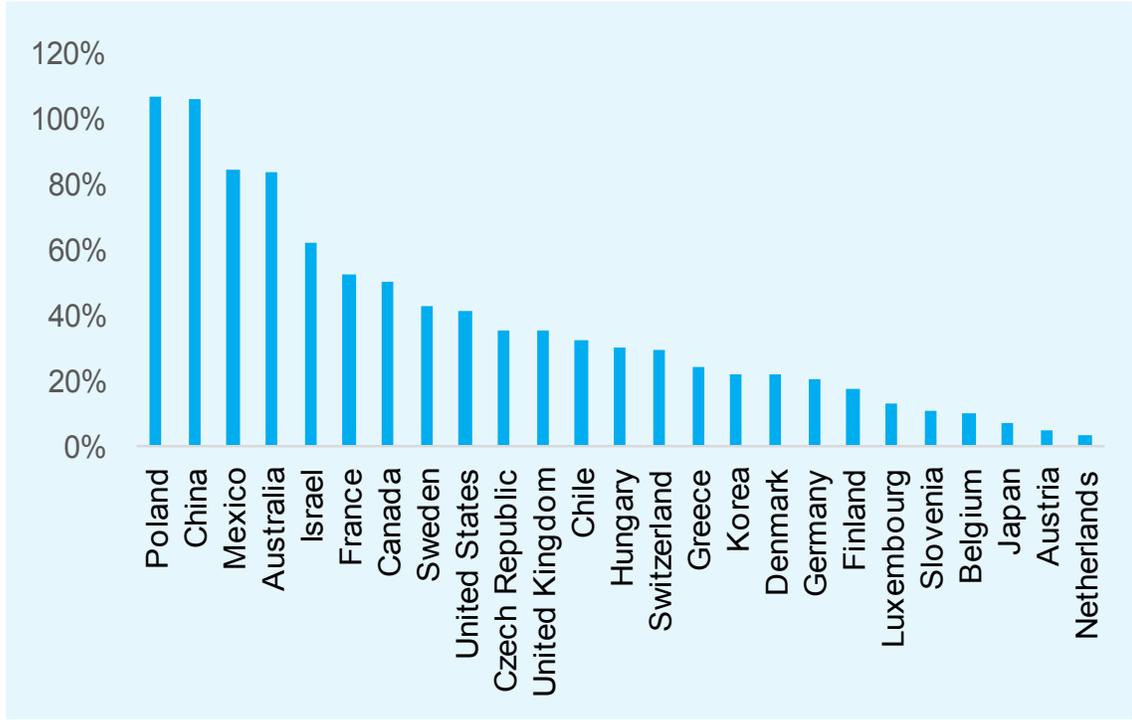
---

***"Everyone with a bank account is going to become an investor."***

- JOSEPH PAGANO, PRACTICE ADVISOR, FINANCIAL SERVICES DIGITAL TRANSFORMATION GROUP at CISCO SYSTEMS

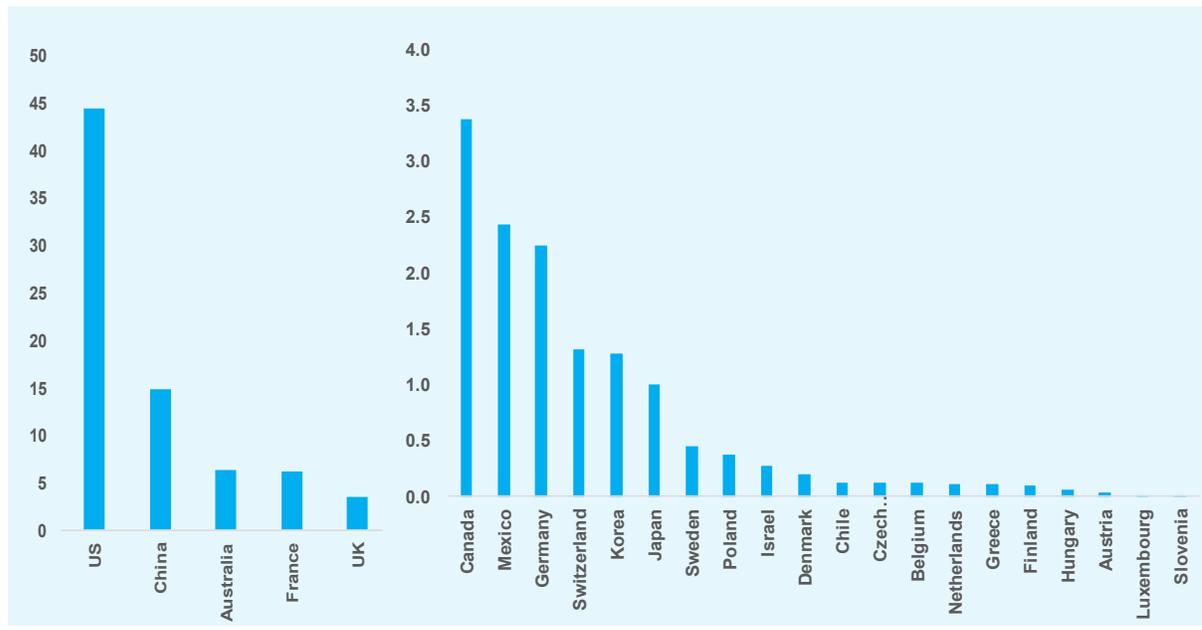
---

**Figure 1-2** Forecast percentage change in nominal household assets 2015-2021



Sources: OECD, IMF, Roubini Global Economics

**Figure 1-3** Forecast change in household assets 2015-2021 (US\$ trillions)



Sources: OECD, IMF, Roubini Global Economics

The wealth services industry, then, will enjoy a rising tide of investable capital that could lift many boats. However, taking advantage of this opportunity will require more than change around the edges. Investment providers will need to sharpen their understanding of a diverse universe of clients around the world and find new ways to reach and interact with them, particularly through digital technology.

## Evolving consumer expectations

As a result of these shifts – and greater market awareness – customers are expecting more from their investment providers. As Figure 1-4 shows, investors are demanding greater professionalism, and expecting providers to act with the highest ethical standards, possess deep investment knowledge, and of course, have the proper certification. At the same time, they want investment providers to be highly responsive to their changing needs, able to provide personalized advice geared to both their financial and life goals.

Investors also expect investment advisors to manage their money better. This includes understanding their financial goals and risk tolerance, coping with market volatility, and offering innovative solutions. According to Nancy Davis, Managing Partner and Chief Investment Officer of Quadratics Capital, “I believe clients are going to demand strategies that truly diversify their portfolios – things they can’t replicate with a robot.”

Just like other industries, the wealth profession is undergoing a wave of consumerization, causing investors to expect greater product transparency and more competitive prices. Al Chiaradonna, SVP, SEI Wealth Platform<sup>SM</sup>, North America Private Banking, believes that this consumerization is changing the economics of the industry. “You can see it as consumers demand more. You can see that pressure flowing back to big financial intermediaries and creating opportunities for fintechs.”

Because of client sensitivities and regulatory issues, consumerization is not likely to upend the investment industry as profoundly as it did with other sectors, such as entertainment and retail. But the disruption may still be enormous. Christopher Jones, EVP of Investment Management and Chief Investment Officer of Financial Engines, the largest US defined contribution managed account provider, gives a current example: “Look at the cumulative flows that have suddenly gone out of traditional active fund managers to ETFs. It’s really quite a stunning set of statistics.”

## Should wealth firms be optimistic?

Technology, globalization, and consumerization are only the most visible drivers of change. As Figure 1-5 shows, substantial numbers of investors will be affected by a wide range of issues, from economic uncertainty and family needs to access to a broader range of asset classes. The implications can vary by country: For example, investors in Switzerland are particularly concerned about regulatory and tax complexity (58%) while those in Japan are more nervous about economic uncertainty (50%).

Despite the challenges ahead, surveyed providers are sanguine about the future. (See Figure 1-6.) Most feel that these market shifts are already helping their businesses to attract, retain, and satisfy customers. Looking five years out, the picture appears even rosier. Most providers expect a sizable upside on business growth, improved margins, advisor efficiency, and better business models.

Some of this confidence is justified: Technology is already opening up new markets and making providers more productive. Moreover, incumbents in the investment services sector are well positioned for future success, thanks to their loyal customer bases, established brands, and proven track records.



Figure 1-4

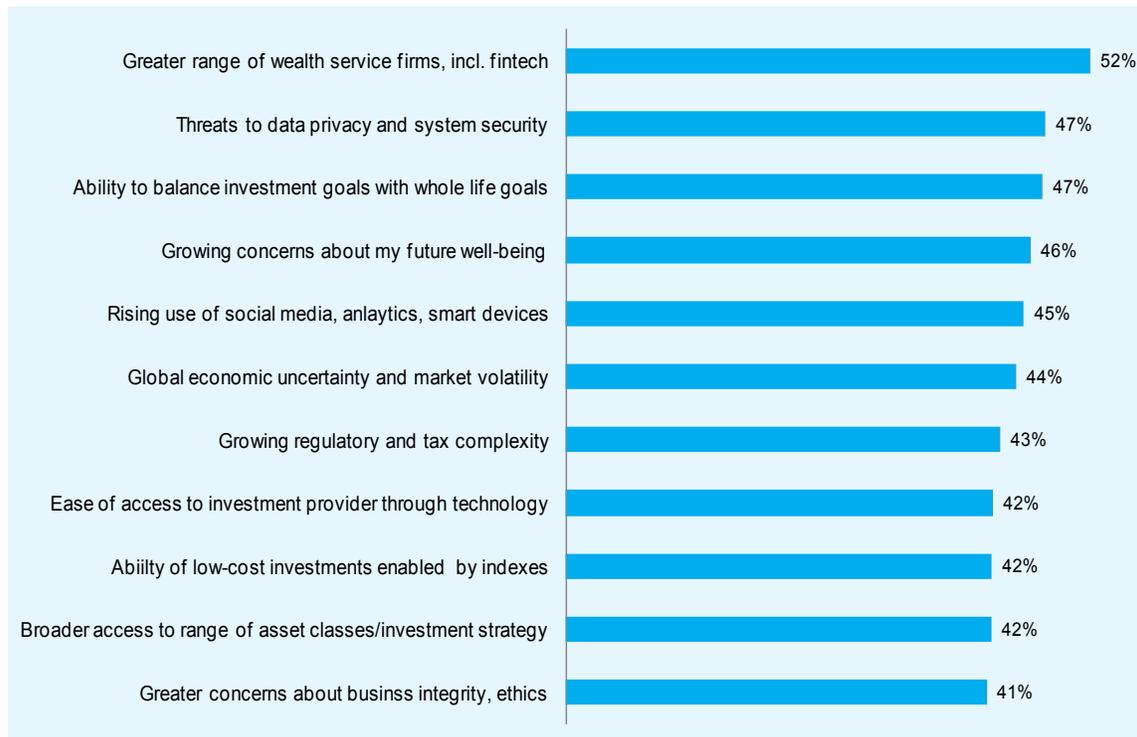
### How investor expectations of wealth providers are changing



Source: Roubini ThoughtLab

Figure 1-5

### Key trends affecting how people will invest in the future



Source: Roubini ThoughtLab

But it is not possible that everyone can be a winner, particularly when customer expectations are changing so fast. Indeed, our survey analysis (see Figure 1-7) shows that many investment providers are not as prepared to meet rising investor expectations as their clients may think. For example, 63% of investors expect providers to ensure cybersecurity, while only 48% of investment providers say that they are well-prepared to do so. The ability to provide holistic goal-planning advice, customized investment solutions, and access to wider investment opportunities are particular trouble spots for wealth-and-asset-management firms.

These statistics are consistent with a more general sense among experts interviewed for this study that the sector is not universally ready for the challenges ahead. Financial Engines' Jones notes that many wealth firms are not very prepared. "There are exceptions, but the incumbents by and large have been backward in terms of their adoption of new technology, their ability to innovate and to attract the kind of talent needed to help build out new capabilities."

### The stakes are high

According to our survey, almost half of investors are ready to switch from current providers that fail to meet their rising expectations. Most worrying, key segments in tomorrow's market, such as millennials and women, as well as investors in North America and emerging markets, are among the most apt to jump ship. (See Figure 1-8.)

Of course, the willingness of investors to change providers can present a risk or an opportunity. Yoni Assia, CEO of eToro, warns of danger ahead: "There is no doubt that existing financial service firms will have to adapt or die." But Bob Dannhauser, Head of Global Private Wealth Management at the CFA Institute, sees potential gains: "If you can address your clients' needs, you're going to be well-positioned to get through the choppy waters ahead."

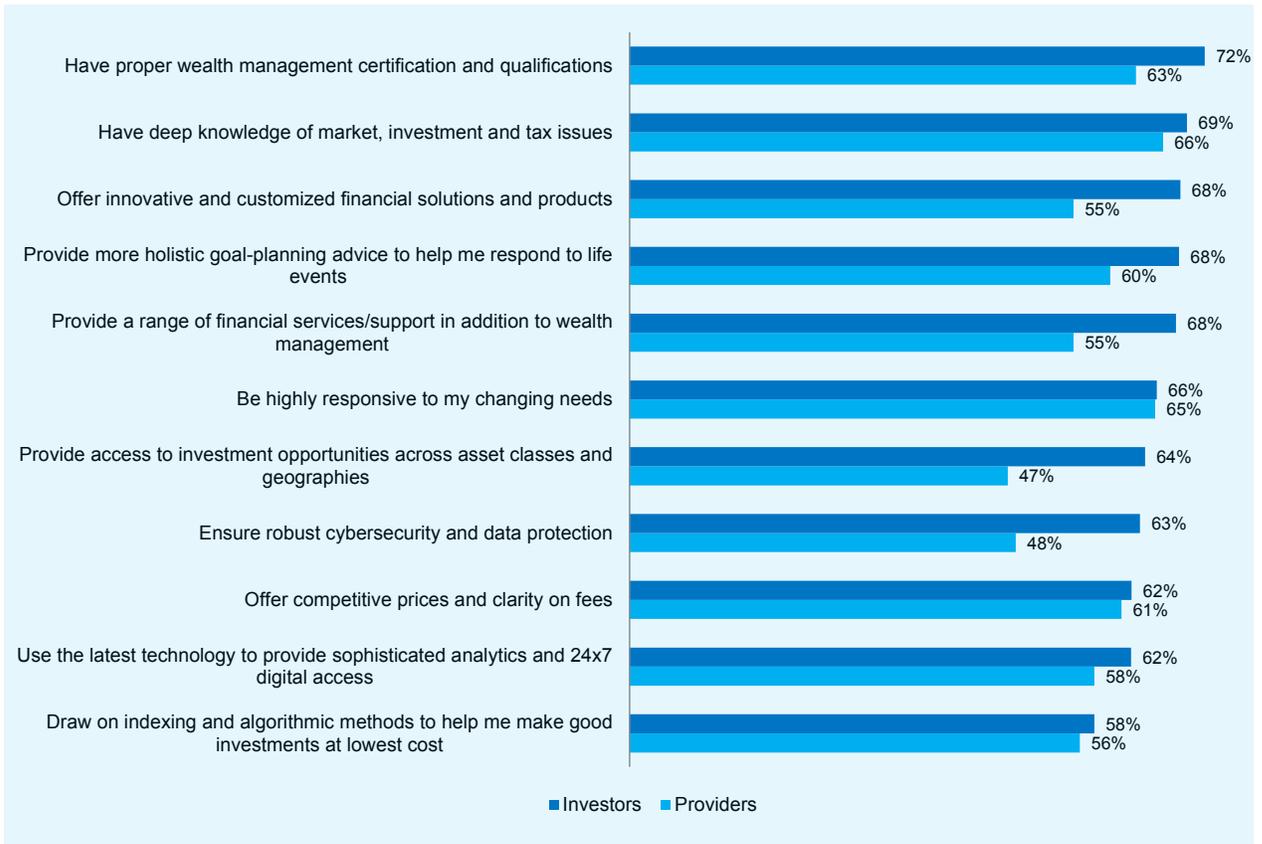
**Figure 1-6** The future looks bright: Percentages of providers that are positive about the impact of market shifts on business activities



Source: Roubini ThoughtLab

Figure 1-7

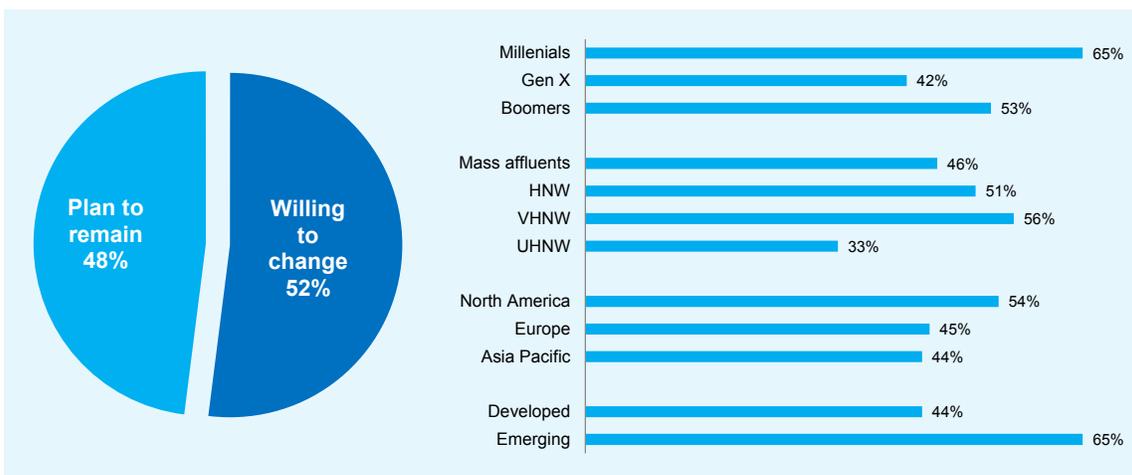
### Clients' expectations vs. firm preparedness



Source: Roubini ThoughtLab

Figure 1-8

### Willingness to change providers



Source: Roubini ThoughtLab

## 2. The Rapidly Evolving Investor



*As demographic and wealth patterns change around the world, providers will need to engage a more heterogeneous set of investors. Although the core values of this more diverse client base will stay the same, their priorities, behaviors, product needs, and payment preferences will vary widely. Understanding the behavioral differences – and commonalities – among these investor segments will be vital for future success.*

### Core investor values remain the same

Despite market upheavals, our study shows that individual investors are sticking with their core investment beliefs: Put money into what you understand, save for your family, trust known brands, and seek external advice. They also value advice from alternative sources, and believe they will achieve better results by working with experts. (See Figure 2-1.)

