

CAPCO



WHY HOLISTIC FINANCIAL WELLNESS NEEDS A REMAKE



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EXECUTIVE SUMMARY

This decade will prove critical for establishing new industry leadership for banks, insurance firms, and other institutions providing financial guidance to consumers. Digital technologies have upended what consumers expect from their providers and allowed fintechs to win next-generation customers from incumbents. The landscape is primed for more seismic shifts.

At the center of this industry reshuffle is the ultimate prize the mass affluent segment in the United States. It's an estimated \$70 trillion market opportunity in the making as older generations pass down their wealth.

The vexing problem for financial institutions looking to capture a slice of this market is understanding the motivations and values of Gen X and millennials, who sit at its center. Raised as digital natives, they have much higher expectations from their financial institutions than their parents.

Historically, the financial services industry has sold customers a limited range of offerings that served particular purposes such as portfolio protection, insurance planning, retirement building, and generic financial literacy education. But these offerings alone will not engage the mass affluent.

To become leaders today, financial institutions must be more than just trusted advisors selling products — they must also help customers achieve holistic financial wellness through an experience that is hyper-personalized, engaging, motivating, and reflects their goals beyond just their finances. It must wrap these offerings into a seamless one-stop-shop. And these experiences must be delivered directly to the customer on digital devices, the ultimate key that unlocks access to the mass affluent segment. In short, this shift requires a wealth management strategy that encompasses the customer's financial, psychological, and physical well-being.

These consumers have a much different perspective on managing finances than their parents.

Based on these factors, here are questions that mass affluent clients might be asking themselves.

- Can I afford a second house? Yes, older clients also ask this question, but the recommendation was often to sock a little away in savings each month or sell assets. Younger clients want a more holistic solution that considers all their life goals, such as planning monthly payments for big-ticket goals in the context of an overall budget with minimal effect on daily life.
- How will we support a newborn? Adjustments in spending and budgeting will be necessary to cover medical expenses for a newborn. But raising a child is much more expensive than before, primarily because of the stratospheric cost of education. Consistently making trade-offs and reprioritizing goals may be necessary for an individual to realistically reach the milestones in their financial plan.
- Can I afford to quit my job? Modern generations are more active job hoppers and career changers than their predecessors. A scenario planner can be very useful to determine how long they can survive with their current funds and lifestyle.

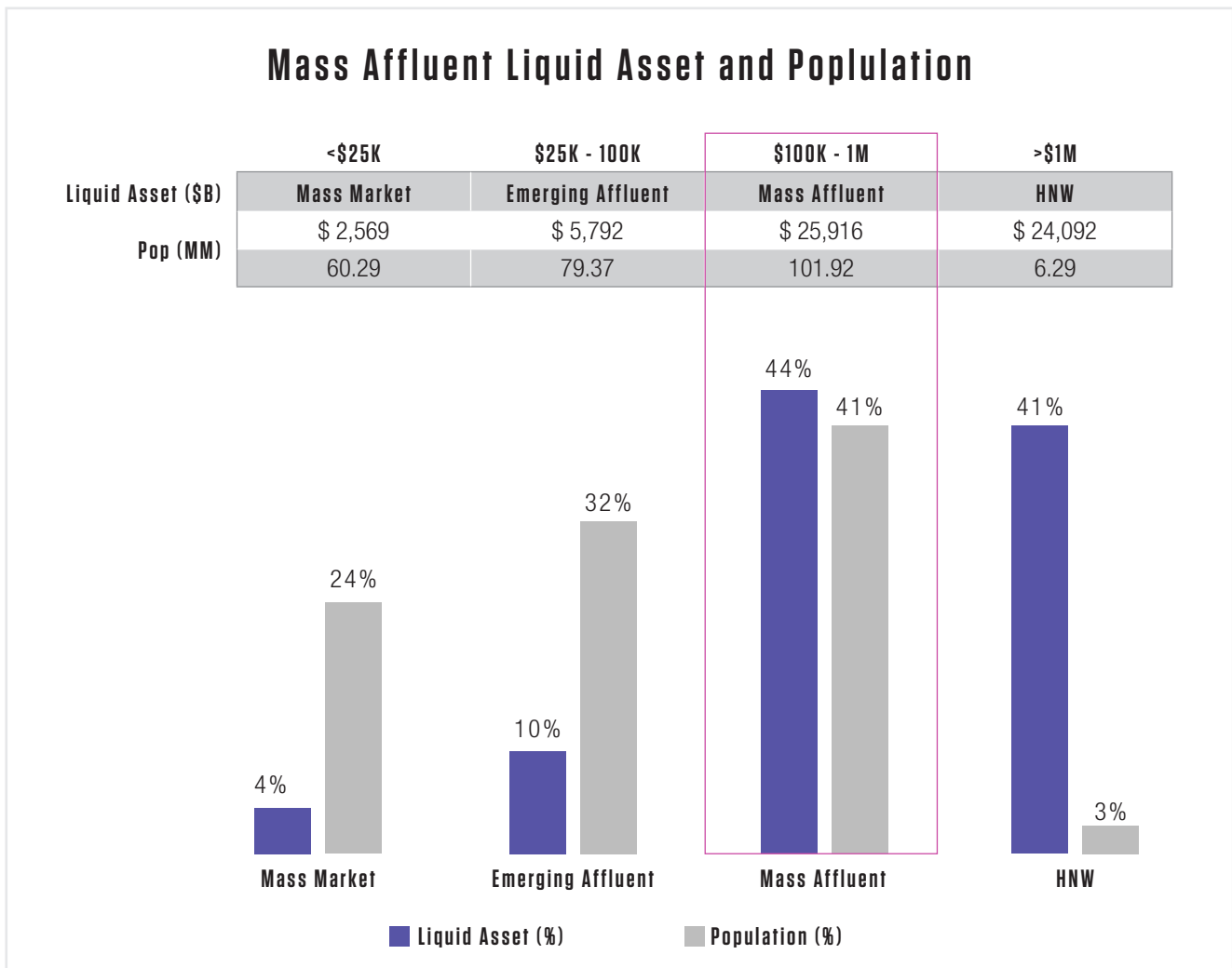
The financial services industry's ability to make user-friendly tools is nascent and facing significant challenges. It's hampered by digital transformation of legacy systems, new complex products and operating models, and tightening regulations on consumer privacy and data. But the industry's ability to offer user-friendly tools faces even greater opportunities, such as access to a substantial new market segment, burgeoning customer loyalty, and