These basic attitudes are unlikely to change even as investor demographics shift. Contrary to conventional wisdom, investors in new segments – such as millennials, women and emerging-market investors – often put a higher premium on these core values than their peers in traditional market segments. For example, women are less prone than men to invest in something they do not understand; millennials have greater trust than boomers in established brands; and investors in emerging markets have a higher regard for working with wealth experts than their counterparts in mature markets.

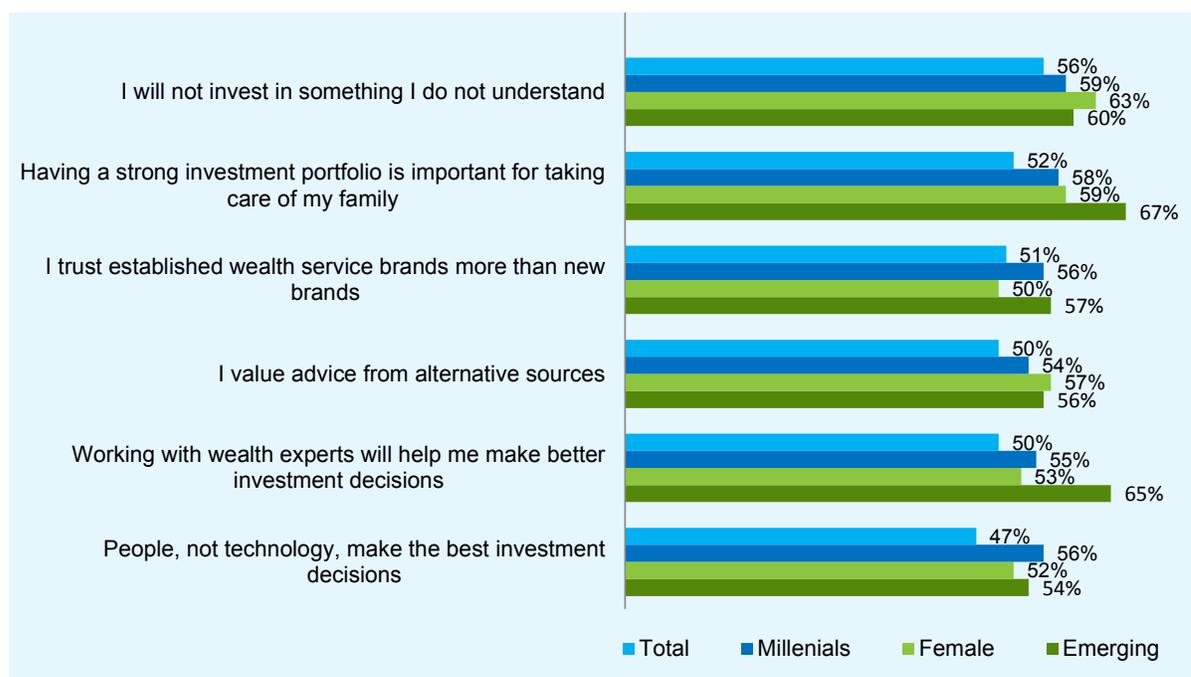
### But investors will behave very differently

Over the next five years, investors' behaviors and product needs will shift dramatically. Most investors, particularly millennials and Gen X, plan to expand their use of anytime, anywhere, any device access. (See Figure 2-3.) "The traditional notion of sitting down in a mahogany paneled office at a set time with a highly skilled wealth advisor is becoming an anachronism," remarks Christopher Jones, EVP of Investment Management and Chief Investment Officer of Financial Engines.

But digital interaction is just the tip of the iceberg. Asset choices will evolve as investors seek more personalized products and services,

Figure 2-1

### Investor attitudes: Fundamentals still apply



Source: Roubini ThoughtLab

Figure 2-2

### Definition of key investor segments

Key Segments	Definition
<b>Age</b>	
Millennials	Those born after 1980
Generation X	Those born 1965-1980
Baby Boomers	Those born before 1965
<b>Wealth Levels</b>	
New Investors	Under \$100,000 to invest
Mass Affluent	Between \$100,000 and \$999,000 to invest
High Net Worth (HNW)	Between \$1 million and \$4.9 million to invest
Very High Net Worth (VHNW)	Between \$5 million and \$29.9 million to invest
Ultra High Net Worth (UHNW)	\$30 million and more to invest

Source: Roubini ThoughtLab

invest more heavily in alternative investments, move from active to passive solutions, and rely more on fintech. Relationships with providers will also change: Investors will work more with investment providers that give specialized and holistic advice, and they will transfer investments to organizations offering better services and greater investment options. And investors will take steps to reduce fees and move from commissions to more transparent fee-based services.

Our survey shows that investment providers are fully aware of the future shifts in investor behaviors, but may be overestimating the pace of change over the next five years. For example, as Figure 2-3 shows, 55% of investment providers expect investors to invest more in socially responsible investments, compared with just 29% of investors. And while half of the investment providers expect investors to use wealth advisors more than self-directing their portfolios, only 32% of investors agree.

## Appealing to the next generation of investors

One looming concern of investment providers is the intergenerational transfer of wealth to younger investors – a change that 26% of respondents said would have a major effect on their business. According to Bank of America, the wealth transfer to millennials in North America alone will amount to \$30 trillion over the next 30 to 40 years.

MRA Associates, an investment advisory boutique, is actively preparing for this generational shift, according to Nathan Erickson, the company's Chief Investment Officer. Like many wealth managers, MRA Associates targets investors who are in the middle- to late stages of their professional careers and have already amassed significant wealth. To sustain their business, the company must develop relationships with successive, younger

generations of clients. Erickson explains, "There certainly is a focus on touching all generations of existing and future clients. If we don't, we'll lose that business – and our clients' children and grandchildren will lose continuity."

Steve Scruton, President of Broadridge Advisor Solutions, believes that "forward-looking companies should implement technology plans designed to get ahead of the curve for dealing with millennials." According to Scruton, those plans should include:

1. Building brands and communications channels that will resonate with millennials, including social, email, web, and online collaboration.
2. Leveraging advanced analytics to identify millennials with a high probability of becoming wealthy and to target, track, and engage those prospects.
3. Using technology to align multigenerational advisors into teams to engage high-value family relationships and lay the groundwork for a transition plan.
4. Creating mobile and web-based investor portals that give investors what they want, when they want it, and how they want it – while gathering valuable customer data for advisors.
5. Implementing aggregation technology that lets the advisor take a 360-degree view of a family's assets to inform planning and identify up-sell opportunities.

## Investors will widen their investment approaches

As investors' behaviors shift and their wealth grows, they will widen their investment approaches. Cited by 67% of respondents, alternative investments – such as real estate, infrastructure, and hedge funds – will see the

---

***“Forward-looking companies should implement technology plans designed to get ahead of the curve for dealing with millennials.”***

**- STEVE SCRUTON, PRESIDENT at BROADRIDGE ADVISOR SOLUTIONS**

---

Figure 2-3

## Shifts in behavior as seen by investors and providers



Source: Roubini ThoughtLab

largest increase in five years' time, as investors seek new ways to diversify their portfolios.

Despite a rise in do-it-yourself solutions, the use of personalized advice will stay dominant. Some of the largest growth will come from newer forms of investment, such as socially responsible investments and social trading. The competition between passive and active funds will also heat up over the next five years. (See Figure 2-4.)

But providers will need to be sensitive to diverging preferences among investors. For example, 52% percent of female respondents expect to use socially responsible investments in the next five years, compared with 41% of men. Similarly, 71% of UHNW investors plan to move to passive funds, versus 47% of the mass affluent. And alternative investments will stay the province of the financially literate (71%) and UHNW (81%).

### Investor quest for value

Our survey shows that fees and transparency are clearly top of mind to investors. More than half of the investors in our survey say that they expect their wealth service providers to offer more competitive prices and clarity on fees. After quality, fees and pricing structures are now the most commonly cited selection criteria for investors when choosing a provider (56%), and

by 2021, this number will grow to 61%. Similarly, 49% say that reducing fees is the No. 1 way for investment providers to retain their business.

Regulatory change will put further pressure on fees. From the US and Canada to the UK and the EU, the list of recent regulatory major changes is long and varied, but the direction is clear: Wealth managers will be increasingly discouraged from receiving commissions when their clients purchase investment products, and they will face rigorous requirements to provide independent advice in the best interest of the client. In the future, advisors will need to make most, if not all, of their money by charging – with full transparency – some form of fee for their advice directly to the client. Product packagers, meanwhile, will need to attract investors based entirely on the merits of what they are providing.

“Looking ahead,” says Rodolfo Castilla, Global Head of Wealth Management Products and Platforms at Citi Consumer Bank, “Consumers will expect to understand exactly what they are paying for and exactly why they are paying. They are going to ask for more, across more channels at a quicker pace and at a lower price. That’s just the way it’s going to be.” Even the ultra-rich, adds Cisco’s Pagano, “will want to know why their advisor is charging them 1.5% for allocating investments, when the software can do it for free.”

Digging deeper, however, shows that investors are not seeking simply the lowest cost, but rather the greatest value for money. In the next five years, only a minority (33%) will focus on reducing management fees. Rather, 68% say that they will pay extra for investment advice that helps them make the best investment decisions and 63% are willing to pay extra to receive superior returns.

Financial Engines' Jones sees personalization as a way to provide greater value: "Investment products have become commoditized building blocks. The value in the value chain is moving toward personalizing the composition of those blocks in order to create strategies for particular clients. That will accelerate."

Driving the demand for greater personalization is the desire to achieve financial life goals – such as a comfortable retirement or higher education for children. In fact, 40% of investors explicitly say that goal achievement is more important than rate of return.

## Goal-based investing

Already a popular investment approach used by 51% of investors, goals-based investing will be used by almost two-thirds (63%) by 2021. As Kevin Barr, EVP of SEI and Head of its Investment Management, puts it, "Individuals are not looking any more at just 'what's my lowest-cost S&P 500 fund?' They're saying, 'How am I going to prepare for retirement when I've got 25% of my working career potentially under my belt and I've not made any money?'"

Finding how to provide the kind of personalized, goal-based service that investors will pay for will set apart the winners and losers in the coming investment revolution. The solution is to create "one kitchen, with many restaurants," according to EY's US Wealth and Asset Management Sector Leader Marcelo Fava. "The platform behind your investment business stays the same," says Fava. "But the secret sauce is how you tweak and change the menu of what different people get."

## Digital misconceptions

While technology will revolutionize the wealth industry, it may not play out exactly as many people think. Our survey debunked two commonly held digital beliefs:

### **Misconception 1: Only millennials want digital investment tools**

Certainly, millennials care about technology, but so do Gen X and boomers. For example, 32% of millennials expect their investment providers to use the latest digital technology, compared with 41% of Gen X and 40% of boomers. Just as telling, 41% of millennials expect to use anywhere, anytime, any device access over the next five years, versus 49% of Gen X and 50% of boomers.

Jon Stein, CEO and Founder of Betterment, finds this in his fintech business: "It's really astounding to see how similar the interaction of 60- to 70-year-old clients with our wealth product is to that of younger customers. Members of the older generation do not get enough credit for how willing they are to adopt technology."

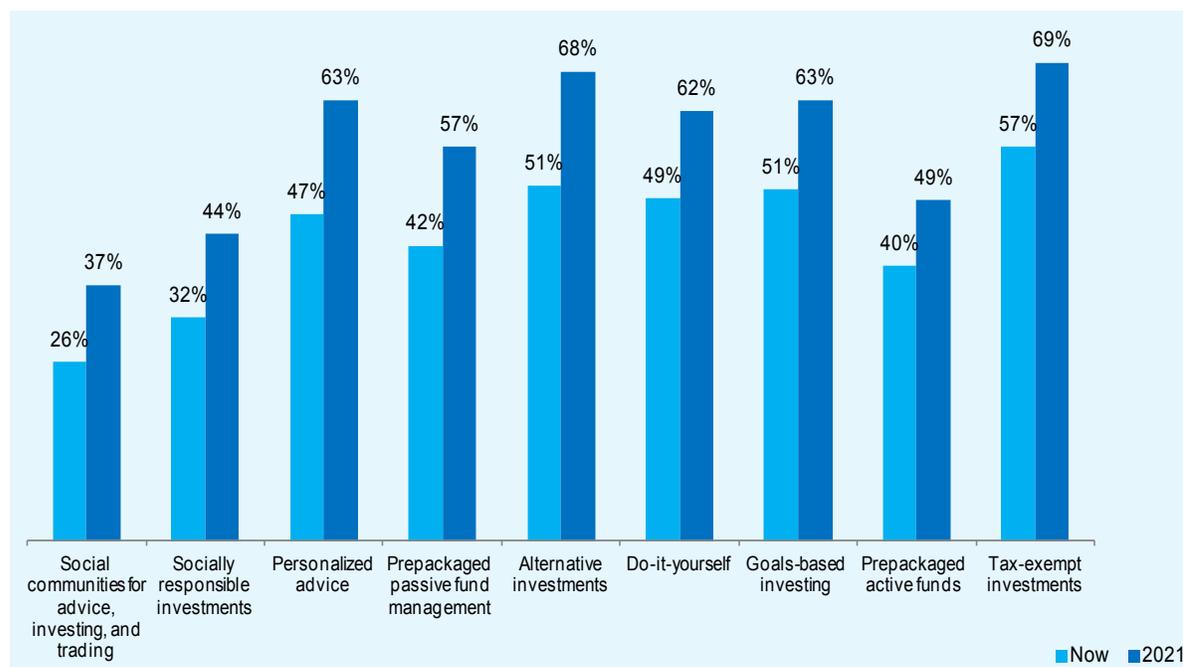
### **Misconception 2: The wealthy are less inclined to use digital technology**

Our survey reveals that technology is not just for the mass affluent. For example, 54% of UHNW investors and 64% of VHNW investors want their providers to use the latest digital technology, versus 39% for the mass affluent and 38% for HNW.

In fact, ultra-rich investors are more inclined to use technology than their less wealthy counterparts for many investment purposes, including holistic goal planning, reducing tax impacts, and finding market opportunities. "The idea that ultra-high-net-worth investors are not interested in technology tools for investment is naïve," according to Pagano, of Cisco. "They're curious, smart, connected, and like to collaborate using digital technology, too."

Figure 2-4

## Future growth in investment approaches: All boats rise



Source: Roubini ThoughtLab

## Where RBC is targeting future growth

When RBC Wealth Management examines its customer strategy, its executives see the breadth of its services as a competitive advantage that will be key to adapting to fast-changing investor demands.

Amit Sahasrabudhe, Head of Wealth Management Strategy and Digital Solutions at RBC, sees “trillions of dollars in assets changing hands over the next 10-15 years. Inheritance will be the primary driver of those changes, including transfers from spouse to spouse and from parents to children.” As a result, RBC expects wealth to shift to a more diverse client base, including women investors and millennials.

Sahasrabudhe points to another major trend that sometimes is overlooked: the rise of small businesses. As the number of small businesses grows in the future, entrepreneurs will accumulate greater wealth and need more financial support. In Sahasrabudhe’s view, “When those businesses go through a transition event, the owners are excellent candidates for wealth management and long-term wealth-planning services.”

RBC, as a global bank, is able to provide business owners with both wealth management and commercial banking services. “There is a tremendous opportunity to look at those clients and say ‘we can help you through that transitional phase or as you think about long-term planning,’” says Sahasrabudhe. “In fact, we can help you take your wealth from the transition event and manage it in the best way possible for your life goals.”

Universal banks have traditionally serviced those needs in different operational silos. For business owners and other key client segments, RBC is continuing to look at ways to integrate the client experience across the full life cycle of the banking relationship and to offer a full range of services targeted specifically to a customer’s total financial needs.

### 3. Rethinking Product and Market Approaches



*To meet fast-changing customer demands, investment providers will need to reassess many aspects of their strategies, from their product offerings to go-to-market approaches. Competition will heat up, as “born digital” companies, including Internet giants such as Alibaba, enter the market, and traditional providers expand their product offerings and market scope to create more digitized, personalized, and democratized products.*

#### Top product priorities for the future

Rapidly evolving investor needs and advances in technology are prompting wealth and asset management firms to reset their product priorities for the next five years. At the top of their priority list (see Figure 3-1) is developing fintech capabilities that will enable clients to use technology to manage their investments. Investment providers in our study are following a variety of approaches to break into the fintech space: Some, like UBS, are setting up their own fintech platforms in-house; others are setting up partnerships (RBC with FutureAdvisor) or making acquisitions (Mass Mutual Life Insurance and LearnVest).

Digital technology is also helping companies deliver on other top product priorities, such as creating more customized products and adding smart beta products. Professor Luis Viceira of Harvard Business School explains, “Technology is making customization easier and cheaper each day.” Alexa von Tobel, Founder and CEO of LearnVest, believes that technology will enable companies to widen their product portfolios, another top priority. “Technology enables us to provide services that were never available to the broader market—services that will make their lives better. That’s one of the best things about technology. It democratizes personal finance.”

Another product priority facilitated by technology is adding smart beta and passive funds. With outflows from active to passive funds reaching record heights—what Morningstar has dubbed “Flowmageddon”—it might seem surprising that only 35% of surveyed providers are planning to add smart beta products to their offerings. But a more meaningful indicator is the percentage of mutual fund companies (47%) and full service banks (41%) that are prioritizing passive management.

Figure 3-1

## Future product priorities for investment providers



Source: Roubini ThoughtLab

These percentages are in line with investor demands from our survey: In the next five years 57% of investors will use passive funds versus 49% who will rely on active approaches. The shift to passive will be even more pronounced among the coveted super-rich segments, with 77% of UHNW investors and 68% of VHNW investors planning to use passive funds in the future.

But as products become more commoditized through technology and fee structures become more transparent, many investment providers think advice will turn into the ultimate differentiator. That is why focusing on superior returns and advice and moving to specialized holistic wealth advisory services are also core to future product plans.

Jon Stein, CEO and Founder of Betterment, explains why his firm, a pioneer in robo-investing, is building up advisory capabilities: “I view the future of wealth management moving continually to a more advisory environment. There is a multitude of reasons – transaction and trading costs are practically down to zero. You have lower costs for the actual funds themselves. As a result, we see the business heading more towards an advice-driven central relationship.”

One fast-growing product area is “goals-based, multi-asset implementation,” according to EVP and Head of SEI’s Investment Management Kevin Barr, who says, “The number of ‘income

strategies’ coming to market is starting to accelerate.” Bob Reynolds, President and CEO of Putnam Investments, agrees: “Of the nearly 30 new products which Putnam has released in the last seven years, none are index-linked. Instead, they are designed to be non-correlated and focus on goals such as absolute return from investment.”

## Adapting marketing approaches

Investment providers are also recasting their strategies for retaining and acquiring a more diverse set of customers. As Figure 3-2 shows, investment providers are using technology to broaden their client bases. Full-service banks and alternative investment firms in particular see the acquisition of more clients through technology platforms as central to their future go-to-market plans. These technology platforms offer cost-effective ways to reach a broader spectrum of customers, including the mass affluent.

Another go-to-market strategy is to build on existing client relationships, particularly those preparing for intergenerational wealth transfers. To do this, 55% of investment providers are extending business to other family members and friends. According to Bob Dannhauser, Head of Global Private Wealth Management, CFA Institute, “The family patriarch is probably least likely to want to Snapchat with his advisor. But the third generation of that family may find that perfectly reasonable.”

To expand relationships, half of surveyed investment providers are segmenting their client base more finely by demographic and psychographic characteristics. Al Chiaradonna, SVP, SEI Wealth Platform<sup>SM</sup>, North America Private Banking, believes that providers may need to go even deeper and shift from “wallet segmentation” (i.e. segmentation by wealth level) to “true behavioral segmentation.” He explains the difference: “Behavioral segmentation is more about how you invest and spend your money, not how much you have. That is why we keep talking about goals. We don’t have the analytics where you can tie these things together yet, but we will.”

A significant minority of providers are also using technology to reach investors in other countries. The strongest proponents of globalization will be full-service banks (51%), mutual fund companies (50%), and alternative investment firms (47%). As Andrew Wilson, State Street’s SVP and Head of Asset Managers Solutions EMEA, notes, “Borders are coming down. These companies are going global.”

In addition to globalizing, 42% of investment providers plan to expand their client base across wealth levels and other investor segments. (See Figure 3-3.) Most providers already target the mass affluent and high-net-worth investors, but

many will be setting their sights on VHNW and UHNW investors over the next five years.

## Competing in a new playing field

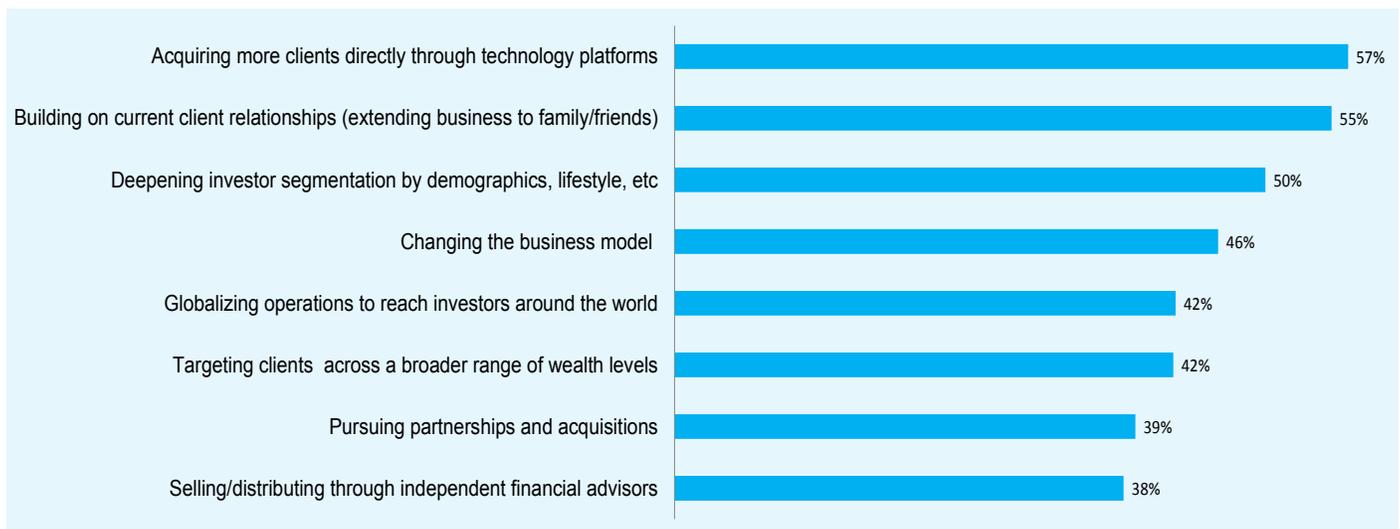
The shifts in product and go-to-market strategies will realign the global playing field for the wealth industry. As Figure 3-4 shows, investors in the future plan to make use of a broader array of investment providers. Inevitably, preferences will vary by types of investors, sometimes significantly. For example, UHNW investors will continue to be much higher users of alternative investment firms than mass affluent investors. (See Figure 3-5.)

But the democratization of wealth services, combined with greater wealth accumulation, will mean that every type of provider will have a bigger range of potential customers. SEI’s Barr believes this transition has already begun: “Hedge fund strategies are already mainstream, and multi-asset investments are a growing trend.”

Competition will heat up as investors reach out to more investment providers. (See Figure 3-6.) Our survey shows that by 2021 every type of investment provider will become more competitive with other types of wealth firms.

Figure 3-2

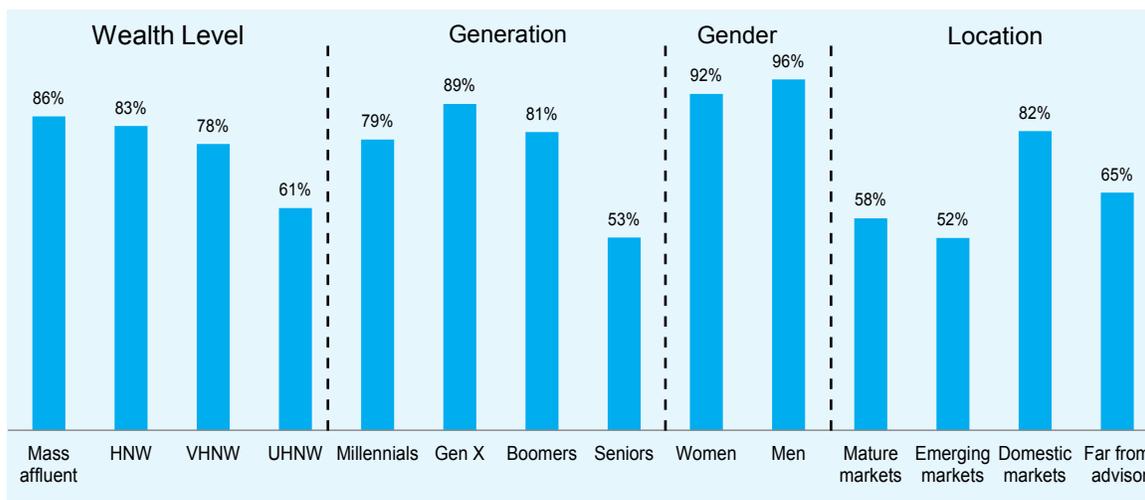
### How providers are adapting future go-to-market plans



Source: Roubini ThoughtLab

Figure 3-3

### Segments that providers are targeting for growth in 2021



Source: Roubini ThoughtLab

Alternative investment firms, full-service financial firms and fintechs, particularly, will become greater competitive threats.

Rising competition will put further pressures on margins, and make it even more challenging to demonstrate value to investors. SEI's Barr says, "In the past, by showing relative returns, you compared yourself against your peers. Now companies need to rethink how they express value. Performance-specified investor goals is one way."

Yet the most worrying competitive danger lurks outside the industry – from the big internet players, such as Google, Apple, Amazon, and Alibaba. Already 30% of providers report that nontraditional wealth services providers are the main competitors; by 2021 the percentage will rise to 35%. Meanwhile, by 2021, 45% of investors say that they will use nontraditional investment providers, such as Internet platform companies.

As has been seen in retail and entertainment, these Internet juggernauts have the power to disrupt an industry. Apple Pay, and more recently

Samsung Pay, are reshaping transaction and payment processing within financial services. As an example, the assets under management of the online money market business started by Alibaba, Baidu, and other Chinese Internet companies stood at about \$700 billion by the end of 2015.

Amit Sahasrabudhe, RBC's Head of Wealth Management Strategy and Digital Solutions, speaks for many, "More worrying than fintech start-ups is the potential impact from the Googles, Apples, and Amazons of the world. Von Tobel of LearnVest agrees: "The Amazons and Googles of this world have the right data and technologies. The real threat to the industry is coming from them."

### Focusing on the customer

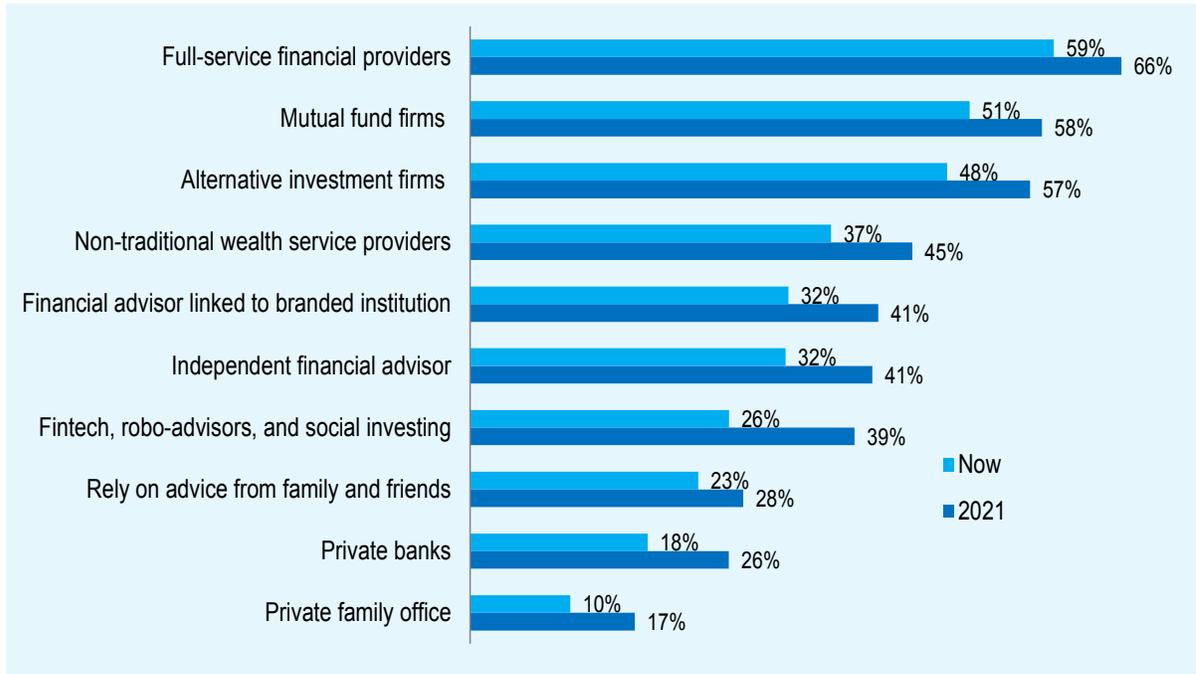
In this sea of change, leading investment providers see the customer as their ultimate compass. By becoming hypersensitive to clients' expectations and behaviors, wealth-service firms can stay competitive. In fact, many wealth-

***"The Amazons and Googles of this world have the right data and technologies. The real threat to the industry is coming from them."***

-ALEXA VON TOBEL, FOUNDER AND CEO at LEARNVEST

Figure 3-4

Providers used now and forecast for 2021



Source: Roubini ThoughtLab

Figure 3-5

Differing preference by type of investors (in five years)

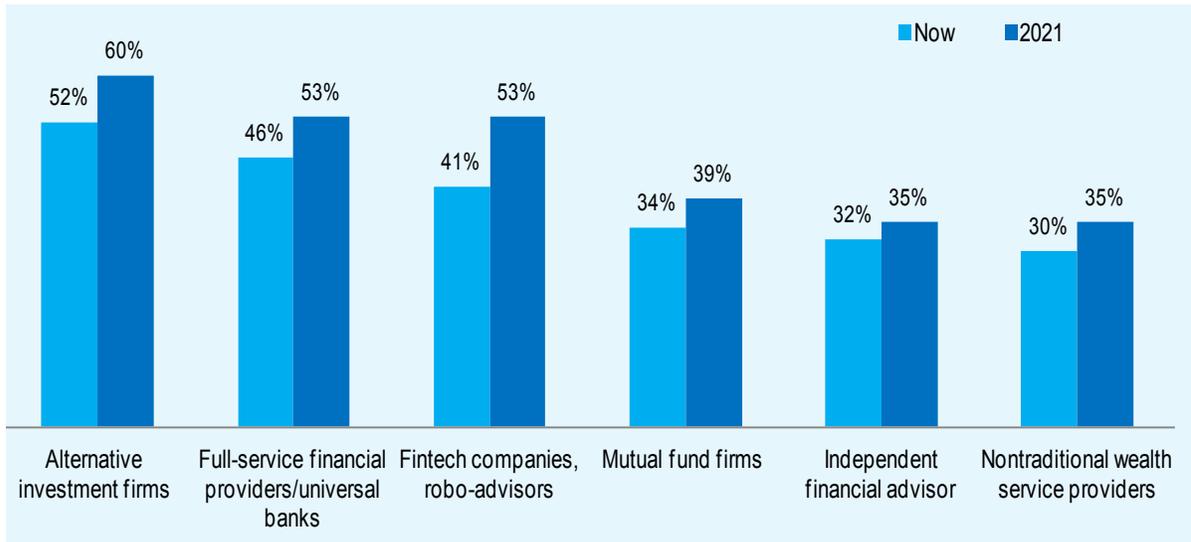
Differing preferences by type of investors (in five years)						
	Alternative investments	Investment advisors	FinTech	Full-service banks	Mutual funds	Private banks/ family offices
Mass affluent	48%	33%	34%	60%	52%	9%
Ultra-high net worth	80%	54%	44%	84%	66%	29%
Millennials	56%	46%	53%	69%	59%	33%
Baby Boomers	45%	45%	32%	49%	50%	15%
Men	59%	38%	39%	68%	59%	22%
Women	50%	47%	47%	61%	54%	24%

■ Very positive 
 ■ Moderately positive 
 ■ Less positive

Source: Roubini ThoughtLab

Figure 3-6

Proportion of companies in other sectors seen as competitors



Source: Roubini ThoughtLab

service firms are taking this goal to the next level by transforming themselves into “customer-investment hubs.” According to Stein of Betterment, “We want to become that central financial relationship in clients’ lives.” Rodolfo Castilla, Global Head of Wealth Management Products and Platforms at Citi Consumer Bank, summed it up, “We want to own the client.”

In this quest, investment providers plan to deepen their understanding of the customer over the next five years by leveraging advanced analytics. (See Figure 3-7.) Specifically, they plan to install CRM systems that provide an integrated view of the customer; use predictive models to identify future investor trends; and set up real-time tracking systems to stay on top of fast-changing customer needs.

Who will come out on top?

To judge from media accounts, the winners in the wealth management revolution will be fintechs, those nimble startups that will disrupt the wealth industry in the same way Amazon did for books and Airbnb for hotels.

This is not likely, according to our research. Hundreds of fintechs now provide useful investment tools, from online trading, aggregation and social investing platforms to robo-advising and financial planning. But total assets under management in the entire fintech sector were just \$20 billion in 2015 – a drop in the bucket for a global industry sized at \$168 trillion.

In many industries, market shakeups begin with the arrival of startups with new business models and technological solutions that meet customer needs at a lower cost. But, because of the complexity of the wealth-services profession and the deep relationships providers have with their clients, fintechs are not likely to follow the same trajectory. “We certainly won’t put financial advisors out of work,” says Betterment’s Stein, a fintech pioneer.

In fact, as technology becomes pervasive throughout the wealth industry, the fintech sector is likely to go through a market consolidation – and those startups that offer easily replicated digital solutions may not survive.

*“We want to become that central financial relationship in clients’ lives.”*

-JON STEIN, CEO AND FOUNDER at BETTERMENT

Figure 3-7

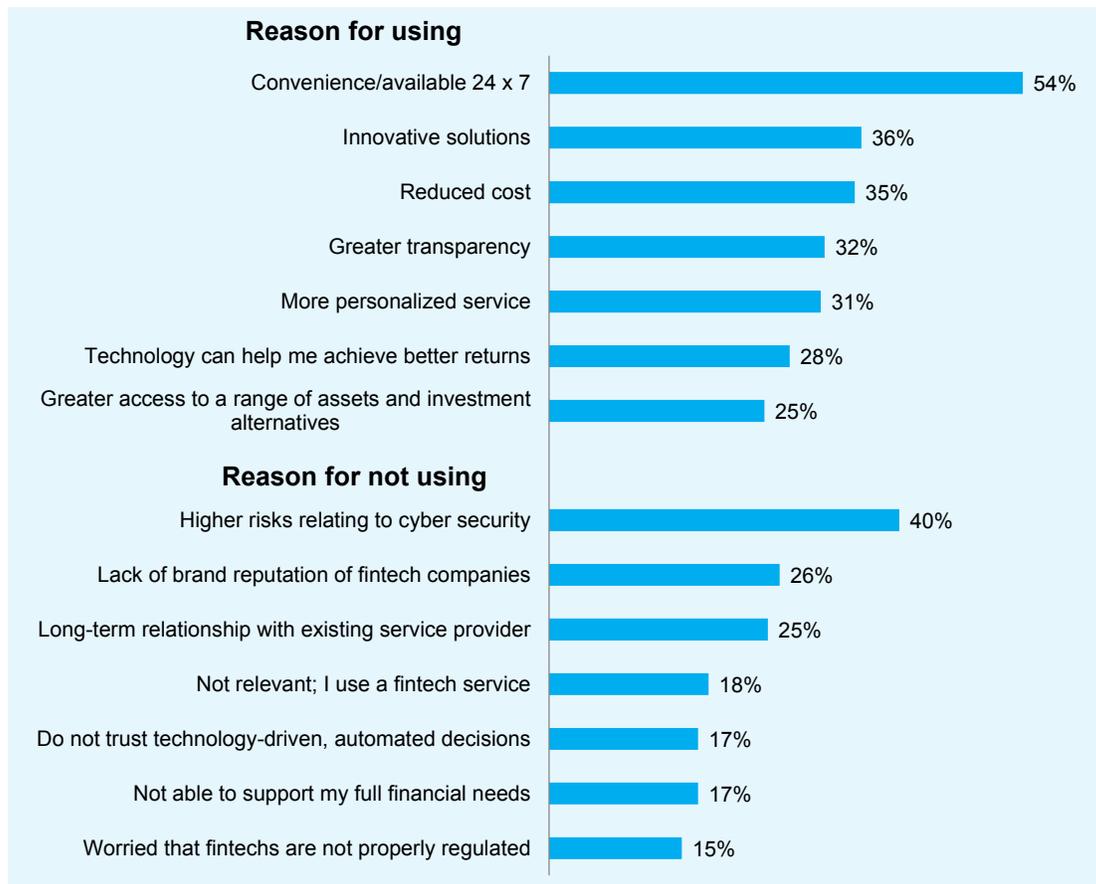
### Driving customer centricity in the future



Source: Roubini ThoughtLab

Figure 3-8

### What investors like and dislike about fintechs



Source: Roubini ThoughtLab

“Fintechs focused on feature and functions will get lost in the wash,” says SEI’s Chiaradonna. “Capturing my goals and sending me some initial advice through technology may seem valuable today. But those business models are not sustainable, because incumbents can imitate them.”

Stein believes that robo-advisors, in particular, are already ripe for consolidation. “The market for robo-advice is large enough that there will be several winners. We’ll see some do incredibly well, but without a doubt, it’s not sustainable to have the over 200 robo-advisors now in existence,” he says.

Inherent mistrust of new entrants makes gaining clients all the harder. Indeed, 37% of surveyed investors said they would not use a fintech service unless it was affiliated with an established brand name. As Figure 3-8 shows, while investors like the convenience, personalization and lower cost of fintech, they are worried about the risks around cybersecurity, brand, and automated decision-making.

Rather than putting incumbents out of business, fintech will help them do a better job.

“One way or another,” says von Tobel, “you’re going to see a lot of incumbents and fintechs teaming up.” Stein believes that established brands have a decided advantage. “Incumbents are incredibly well-positioned. They have tons of customers they can automatically move over.”

## Incumbents have the edge

Rather than fintechs, the potential winners in the new playing field may be full-service institutions and mutual funds companies. Our survey shows that these organizations have some clear advantages: They are better equipped than others to meet emerging needs for specialized and holistic expertise; they have the capabilities and resources to provide more responsive and personalized services; and they are better placed to comply with professional and regulatory standards. (See Figure 3-9.)

Perhaps most crucially, these companies are reinventing themselves digitally: Our survey shows that 76% of full-service banks and 67% of mutual fund companies are rapidly building out their fintech capabilities through in-house development, partnerships, and acquisitions.

Figure 3-9

### How prepared do providers believe they are to meet changing investor needs

	Mutual funds	Full-service banks	Investment advisors	Fintech	Private banks/ family offices
Act with the highest ethical standards	80%	69%	68%	40%	59%
Have deep knowledge of market, investment and tax issues	78%	75%	70%	48%	46%
Be highly responsive to their changing needs	78%	72%	62%	44%	63%
Fully understand financial goals to provide personalized support	72%	69%	66%	50%	53%
Have proper wealth management certification and qualifications	72%	77%	63%	52%	46%
Offer competitive prices and clarity on fees	75%	69%	60%	46%	56%
Ensure product simplicity and transparency	65%	77%	59%	40%	54%
Provide more holistic goal-planning advice	78%	69%	57%	35%	47%
Use technology to provide analytics and 24/7 digital access	73%	69%	52%	54%	39%
Draw on indexing/algorithmic methods to invest at lowest cost	72%	66%	59%	42%	34%
Offer innovative and customized financial solutions and products	72%	69%	48%	42%	37%
Provide financial services, in addition to wealth management	57%	71%	52%	48%	36%
Help investors cope with market volatility and outperform the market	75%	65%	51%	56%	37%
Ensure robust cybersecurity and data protection	57%	48%	51%	48%	41%
Provide access to investments across asset classes and geographies	57%	42%	46%	50%	37%
<b>Average percentage</b>	<b>70%</b>	<b>67%</b>	<b>58%</b>	<b>47%</b>	<b>45%</b>

Source: Roubini ThoughtLab

## Dealing with disruption: A view from Bob Reynolds, CEO of Putnam

Bob Reynolds, President and CEO of Putnam Investments, has lived through many market shifts during his 30 years in the investment business. While change has been a constant in the industry, Reynolds sees technology and innovation greatly accelerating the pace. The rise of passive investments is a case in point.

When asked about the balance between active and passive investments, Reynolds frames an inconsistency that many have struggled to articulate: “When you ask someone about a passive investment like an ETF that tracks an index, they say things like ETFs are low-cost, or they’re transparent. But the other thing they say – which, I think could be misunderstood – is that passive investments have less overall risk. And that’s simply not true. These vehicles are portfolios of stocks and bonds. They absolutely have risk. If you choose a passive investment, you’ve made an active investment decision.”

### **The value of active management**

According to Reynolds, it’s crucial to keep the investment framework suited to the individuals’ needs. “Investors need vehicles to pursue long-term financial objectives. With ETFs, half of the investors are institutional – and many of those institutions are invested in the ETF just for liquidity reasons. As an investor, I want my money with people who have objectives that are aligned with mine and managers who are looking to significantly outperform their respective benchmark over a three-year, five-year, or longer time horizon. We absolutely believe there may be periods of time where passive investing might not be the right thing for the client.”

Reynolds continues, “As an example, there were points in the investment cycle, times like the late 1990s and early 2000s, when the valuation of tech stocks just made no sense. People who invested their money away from that were the big winners – and those who stayed in those stocks too long took a massive hit.”

### **Making it personal**

To meet customer needs, Putnam is making efforts to personalize its products. “Every 40-year-old or 50-year-old isn’t the same. For a very long time, we’ve advised people to diversify and invest in multiple asset classes. But we are increasingly looking at ways to personalize those investments.” Accordingly, Putnam is seeking to broaden its target date funds offerings, to address critical life events and other personal milestones, such as retirement.

“Individual factors are of great importance when you’re talking about retirement and how you should be invested,” says Reynolds. Looking ahead, he expects advanced technology will enable Putnam to go even further in creating new products for a range of very specific investment needs. “One of the great promises of technology is the ability to tailor products and potential solutions to individuals and their financial advisors in a way that meets their unique situations.”

## 4. The Future Wealth Advisor



*To stay relevant in a fast-changing marketplace, where investors are seeking greater value and on-demand support, wealth advisors will need to elevate their role in the wealth ecosystem. Next-generation wealth advisors will need to be hyper-responsive, highly empathetic, and digitally savvy. Equally important, they will need to be multidimensional professionals able to provide both specialized investment advice and whole life goal-planning – while always keeping the client’s best interests in mind.*

### Something old, something new

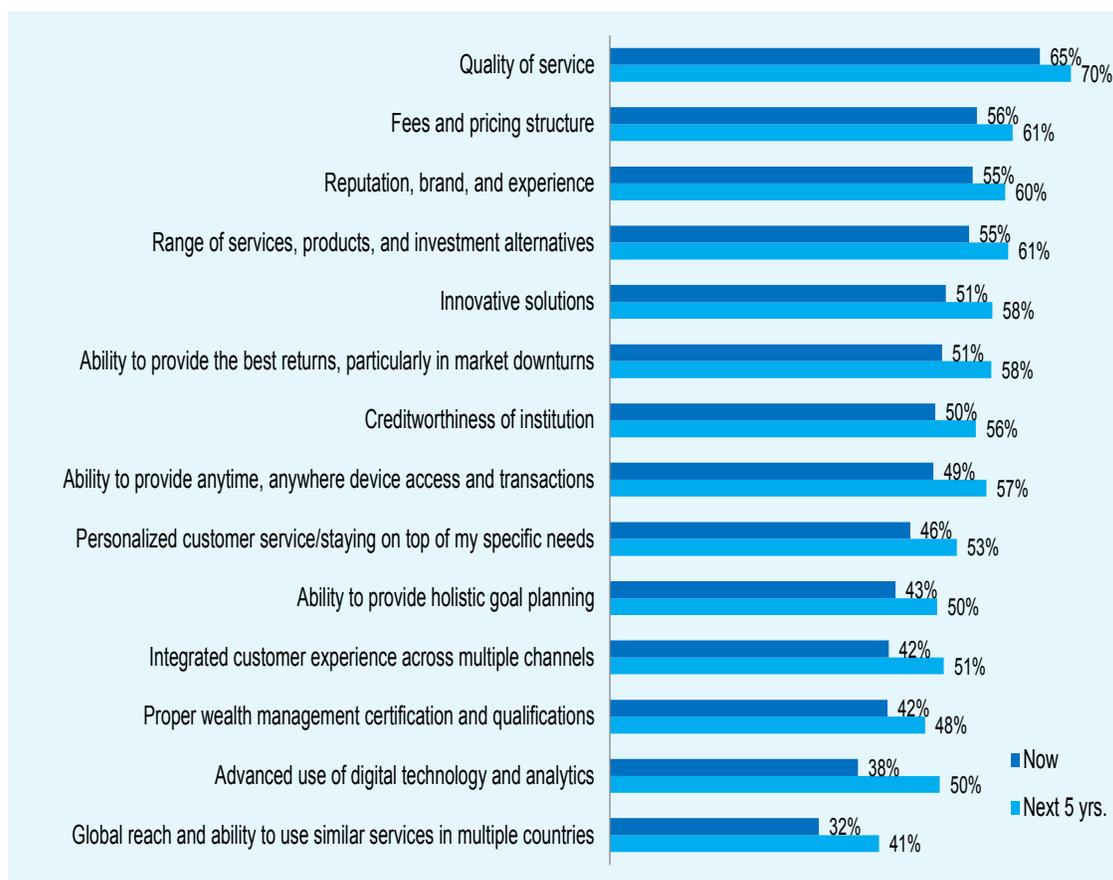
In no industry is the juxtaposition of the old and new as evident as in the wealth profession. Just look at this study’s participants. On one side of the spectrum is Berenberg Bank, founded in Hamburg in 1590 by the same family that owns it today. On the other is LearnVest, launched by Alexa von Tobel seven years ago after she dropped out of Harvard Business School.

Similarly, investors’ attitudes toward advisors combine traditional values and innovative thinking. When selecting wealth advisors in the years ahead, long-standing criteria remain top of mind: fees, reputation, and range of service, but most of all, quality. (See Figure 4-1.) For Putnam President and CEO Bob Reynolds, it comes down to the essentials: “There’s no question that the most important thing in selecting an investment company is which one offers high-quality products on a consistent basis.”

But finding the right balance between quality and fees is crucial. Putnam’s Reynolds put it simply, “People want to know what they’re paying for, and what they’re getting for it.” But demonstrating higher value is far from straightforward.

Figure 4-1

## What is most important to you when selecting an investment advisor



Source: Roubini ThoughtLab

“Differentiation is probably our biggest challenge right now,” says Nathan Erickson, Chief Investment Officer, MRA Associates. “It comes back again to your ability to illustrate, almost quantify, value: ‘Here’s what you’re getting for the fee you’re paying.’”

Investors are also assessing wealth advisors on new criteria: their digital capabilities. These include anytime, anywhere, any device access, integrated omnichannel experience, and advanced use of digital technology and analytics. According to Amit Sahasrabudhe, Head of Wealth Management Strategy and Digital Solutions at RBC, “Digital is not just a separate, complimentary channel for our clients,

is it becoming core to their wealth management experience.”

### The race against the machine

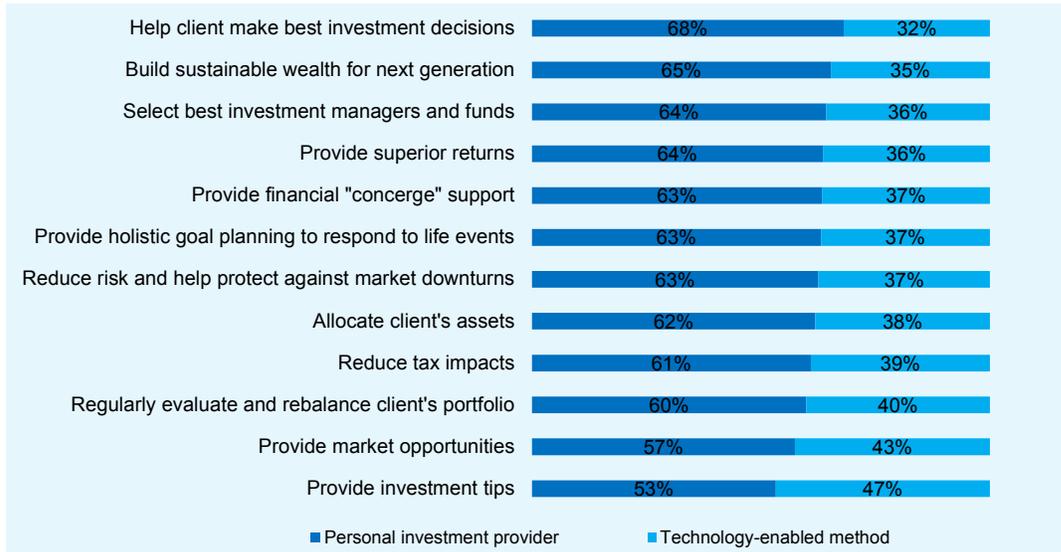
Technology will transform the wealth profession, but it will not replace humans anytime soon, according to our survey. Even after taking into account the lower cost of digital solutions, the majority of investors – including millennial and mass affluent ones – prefer using personal wealth advisors for every investment activity covered in our survey. (See Figure 4- 2.) This is the case for both matters of investment judgment and mundane tasks, such as rebalancing their

***“Differentiation is probably our biggest challenge right now. It comes back again to your ability to illustrate, almost quantify value.”***

**-NATHAN ERICKSON, CHIEF INVESTMENT OFFICER at MRA ASSOCIATES**

Figure 4-2

Personal investment advisor vs technology methods



Source: Roubini ThoughtLab

portfolios and asset allocation. None of this surprises Dr. Dominik Helberger, Head of Strategic Clients and Managing Director at Berenberg: “While technology can offer much, in the end, money is a people business.” Clark Blackman II, Founder and CEO of Alpha Wealth Strategies, adds, “People are people. That doesn’t change. The advent of WebMD didn’t change the fact that people want to see a doctor for medical advice.”

However, Figure 4-2 also shows that machines are making headway. A significant minority of investors would rather use technology for getting investment tips and finding market opportunities. More worrying, just over one in five investors believes that by 2021, personal investment advisors will not be necessary for portfolio management, and a similar number says that technology will make advisors less important.

At the same time, technology is transforming client-advisor interaction from face-to-face and telephone to a wider mix of digital channels.

“If the client has a question about anything, we need to be available to answer that by email or phone and provide the information that they want to see, when they want to see it,” Erickson says.

This does not mean that traditional methods of communication will be displaced. Instead, the popularity of a wide range of digital channels will rise substantially. (Figure 4-3.) This will be the case particularly for the young: In the future, 59% of millennials say they will use social media to communicate with advisors, compared with 29% of boomers, while for web collaboration tools the figures are 39% for millennials and 19% for boomers.

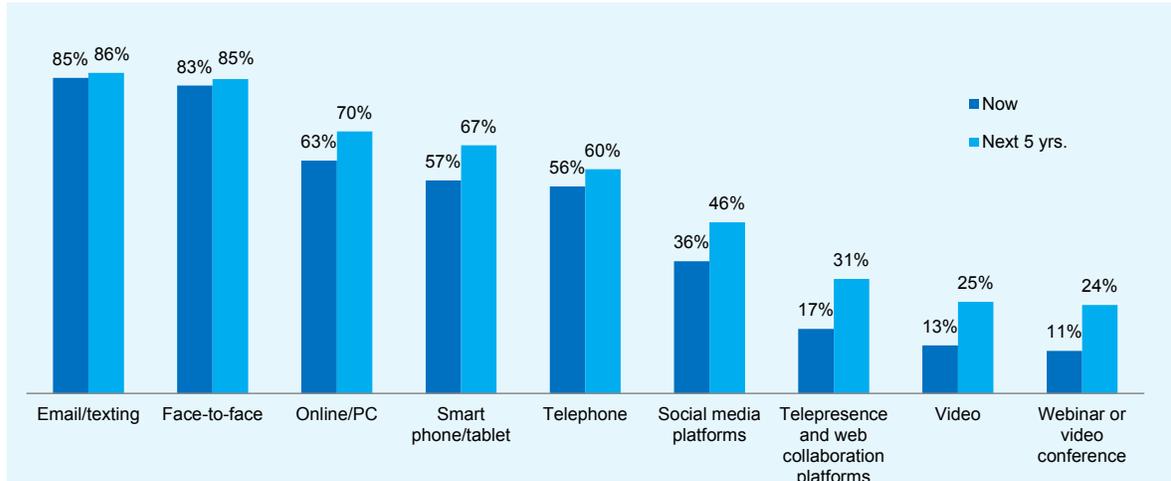
Just how fast digital technology will transform the industry is hard to predict. But it is safe to say that wealth organizations will struggle to keep up. “Wealth managers get it. They see it, and they’ve started to move,” says Erickson. “I just don’t think they appreciate how fast it’s going to happen.”

***“While technology can offer much, in the end, money is a people business.”***

**-DR. DOMINIK HELBERGER, HEAD OF STRATEGIC CLIENTS AND MANAGER DIRECTOR at BERENBERG**

Figure 4-3

## How investors communicate with wealth firms



Source: Roubini ThoughtLab

## How advisors can add value

Rather than compete with machines, personal wealth advisors will need to add value in the digital age. The most obvious way is through personal relationships, according to Bahren Shaari, CEO of Bank of Singapore. “Getting insights from clients and understanding their needs will always remain paramount to the business of private banking. This is something technology cannot do. Humans need to interact with humans.”

Adding value may involve leveraging technology for the benefit of clients. In fact, Christopher Jones, EVP of Investment Management and Chief Investment Officer of Financial Engines, sees fintech morphing from self-directed applications to being advisor-directed. “You’re going to see much of the actual generation of advice being done by computers and simply communicated by the human being, as opposed to a human being having an explicit role in creating it.”

But repeating what a computer says is not a high-margin activity. Ways that machines cannot easily replicate, particularly to justify their fees, personal wealth advisors will need to apply judgment, intuition, and lateral thinking in during times of volatility. MRA’s Erickson explains: “When crises come, it’s not necessarily bad investments that cause people to lose money – it’s bad decisions. The robo-advisor will not be able to call people at that critical moment to say: ‘Everything is all right, stay invested, stick with the plan.’ It’s that personal relationship during the challenging moments that matters the most.”

It is hard, then, to disagree with the view from Al Chiaradonna, SVP, SEI Wealth Platform<sup>SM</sup>, North America Private Banking: “In my lifetime, I do not see someone giving total control of their wealth to something completely technology-based.” Rather, technology should be an integral part of a wealth manager’s approach. In the future, the interplay of advisors and machines will reshape the advisor’s role and the advisor-investor relationship.

---

***“You’re going to see much of the actual generation of advice being done by computers and simply communicated by the human being, as opposed to a human being having an explicit role in creating it.”***

**-CHRISTOPHER JONES, EVP OF INVESTMENT MANAGEMENT AND CHIEF INVESTMENT OFFICER at FINANCIAL ENGINES**

---

## Case Study - Financial Engines: A fintech with a human face

When Financial Engines was founded in 1996, it was breaking new ground. Christopher Jones, Executive Vice President of Investment Management and Chief Investment Officer at Financial Engines explains, “In many respects, people think of us as the grandfather of the robo-advisors. We were the first company to provide personalized investment advice without human beings behind the scenes creating the portfolios.” The firm has been producing online advice since 1998 and, says Jones, has consistently worked at improving it. “We’ve invested around two to three hundred million dollars in our advice platform over the years with the explicit goal of providing truly personalized recommendations across any arbitrary universe of options.”

One important part of Financial Engine’s success, though, which holds important lessons for the market, is its steady expansion into person-to-person interaction with clients. As early as 2004, “We realized that a large number of our customers wanted a human being to talk to,” says Jones. “They wanted someone they could call up and ask questions. When the markets were volatile, they wanted somebody to talk to about it.” Accordingly, Financial Engines invested heavily in a call center advisory capability that now has over 250 advisors. These now can interact with clients using phone, video chat, and face-to-face meetings to provide an ever-expanding range of investment services.

More recently, the company that began as an online platform started offering direct personal interaction with named managers of client accounts. Jones notes that with the acquisition of The Mutual Fund Store in February 2016, “We now have the ability to offer a face-to-face dedicated advisor and face-to-face services in about 125 branch offices around the country.”

This evolution has nothing to do with how advice is generated – that still relies on Financial Engine’s extensive technology. Instead it, “reflects the range of needs that we’ve seen among our customer base,” says Jones. “Many customers are perfectly content to interact with us online. Others prefer to talk on the phone, maybe two or three times a year, to one of our advisors. But many, particularly our older clients with higher balances, want somebody to have a dedicated relationship with; to be able to look them in the eye, to go to their office and really work through concerns they may have. We really see the continuum of different ways of providing investment advice.”

## The 24/7, multipurpose advisor

As Figure 4-4 shows, investors and providers have similar views on how the role of wealth advisors will morph in the coming years. The biggest shift is that advisors will need to provide even more responsive, on-demand advice. Bank of Singapore’s Shaari sees this already happening in Asia. “Our private bankers need to, and do, provide data to clients who want it anytime, anywhere.”

To Kevin Barr, EVP and Head of SEI’s Investment Management, the industry is at a turning point: “This is the last generation where the traditional model of a person conducting business with their clients on a quarterly basis is going to be successful.”

Offering 24/7 services often requires a team

approach. For MRA Associates this means mobilizing a staff of 20 client-facing people. Erickson says, “We work in teams. Nobody is working on their own. If the client has a question, we’ve got to be available to answer and provide the answer when and how they want it.”

In the future, 4 out of 10 investors and providers also believe advisors will need to deliver high returns consistently to justify the fees. “But consistently outperforming the market without interruption is next to impossible for advisers,” says Blackman of Alpha Wealth Strategies. He suggests taking another tack: “What the sales pitch has to be is that ‘I am always here. I know you. When there is a problem, I am available 24/7 and we can deal together with other issues as well, such as estate planning, tax issues, or retirement concerns.’”

Not surprisingly, many providers and investors think that wealth advisors will need to become digitally proficient in the future. The attractions of technology are obvious: It can reduce costs, increase productivity, and facilitate communication with customers. But Financial Engines' Jones points out that technology can also raise the quality of advice by providing a more systematic framework. "With purely human advice, a lot of idiosyncratic risk exists. One advisor may tell you to do one thing and another to do something else."

Broadridge President Steve Scruton believes that creating a "smart easy-button" for advisors is critical for doing business in today's digital world, where an individual alone cannot reasonably sort through the firehose of available data. "Advisors need to be equipped with tools, preferably mobile, that allow them to focus on what's important for client and prospect engagement and provide them with insights into next best action for each client and prospect."

Technology can even help in developing personal relationships with clients. Technologies such as advanced analytics and artificial intelligence can provide firms with a multidimensional understanding of their clients and help them track changing priorities, behaviors, and attitudes. "If you do this right, you can bring your empathy quotient up to a new level and improve margins," says Joseph

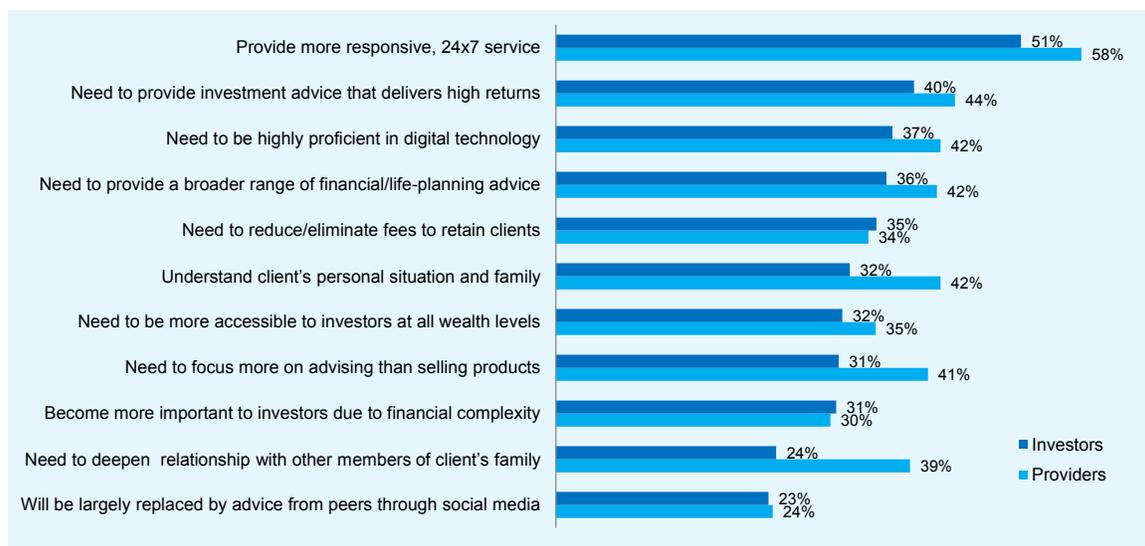
Pagano, Practice Advisor, Financial Services Digital Transformation Group at Cisco.

## A generalist and a specialist

In the future, advisors will need to offer a wider array of financial and life-planning advice. Shaari explains, "Clients are looking for something extra – guidance and direction on investments, family philanthropy, retirement, succession, and estate planning. The role of the advisor is becoming less transaction-focused and more about sophisticated financial planning." This implies a further key shift, notes Burkhard Varnholt, Julius Baer's former Chief Investment Officer. "Clearly the wealth advisor of the future needs to be much more of a generalist, whereas in the past, he or she was often just an investment advisor."

Again, this may be best accomplished through a team-based approach, according to EY's US Wealth and Asset Management Sector Leader Marcelo Fava: "The role of the wealth manager is changing into that of a 'financial therapist,' who works with a cadre of specialists to meet each customer's specific needs." Harvard Business School Professor Luis Viceira likens this new role to that of "a money doctor" or a general practitioner whom his patients trust even if they cannot fully understand the science behind the treatments he suggests, and who, while able to meet some patient needs alone, also knows where to look for help in more complex situations.

Figure 4-4 How role of investment advisor will change over the next five years



Source: Roubini ThoughtLab

To fill this role, Pagano believes that future wealth advisors will need to be “hyper-connected,” acting as the node in a web that includes the customer, relevant data, and experts in and outside the firm.

## The new wealth advisor: Joining left brain with right

The next-generation wealth advisor will combine left and right brain thinking. As Bob Dannhauser, Head of Global Private Wealth Management at the CFA Institute, puts it, “The days of plug-and-play solutions are over. The real professionals in wealth management will have deeper knowledge of financial markets and products, coupled with top-notch relationship skills. Most importantly, the successful players will recognize that their knowledge is a wasting asset that constantly needs to be refreshed to best serve clients.”

SEI’s Chiaradonna agrees: “Advisors will have to be well-versed in investment management so that they can explain it to someone who is not. But they will also require a human side that helps them understand the fears and frustrations of customers, so that they can explain things in a way that will be interpreted properly.”

The advisor’s role as the bridge between clients and specialists has other implications. Jones notes that, if someone is being paid to help clients consider a range of products and options, “the expectation is that the advisor is going to bring a lot of expertise to the table.” The future wealth advisor’s generalist role, says Varnholt, will necessitate training in a wide variety of “product areas, but also, especially, in emotional intelligence. Advisors need the interpersonal

skills to really understand a client or even a family of clients well.”

Creating a workforce with this combination of skills is no easy task. Jones explains that wealth services firms have traditionally acted as sales organizations earning commissions or selling their own products. “A culture develops. These advisors can be very ‘coin-operated’ in how they see the world,” he adds. “That creates a dynamic that is really hard to shift quickly.” Change is also expensive, because it involves “really raising the capabilities of people,” he concludes.

Both Jones and Alpha Wealth Strategies’ Blackman believe that the transition from a product-sales culture to one highlighting objective, professional advice is long overdue. At the same time, they see it as one of the biggest disruptions facing the private wealth management profession in the coming years, made all the more complicated by regulatory reform. Several experts interviewed for this study point out this cultural shift, combined with other market trends, may accelerate the retirement of many advisors in their 50s and 60s, particularly in the US.

Companies might be reluctant to grasp such a challenging nettle but, as Blackman says, change “will be about what clients are demanding, not what the industry is willing to do.” Without the requisite skills, advisors will not be able to deliver the services that clients increasingly demand. Among investors surveyed, 44% will have a greater expectation in the coming years that their investment providers will have deep knowledge of market, investment and tax issues. Meanwhile, 37% will want to see proper wealth management certification and qualifications.

---

***“The days of plug-and-play solutions are over. The real professionals in wealth management will have deeper knowledge of financial markets and products, coupled with top-notch relationship skills.”***

**-BOB DANNHAUSER, HEAD OF GLOBAL PRIVATE WEALTH MANAGEMENT at CFA INSTITUTE**

---

## The regulatory impact

An even bigger driver of change, however, and one which will make the industry's re-skilling unavoidable, will be stricter compliance rules. The regulatory push in major jurisdictions toward a fiduciary model of advice will do more than reduce conflicts of interest. Blackman's comments about the US could apply in any number of countries. "One requirement of a paid fiduciary is to be an expert," he says. "Not being one is a primary impediment to giving good advice, but that high level of expertise is not as prevalent in the marketplace as it should be."

"The typical components of fiduciary duty are loyalty, prudence and care," according to Dannhauser. "We see more attention in the future being focused on the care that advisors apply to their clients' investment and financial needs, perhaps with the benefit of easier access to information about client objectives and behaviors to inform that expertise."

The regulatory implications for wealth advisors go beyond their own areas of direct personal expertise. Increasingly, notes Blackman, there

are fiduciary obligations and in some cases legal requirements for licensed advisors to conduct due diligence on any professional they recommend to a client – such as a money manager, custodian or even an estate planner, accountant or lawyer – and to be transparent about any benefit they receive from the referral. He believes that the only way for wealth advisors to have the ability to meet the whole range of fiduciary requirements in regulations is for the occupation of wealth advisor to become a full-fledged profession with clear, enforceable standards.

For the moment, as Jones notes, these cultural shifts will favor firms that already have a fiduciary fee advisory model, such as many American RIAs or British IFAs. These businesses, however, will face their own difficulties. The first is that many tend to be smaller than the big investment firms. In an era of price compression, they will need to learn how to deliver this model at scale. Jones adds, in the future, the industry will be "much more regimented in the way they are able to provide clients with solutions."

## Julius Baer: Combining high-tech with high-touch

Swiss private bank Julius Baer is embracing technology to enrich its wealth management services. Burkhardt Varnholt, the bank's former Chief Investment Officer, sees Julius Baer as "an early mover" in this space.

"One crucial area of improvement for wealth advisors is in portfolio management and analysis," according to Varnholt. "Historically, wealth managers focused their attention on a single instrument view. Technology now allows us to move to a more holistic portfolio view." Varnholt believes that wealth managers will next develop more sophisticated analytical platforms that enable investors to assess the marginal impact of financial securities on their overall portfolio.

While technology can improve analytical insights to clients, Varnholt does not see it as replacing personal advisors. "The personal element in a relationship will be enhanced by technology, not diminished, simply because the relationship manager will have more time for the client."

In Varnholt's view, the adoption of technology will also reduce any threat to incumbent advisors from fintechs. "I don't believe – and I'm saying this with strong conviction – that upstart robo-advisors, for example, are well-placed to dramatically take away business from existing wealth managers."

His reasoning is simple: "There will always be a significant personal element in the wealth management business that high-net-worth individuals will value. Successful wealth managers will dramatically lower their cost by implementing new technologies, and then pass some of those cost benefits onto clients. That will have a significant business impact – and the leaders in the space will then grow at the expense of the other players."

For much of the industry, creating an appropriately skilled advisory network is, in Jones words, “going to require training, cultural change, and deep investments in compliance and management systems.” Those firms that do not make the transition, however, may face extinction at the hands of either competitors or more exacting regulatory standards.

## Building trust

There are few industries where trust is as critical, yet so fragile, as the wealth industry. “The trust barrier has always been high,” says Jones. “But it’s gotten higher in the last 10 years because of the things that we have seen – the crises and potential crises. People’s level of trust in financial services firms is probably at an all-time low.”

Investors and providers largely agree on how to build trust. (See Figure 4-5.) The main task for advisors is to do their jobs well: Provide good risk-adjusted returns, achieve financial goals, and understand the client’s goals and risk tolerance. Putnam’s Reynolds put it simply, “If there is a value being created, people are willing to pay for it. If there is no value created, they’re not.” Of course, being responsive and vigilant also nurtures trust – investors cited protecting against fraud, being available when needed, and staying in touch during market disruptions.

Eliminating product complexity and pricing transparency is valuable for building trust,

according to our survey. “Our view is that we just need to be incredibly transparent,” says Erickson of MRA Associates. “When we talk to clients or new prospects, we make sure they understand that nothing we’re doing is a black box. We’ll explain what we’re investing in, why we’re investing in it, and what the expected outcome is.”

Fintech eToro takes transparency even further by building it into its business model. Yoni Assia, Founder and CEO, explains, “Wealth management, by its nature, is a very social industry. But it has transformed from a group of people doing deals together in one room, to a lot of segregated, private discussions. Our social platform moves the interaction back to open discussions. It enables people to have transparent public portfolios, and communicate with one another openly about what they’re doing. This is a classic re-evolution of the industry for people that crave trust and transparency.”

Where providers and investors disagree is also revealing. Many providers believe that they can build trust by increasing communication around integrity and emphasizing their reputations. But as Figure 4-5 shows, investors give higher marks to providers that demonstrate they will work in a client’s best interest. And regulators are making sure this happens.

## How MRA Associates is grooming the next-generation advisor

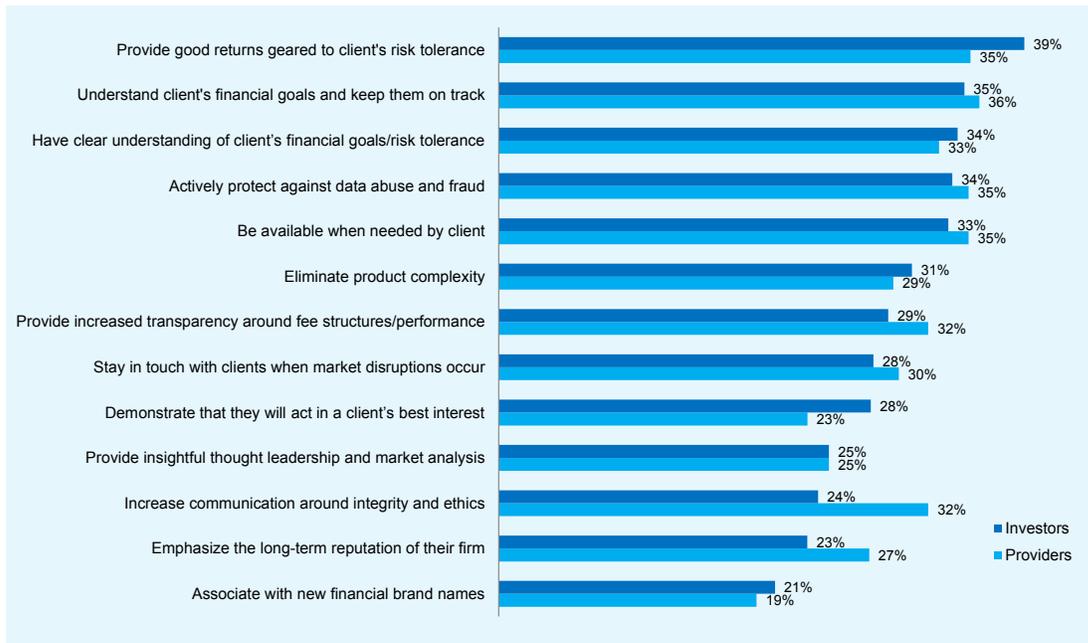
“The wealth industry won’t survive if the people in it are out only for their own best interests,” says Nathan Erickson, Chief Investment Officer of MRA Associates. “If I become a wealth advisor so that I can get rich or retire early, the clients of today will not accept that,” the way they might have even 10 or 15 years ago.

According to Erickson, the key is finding people with a desire to help. “Good candidates are empathetic. They feel good about being a part of someone’s success in retiring or providing for heirs, or whatever the client’s goal might be. There has to be some emotional or psychological benefit to be in the industry.” To attract and retain that type of talent, Erickson believes, “you have to give them an opportunity to own the business, own the outcomes.”

To do this, the company has developed an internal succession plan to motivate advisors. “We’re entirely employee-owned. Advisors can see, if I do a great job with this client and they refer five more clients, then the business is worth more, and that’s good for everyone.”

Figure 4-5

### Best methods for investment advisors to gain trust



Source: Roubini ThoughtLab

## 5. The Road Ahead: Driving Digital Transformation



*Over the next five years, investment providers will transform their strategies, processes, and business models to become integrated, digitally driven businesses. Drawing on smarter technologies, providers will streamline and align their end-to-end systems to provide investors with seamless, personalized omnichannel experiences. Despite their hopes, not all providers will be winners. Those that move too slowly will fail behind, or out of the race altogether.*

### The digital imperative

If investment providers had any doubts about the importance of going digital, they just need to listen to their clients. In our survey, 82% said it was important for their investment provider to stay at the forefront of technology in the future. The digital imperative was ranked even higher for some segments, such as: UHNW and VHNW investors (86% each); large wealth markets, such as Germany (89%), China (88%), and the US (85%); and emerging markets as a whole (87%). (See Figure 5-1.)

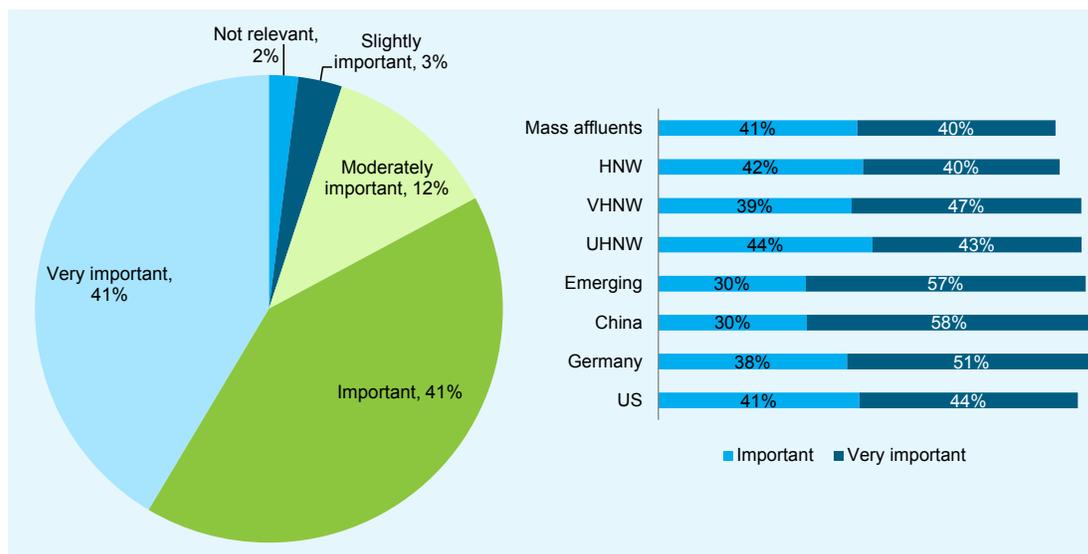
Most investment providers hear what their clients are saying: 81% of those we surveyed told us that digital transformation is important for the future of their business. The percentages are even higher for some wealth management institutions, such as alternative investment firms (90%), full-service banks (87%), and mutual fund companies (87%).

Citi is one such organization, with an ambition to “become the world’s digital bank.” Rodolfo Castilla, Global Head of Wealth Management Products and Platforms, explains, “We’re very urgent. We know that if we don’t get there first, we’ll be the ones disrupted and killed.” This digital agenda comes straight from Citi’s CEO Michael Corbett. “He’s saying either we change or we all die.”

Such transformation requires commitment and willingness to engage in substantial cultural change. Investment providers, though, are not all well-prepared to make the transition: 41% of private banks and family wealth offices surveyed, for example, still believe that digital transformation is not very important.

Figure 5-1

## The importance of digital leadership to clients



Source: Roubini ThoughtLab

For Pictet, one of the world's leading private banks, this is head-in-the-sand thinking. Olivier Capt, Head of Marketing, believes that IT will have a huge impact on private banking over the next five years. "I see three elements affecting the industry over that time: processing power will make new things possible, artificial intelligence will drastically change things, and big data will allow our bank to tailor things in ways that were not possible before. We are embracing all three."

### Digital tools in the offing

Wealth service providers are developing a wide assortment of technology-driven tools to meet the fast-changing needs of customers over the next five years. (See Figure 5-2.) Anytime, anywhere, any device access coupled with a true omnichannel customer experience is high on the development list. Daniel Tu, Chief Innovation Officer of Ping An, explains: "Given how technology is changing and how consumers are behaving, mobile first has become our focus. We want to readily engage using offline, online and mobile platforms."

Like others in our survey, Julius Baer sees customized investment services as critically

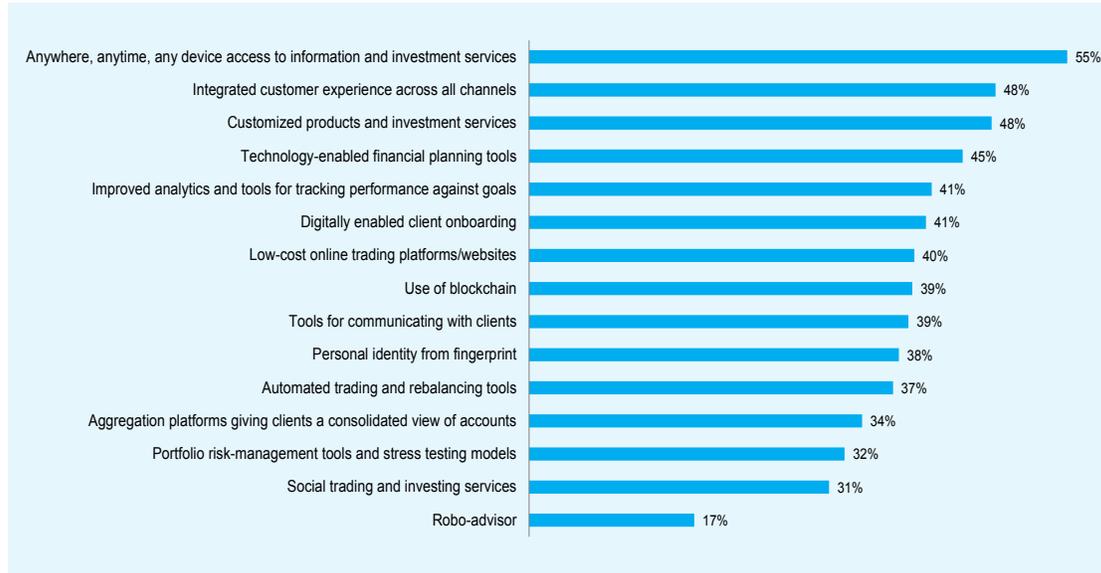
important. Burkhard Varnholt, until recently Chief Investment Officer, provides the context: "Technology is driving change, because it allows mass customization of the advisory process in a way that we have never seen. When a bank develops a view, it can now send tailor-made advice to thousands of clients. It's still something that all banks, all wealth managers around the world are working on. At the end, the wealth management advisory process will be much more automated, but it will feel more bespoke and personalized."

In line with investor product demands, the next-generation digital wealth management platforms will center on investor goals and their measurement, according to our survey. Two of the top five technology-enabled changes that investment providers plan to offer in the coming years are tools for meeting life goals and for tracking performance against those goals. Ping An is focusing more on investor goals, says Tu. "Selling clients a product should be more than a one-off thing. Ultimately we want to be able to help them achieve greater financial independence," he explains.

These digital tools are already allowing a wide variety of client activities. As Figure 5-3 shows, by 2021, a large majority of investment providers

Figure 5-2

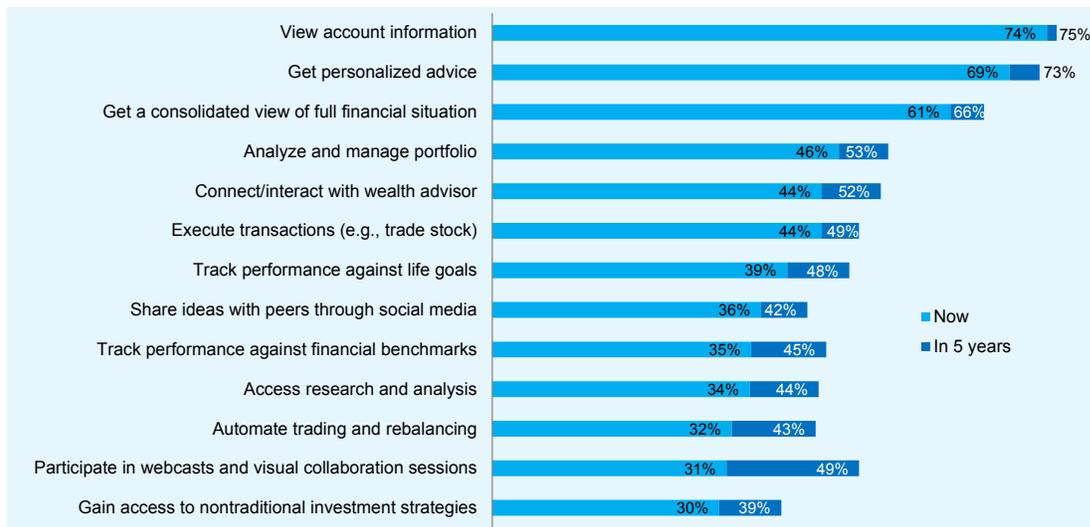
## Technology-enabled investment tools for the future



Source: Roubini ThoughtLab

Figure 5-3

## Investment activities enabled through digital



Source: Roubini ThoughtLab

will offer digital access to account information, personalized advice, and consolidated accounts. Half of wealth services providers will allow clients to analyze and manage their portfolios, connect and interact with wealth advisors, execute financial transactions, and track their financial performance against their life goals.

## Driving value through digital transformation

Our research indicates that as wealth firms become more digitally advanced, value creation shifts from cost savings to business growth.

Figure 5-4

## How digital leaders are creating value



Source: Roubini ThoughtLab

This is evident in the key ways digital leaders (defined as firms in advanced stages of digital transformation) generate value: by boosting revenue, improving positioning, acquiring and retaining customers, and opening new distribution channels. (See Figure 5-4.)

Al Chiaradonna, SVP at SEI Wealth Platform<sup>SM</sup>, North America Private Banking, expects much larger growth from revenue gains than cost savings in the future. “Yes, there are big savings because of the cost of financial service infrastructure. But if you’re talking about the long-term sustainability of the business, you’ve got to be thinking about revenue. If a fintech can generate \$1-2 billion, then imagine what an incumbent can do that’s servicing \$20-30 billion already.”

Organizations use digital technology to create value in different ways to meet their objectives. (See Figure 5-5.) For fintechs like eToro, digital technology offers a way to expand into global markets by creating products for the vast majority of underserved investors. For Pictet, it is more about using analytics to get an integrated view of customers so they can grow business with them. And for RBC, technology enables the bank to stay nimble and get products to market faster.

Amit Sahasrabudhe, RBC’s Head of Wealth Management Strategy and Digital Solutions,

believes it is important not to get caught up in change for the sake of change. “From a strategy perspective, we make sure that we are focused on the pockets in which we think there will be growth and in which we can serve our clients very well. And to continually adapt to our clients’ needs, being able to move fast and stay nimble is key. We’ve set up new capabilities and new skill sets around digital labs, for example. These labs will deliver relevant products in the digital space, combining the best of what we have from a business and technology perspective. They work in a very iterative and agile way, so we can get to market faster with certain digital capabilities.”

To derive the maximum value, Sahasrabudhe believes that providers should apply technology to both sides of the ledger. “Digitization can play an important role in driving costs down, whether it’s through automating back- and mid-office processes, or making things more efficient through robotics. In an environment where fees are being pressured across the board, being able to maintain margins through digitization is paramount.”

## Technologies to watch

One area where most wealth companies – even digital leaders – need to improve is identifying

Figure 5-5

### How different organizations derive value from technology

Alternative investment firm	Investment advisor	Fintech	Full-service bank	Mutual fund firm	Family office, Private bank
Accelerate innovation (49%)	Acquire/Retain (40%)	Globalize (33%)	Boost growth (50%)	Globalize (43%)	Boost growth (48%)
Penetrate new markets (46%)	Compete better (35%)	Penetrate new markets (33%)	Penetrate new markets (49%)	Penetrate new markets (43%)	Create new model (37%)
Increase sales (43%)	Manage risk (35%)	Boost growth/Manage risk (31%)	Compete better (46%)	Compete better (40%)	Improve decision-making (33%)

Source: Roubini ThoughtLab

emerging technologies. Only 11% of firms and 31% of digital leaders have systems in place for monitoring next-generation technologies.

Staying vigilant is the secret, according to Pictet’s Capt. “If we fast forward 10 years, there will be technologies that do not exist today. The key is to catch the trends early. At Pictet, we have never been first innovators, but close

followers. We keep watching and, at the right time, jump on the wagon.”

UBS is also active here. In 2013, Dirk Klee, just hired as COO, established a dedicated group to scan for emerging technologies that might threaten or enable the business. “It is a small, high-impact team,” says Klee, “but you have to give them freedom.”

### Quantifying the benefits of digital transformation

As part of our survey, we asked wealth and asset management companies to estimate the impact that digital transformation had on their performance over the past year. The results are striking: on average, assets under management increased 5.3%, profitability grew 5.6%, and productivity rose 8.3%. The performance of digital leaders was even more impressive: Assets under management increased 7.2%, profitability 6.8%, and productivity 9.4%. By moving too slowly, digital laggards are not just jeopardizing their future, they are leaving tremendous sums of money on the table.

Figure 5-6

### Impact of digital transformation



Source: Roubini ThoughtLab

Our survey examined which technologies providers are using now and in the future. (See Figure 5-7.) Our analysis shows that the “SMAC Stack” (social, mobile, analytics, and cloud) will continue to be the most commonly used technologies in the future. SMAC technologies are now utility assets used by organizations to manage their business, but offer little in the way of true differentiation.

The more influential technologies to watch are the fast-growing, smart technologies that can differentiate a customer’s experience and catapult some firms ahead of others in the digital race. Our chart shows several technologies in that category, including virtual reality (set to grow by 130% in the next five years),

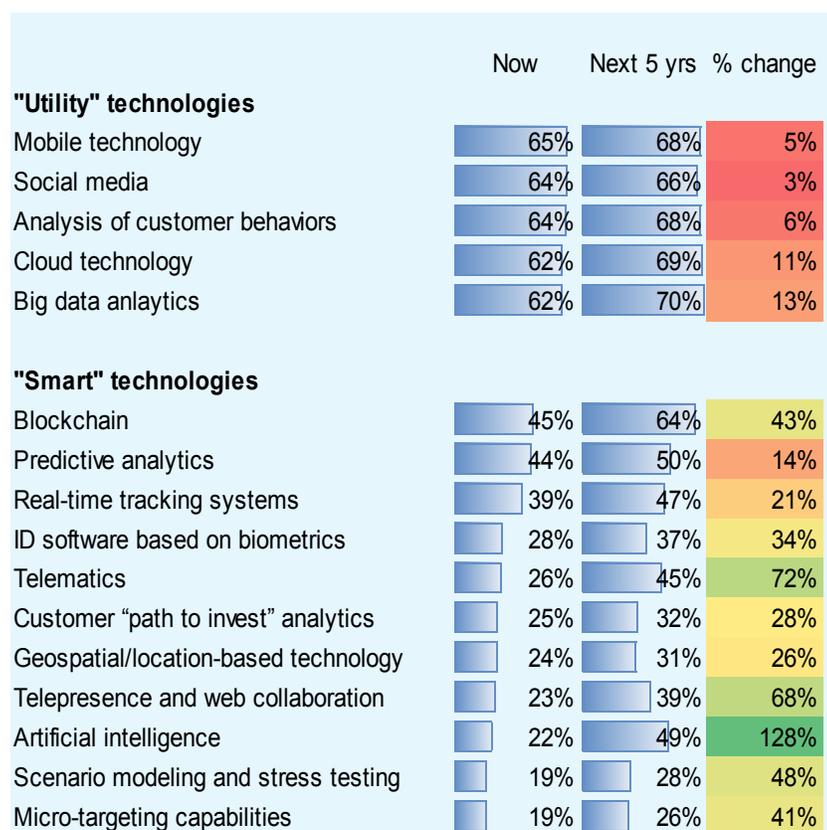
artificial intelligence (123%), web analytics and sentiment analysis (77%), telepresence and web collaboration tools (70%), and blockchain (43%).

“We see artificial intelligence-based solutions as the next major game-changer for the business process outsourcing sector,” says Traci Mabrey, Head of Wealth Solutions at Broadridge Financial Solutions. “It could herald the future decline of pure labor arbitrage plays via low-cost centers and offshore models.” Mabrey also believes that “AI will continue to be applied to revenue-generating centers, including innovation in personalized financial service.”

Another leading-edge technology is blockchain, says eToro’s Yoni Assia, Founder and CEO.

Figure 5-7

### Technologies targeted for growth by 2021



Source: Roubini ThoughtLab

## Blockchain: the next big market disrupter

Alex Tapscott, co-author of the book *Blockchain Revolution* and Founder and CEO of Northwest Passage Ventures, sees blockchain as a huge game-changer for the wealth profession. “We’re moving from the Internet of Information to an Internet of Value where a lot of what financial services firms normally do – namely acting as a trusted intermediary between parties who may not know each other – can be significantly automated and improved. That has a direct impact on the world of investment services.”

In particular, blockchains simplify the task of buying, selling, and transferring an asset, and then recording ownership. As a result, individuals can make these transactions on their own or, potentially, through wealth service firms far less expensively. This brings winners and losers, notes Tapscott. The former are “those investors who are tired of paying high fees, dealing with broker dealers and banks, lawyers and escrow agents,” or those shut out of investing because they could not afford these fees. The losers, on the other hand, are those now charging for such services: “Trading in back office services, for example, is going to become streamlined, and you’ll see massive margin compression,” Tapscott adds.

### A surge of interest

Blockchain technology is still relatively new: It was initially outlined in an academic paper only in 2008. In recent years, however, interest in it among financial services companies has exploded. Tapscott recalls that “in 2014, not a single bank or asset management company had publicly announced any interest in blockchain. Within twelve months, many banks and asset managers have done so. It’s moving extraordinarily quickly.” This is consistent with our survey. Already 45% of providers say that they are now exploring blockchain and 64% expect to expand their use in five years.

A few striking examples of disintermediation have already occurred. Ethereum DAO used its own blockchain technology, for example, to conduct a crowdfunding IPO that raised the equivalent of more than \$160 million in three months. The broader picture, though, is still one of widespread experimentation through technology accelerators or even huge sponsored hackathons, rather than wholesale change. As Tapscott puts it, “there’s lots of tinkering and exploring going on but, in terms of actual commercial implementations, nothing yet.” He expects the first such applications to come on stream near the end of this year.

### Unlocking blockchain benefits

Tapscott sees two major opportunities for wealth firms. The first is simply cost-cutting. Blockchain is a less expensive way of doing a significant number of back-office tasks. A Santander report in 2015 projected that banks alone could be saving up to \$20 billion a year by 2022 just by applying the technology here.

But according to Tapscott, “The best way to look at blockchain is strategically, as a revenue opportunity.” Success here will depend on learning to think in new ways. This could include using blockchain to tap into new markets, such as reaching a wider range of low-wealth investors, or even creating new types of markets. NASDAQ, for example, is using the technology to create a marketplace allowing direct trade between small-scale generators and users of renewable electricity.

“Blockchain technology makes it easy to create a financial digital asset and transfer that asset to hundreds or even hundreds of millions of people around the world. That’s a revolution in the basic infrastructure of technology, which is going to significantly disrupt finance in the next 10 years.” (See box on blockchain on page 44.)

## The pace of digital transformation

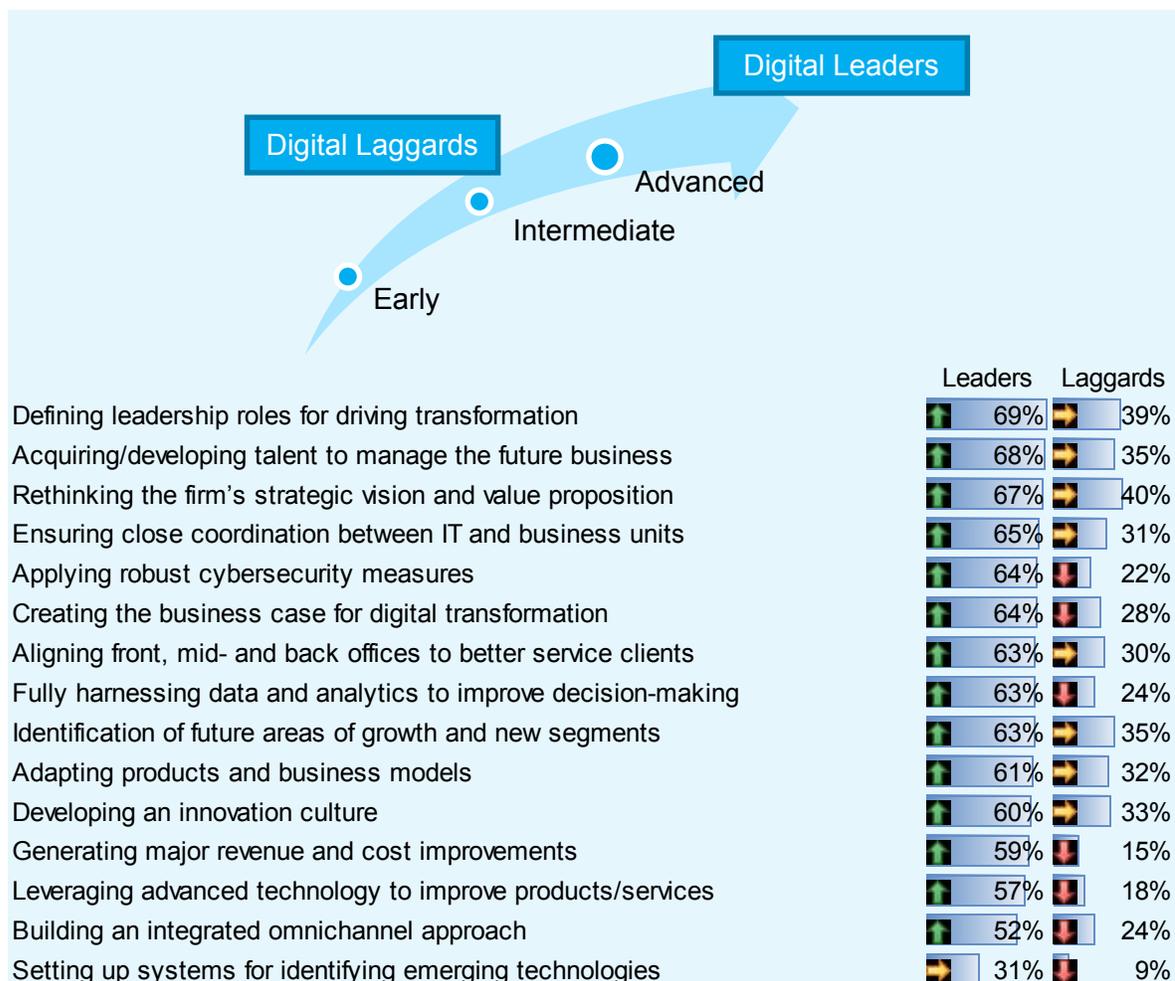
For UBS, digital transformation is a leading priority. “The challenge for us,” says COO Klee, “is really how we should prioritize our investments to transform our business quickly enough.” Like UBS, the digital leaders in our survey are moving fast to reinvent themselves digitally. Most of these firms have already

defined leadership roles, acquired or developed the necessary talent, recast their strategic vision, brought IT and business units together, created a clear business case, and applied robust cybersecurity measures. The majority of digital leaders are also, not surprisingly, already generating significant revenue and cost improvements. (See Figure 5-8.)

In contrast, most digital laggards (about a third of the firms surveyed) are in earlier phases of digital development. Few are seeing major revenue gains or cost savings from their efforts yet. To catch up with the leaders, the laggards will need to act now to pick up their pace. Our survey shows that while many laggards hope to be digital leaders in the future, they may be underestimating the speed of change.

Figure 5-8

### Digital leaders sprint ahead



Source: Roubini ThoughtLab

## Finding the right digital approach

Companies are using a battery of approaches to drive their digital initiatives. Most are developing digital systems and services internally, while substantial minorities are acquiring or partnering with fintechs. Some providers are drawing on external experts or outsourcing.

Our survey shows that digital leaders are more self-reliant, while digital laggards tend to use more external support. In particular, 80% of the former digital leaders rely on in-house systems development, versus just 35% of laggards. Similarly, nearly twice as many laggards as leaders outsource digital development work. (See Figure 5-9.)

One digital leader, UBS, explains its decision to manage its digital transformation in-house, rather than team up with a fintech. As Klee recalls, “I looked at all the fintechs in the market and had three primary concerns: First, I thought we could do it better; second, fintechs aren’t really about wealth management, they’re in the technology business; and third, it would be hard to integrate into our bank. The risk is that you’re creating a satellite on the side, which will always be a marginal effort.”

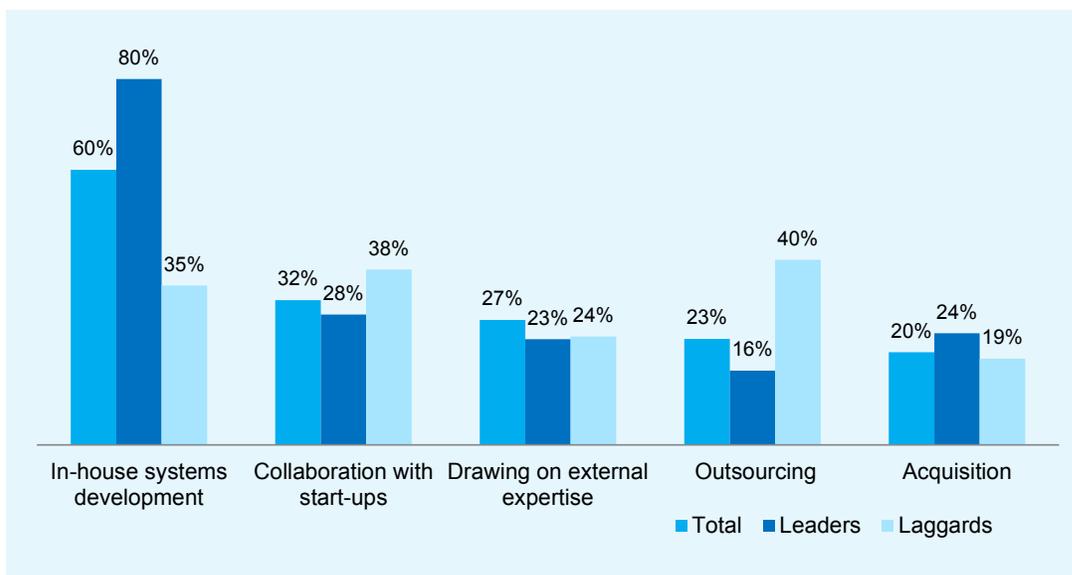
Ultimately, UBS ended up renting a loft and bringing in people from the bank, along with web designers and some people from Apple and Google. “We said ‘here is your task: Don’t think from a bank perspective – think from a client perspective. Create for us a new digital bank. If you find stuff we actually already have in the bank that we can leverage, then do it.’ The outcome was that, aside from one or two fintechs contributing to client onboarding, the whole design was done in-house on an open platform.”

Some digital leaders are taking a different tack. Ping An has been among the most active in its digital transformation of any large Chinese financial firm, according to Tu, the Chief Innovation Officer. “While Ping An is not a technology company per se, through outside investments as well as strategic partners we are building our platforms by leveraging fintech technologies, offering functions such as online social trading to data analytics and cybersecurity.”

Regardless of the approach, “The most important thing is to get active,” according to futurist Alex Tapscott. “Start a pilot, develop partnerships within the fintech space, and become knowledgeable.”

Figure 5-9

### How companies are driving digital transformation



Source: Roubini ThoughtLab

## UBS: How a 150-year-old bank is reinventing itself digitally

When UBS, Switzerland's largest bank, began its digital transformation process, it had a very simple organizing principle, which COO Klee summed up: "Banking, especially wealth management, is all about the client, so start with the client experience. This is increasingly becoming digitally enabled. The challenge is transforming quickly enough to adapt to new client realities."

The difficulty, Klee explains, stems from the fierce competitive pressures of the marketplace and the sheer variety of services offered. "When we look at our clients' behavior, we see that they modularize, they decompose products and services, and then they pick and choose what works best for them. We need to step into that environment and find a space for ourselves where we can create a compelling value proposition for the client."

For a truly universal bank like UBS that means looking across various, sometimes siloed, business lines. "Our challenge – and opportunity – is to say, 'Here is our custody bank; here are our wealth management advisory services; here is our wealth planning team. How can we build a platform to connect everything together to best meet the needs of our client?' The successful wealth manager of the future will need to provide all of these services in a seamless way."

As Klee reflects on progress toward this goal, the transformation program, he says, "It's been very exciting. It's quite surprising how much can be accomplished so quickly and with so little money using digital technology. What we've built won't be perfect – but we'll get started and we'll learn from our mistakes. We've redesigned our culture to embrace failure in the short term the same way that startups do, constantly iterating and improving what we build. The advantage for UBS is that we have the extraordinary asset of being able to leverage and learn from our client relationships. We have over 150 years of experience serving clients. There's a lot of wisdom in this bank."

## Morphing into an omniprovider

The path to digital transformation is leading to one ultimate destination: becoming an 'omniprovider' – a wealth company able to serve customers seamlessly across all channels with a completely integrated front- and back-end. Omnichannel experiences are particularly important to millennials and other digital natives, who prefer to use multiple devices for 24/7 anywhere access. According to our survey, most digital leaders (59%) are still in the early stages of developing their omnichannel capabilities. But by 2021, 57% plan to be fully integrated omniproviders, and 30% expect to be almost there. (See Figure 5-10.)

"For me, omnichannel is the next phase of digital transformation," says UBS's Dirk Klee. "The client is on all channels, and expects that whatever one he picks, his interaction with the advisor will be seamless. When he calls his client advisor, he assumes that the advisor is totally knowledgeable about what he has just done in the digital space."

Citi's Rodolfo Castilla, Global Head of Wealth Management Products and Platforms, echoes the sentiment, "We want to create that omnichannel experience for the client. We want our financial advisor to be able to manage all those channels in a seamless way. That's the way of the future."

---

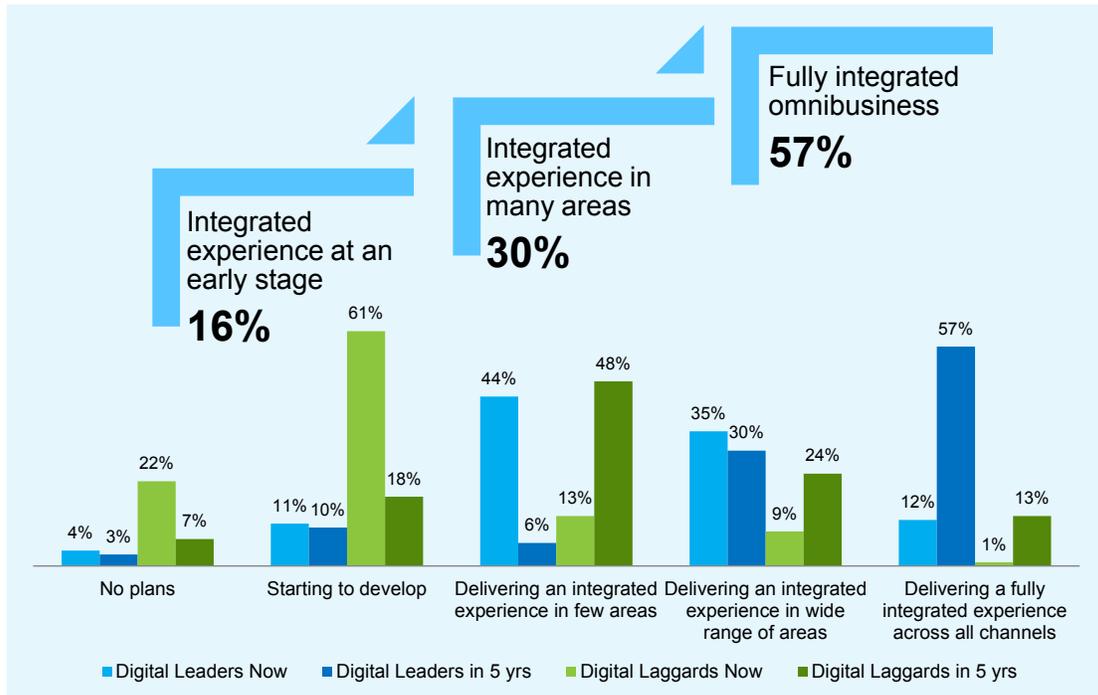
***"We want to create an omnichannel experience for the client. We want our financial advisor to be able to manage all those channels in a seamless way. That's the way of the future."***

**-RODOLFO CASTILLA, GLOBAL HEAD OF WEALTH MANAGEMENT PRODUCTS AND PLATFORMS  
at CITI**

---

Figure 5-10

Where digital leaders are heading: Omidirectional



Source: Roubini ThoughtLab

Going digital: Calls to action

To understand why some digital strategies succeed, while others fail, we analyzed the responses of the digital leaders in our survey. Our research highlighted 10 critical success factors, which we grouped together to create five pathways to successful digital transformation. These pathways include an effective transformation process, customer focus, technology leadership, innovation culture, and the right people. (See Figure 5-11.)

Pathway 1: Develop a clear process for digital transformation

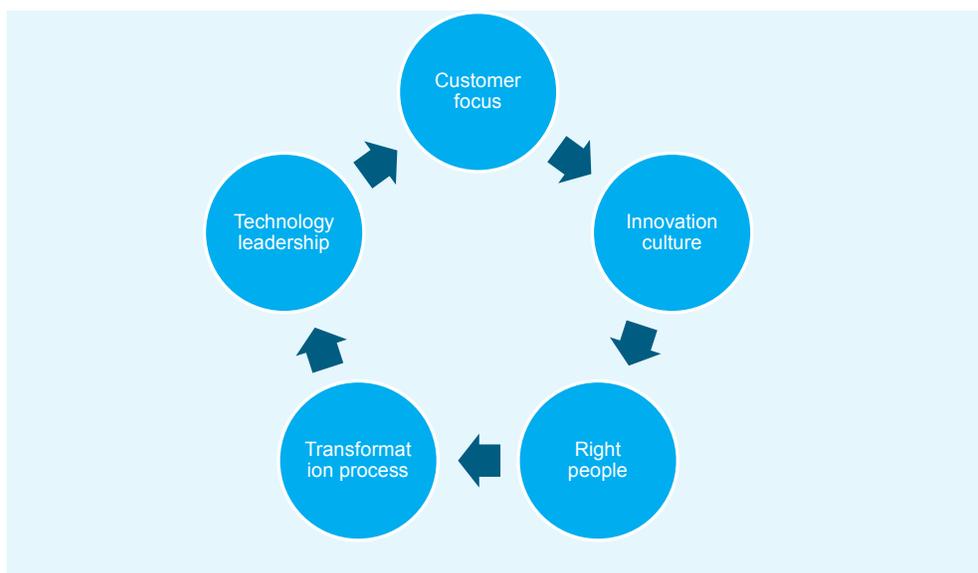
The transformation process begins with making a strong business case, according to one third of digital leaders surveyed. But SEI’s Chiaradonna, thinks this can be tricky for incumbents. “You need a visionary leader who’s willing to bet on the unknown to sign off on a business case necessary to disrupt the organization, even if tangible results from increased revenue will take some time to appear.”

***“You need a visionary leader who’s willing to bet on the unknown to sign off on a business case necessary to disrupt the organization, even if tangible results from increased revenue will take some time to appear ”***

-AL CHIARADONNA, SVP at SEI WEALTH PLATFORM<sup>SM</sup>, NORTH AMERICA PRIVATE BANKING

Figure 5-11

## Pathways to digital success



Success factor	Pathways	Leader %
1. Invest adequately in new technologies	Technology leadership	41%
2. Set a clear customer strategy	Customer focus	37%
3. Maintain a culture of innovation	Innovation culture	33%
4. Make a strong business case	Transformation process	32%
5. Develop a staged path to transformation	Transformation process	32%
6. Acquire the right talent	Right people	31%
7. Build a visionary executive team	Right people	29%
8. Ensure cybersecurity is top priority	Technology leadership	29%
9. Be willing to cannibalize existing business	Transformation process	27%
10. Organize a high-performance digital team	Right people	27%

Source: Roubini ThoughtLab

Once a business case is accepted, it is important to develop a properly staged path to transformation. Cisco's Joseph Pagano, Practice Advisor, Financial Services Digital Transformation Group, offers this advice, "First, create a business architecture road-map that aligns the business imperatives with technological capabilities across the front, middle, and back office. Then develop a 'sustainable' customer journey map that looks at those experiences in the customer journey in the future that continue to make your business unique. And third, determine the 'value at stake' by quantifying the impact of your digital investment on revenue and costs."

### Pathway 2: Make the customer the center of gravity

Any successful technological strategy needs to be closely aligned with a clear customer one, according to 37% of digital leaders. SEI's Barr's advice is, "Start with the end investor as the agent of change and the behavioral aspects to be enabled through technology, not the other way around."

To start the process, EY's US Wealth and Asset Management Sector Leader Marcelo Fava recommends asking core customer questions:

## Citi: Embracing change in the digital era

How does one of the world's largest full-service banks adapt to an environment of rapidly accelerating change? If you're Citi, the answer lies in making a deep commitment to change from the top down. As Rodolfo Castilla, Global Head of Wealth Management Products and Platforms, frames their core philosophy, "Senior management at Citi are convinced: Either we adapt to disruption or we disappear."

Citi has embraced change in a truly global way, working through the business ramifications of digital, not just in the US and Europe but also in Asia and Latin America. To facilitate this worldwide change, a key initiative at Citi has been to incubate fintech in-house. Steven Burke, Chief Executive Officer of Citi's consumer bank, has recently created an internal unit called Citi Fintech. It brings together the best executive talent from inside the bank and partners with executives from tech companies like Amazon and Google to transform how Citi thinks about its technology platforms.

Part of Citi's plan has been to understand the full suite of fintech applications. On the advisory front, Citi is rolling out a robo-advisory channel in the US market later this year, which can be used as an end-to-end digital solution or in concert with a Citi financial advisor. Citi is also exploring two other fintech products: financial planning and aggregation, which allows clients to think holistically about their current financial balance sheet and their future goals; and payment and credit cards, which include complete digital on-boarding and account opening.

With so much change in the air, Citi has invested aggressively in training to realign its global enterprise and to empower its people to think like digital natives. This sense of aggressive urgency at Citi drives a deep commitment to transparency and clarity. As Castilla summarizes the transformation and the relentless march of fintech, "Our message is crystal clear — and everything is moving forward in that direction."

"First of all, who are our current clients, and who do we really want to serve? Then how do we want to serve them? What are the products that we will need to offer to maintain profitability and growth? And how are we going to serve a diverse range of customer segments?"

### Pathway 3: Aim to be a technology leader

The top success factor for digital transformation is investing adequately in new technologies, cited by 41% of all digital leaders. UBS is a good example. According to Klee, "the bank is investing over a billion francs into the core system." Citi's CEO Michael Corbett set the tone for his bank with his now famous quote: "We see ourselves as a technology company with a banking license."

Cisco's Pagano sees this as the right approach. "What is needed is a technology architecture that provides modularity, transparency, and effective risk-profiling." He believes that old legacy

information systems built around centralized computing are no longer fit for purpose.

"The new architecture provides an 'agile environment' where you have rapid deployment of new features and capabilities for external and internal use in a policy driven way that takes into account the best in cybersecurity while providing Internet scale and a world-class customer experience."

### Pathway 4: Nurture a culture of innovation

Building an innovation culture is critical for success, according to 33% of digital leaders. For Ping An, a traditional insurance company based in China, this was a particular challenge. Says Daniel Tu, the Chief Innovation Officer: "Insurance companies, wherever they are based, oftentimes are perceived as stodgy. When we tried to talk about innovation and technology, it took a while to educate the CEOs of the subsidiaries and bring their mindset around."

To build support, Tu introduced regular blogs, monthly newsletters, and research reports that discuss important themes and fintech trends and developments, as well as their impact on the various business within the group.

Klee had a similar experience. Describing the situation on his arrival at the company, he says, “When you find people with dark suits on one side of the table and then T-shirts, jeans, long-hair guys on the other side – you know something is wrong. So we said we all have to become digital natives. We set up innovation labs around the world, where we bring banking, startups, and incubators together.” Klee is seeking to drive what he calls a “failure culture” where people are willing to experiment with new ideas. (See box on UBS, page 47.)

## Pathway 5: Bring the right people on board

Almost a third of digital leaders (31%) think having the right talent is vital for digital transformation. Pagano agrees. “If you get people wrong, then the other pathways, like process, culture, and technology, don’t matter. I don’t mean just the wrong personnel, I also mean the wrong organizational model, the wrong skill sets, and the wrong personae. To me, people are the most important pathway to and pillar of digital transformation.”

To stay on top, Citi’s Castilla believes that investment providers should already be providing specialized training on digital technology. “Everybody should be speaking the same language. That’s a key element of changing the mindset. If this has not already happened, you’re in trouble.” Last year, Citi launched the Citi Wharton Global Wealth Institute to provide formal wealth management training, which includes education on latest digital trends and solutions. Like Citi, Ping An also offers digital training on a daily basis through Ping An College, as well as a 24/7 online platform. As part of the process, employees are regularly assessed and certified.

## Conclusion

Even in normal times, wealth executives face a complex web of global economic, market, and regulatory challenges. But these are hardly normal times. Our research confirms that a seismic shift is already under way, and it is shaking the very foundation of the wealth industry: from customer expectations and product needs to advisor roles and business models. To respond successfully, investment providers will need to future proof their business against the coming shocks, starting with rethinking their strategies and products through a digital prism and building their organizations into true omniservice providers.

Going digital will not be without its challenges, but the payoff will be huge: Digital leaders report that last year, digital applications increased AUM by 7.2% and profits by 6.8%. Becoming a digital leader will not only drive performance, it will reserve your place in the transformed playing field of 2021.

# Appendix

## About the research

To provide a clear vision of the future supported by evidence, Roubini ThoughtLab conducted a rigorous research program from March to July 2016. The research pillars are outlined below:

### 1. Survey of 2000 investors

We surveyed a total of 2,000 investors across 10 leading markets, including the US, the UK, Germany, Australia, China, Hong Kong, Mexico, Canada, Switzerland, and Japan. Respondents represented a cross-section of investors with different levels of investable assets: the mass affluent, with under \$1 million; high-net-worth investors with \$15 million; very-high-net-worth investors with \$15-30 million, and ultra-high-net-worth with over \$30 million. The sample was also multi-generational, including millennials (34 years old or younger), Gen X (ages 35-54), and baby boomers (older than 55). Respondents also varied by gender, occupation, marital status, and number of dependents.

### 2. Survey of 500 investment providers

We also surveyed 500 wealth services providers, spread across the same countries as in the investor survey. The sample included a range of investment providers, including full-service banks, mutual funds, alternative investment firms, fintechs, investment advisors, private banks, and family offices. The survey was completed by CEOs and other C-level executives and their direct reports, representing a cross-section of functions, including investment, finance, operations, and technology. Survey respondents come from firms of varying sizes, from fewer than 500 employees to more than 5,000. Similarly, these companies have varying levels of assets under management (AUM), from less than \$1 billion to \$100 billion or more in AUM.

### 3. Advisory meetings and in-depth personal interviews

We conducted two advisory meetings and one-on-one interviews involving 30 industry leaders, including full-service banks, mutual fund companies, fintechs, investment advisors, private banks, and consultancies. This vital qualitative research provided insights into how firms are re-shaping their strategies, processes, and services to meet new market realities. Advisors and interviewees included the following:

- Alpha Wealth Strategies
- Bank of Montreal
- Bank of Singapore
- Bank of Tokyo-Mitsubishi
- Barclays
- Berenberg Bank
- Betterment
- Broadridge
- CFA Institute
- Cisco
- Citi Private Bank
- eToro
- EY
- Financial Engines
- Harvard Business School
- Julius Baer
- LearnVest
- LPL Financial
- MRA Associates
- Pictet
- Ping An Group
- Putnam Investments
- Quadratic Capital
- RBC
- Schroders
- SEI Investments
- State Street
- Tapscott Group
- UBS
- UFG
- Vanguard
- Warburg Pincus

### 4. In-depth economic analysis and modeling

To extrapolate trends from our statistical findings and interviews, our team of economists, headed by noted economist Dr. Nouriel Roubini, analyzed key economic drivers behind global wealth patterns. Based on their rigorous analysis, we forecast future wealth trends and their impact in key markets.

## About Roubini ThoughtLab

Roubini ThoughtLab is a trend-setting thought leadership consultancy providing fresh management thinking and decision support to help business and government leaders cope with transformative change. By applying the latest analytical tools, predictive models, and expert opinion, we provide actionable insight into future megatrends and their impact on the world. We specialize in creating 360° thought leadership that sits at the intersection of visionary thinking, analytical insights, and cross-media outreach.

An agile, collaborative enterprise, Roubini ThoughtLab draws on the diverse skills of its in-house team, global expert network, and alliance partners to fill any or all thought leadership needs—from surveys, interviews, and advisory boards, to analytical tools, indexes and econometric models, to white papers, social media, and infographics.

Roubini ThoughtLab is a joint venture with Econsult Solutions, a leading economic consultancy with links to academia. It was founded in 2015 by noted economist Dr. Nouriel Roubini and Lou Celi, a pioneer in thought leadership and digital publishing.

©2016 Roubini ThoughtLab. All Rights Reserved.

### **Disclaimer:**

The views expressed in this report do not necessarily reflect those of any of the sponsors. The report is provided only for informational purposes, and readers of the report shall use the information entirely at their own risk, with no recourse to Roubini ThoughtLab or any of the sponsors. Although we have tried to provide accurate and timely information, Roubini ThoughtLab makes no representation or warranty as to the completeness or accuracy of the information in this report. All conditions and warranties, whether express or implied by statute, law or otherwise, are hereby excluded.



Lou Celi | Phone: 917.459.4614 | Email: [lou@thoughtworks360.com](mailto:lou@thoughtworks360.com)

Barry Rutizer | Phone: 917.251.4190 | Email: [barry@thoughtworks360.com](mailto:barry@thoughtworks360.com)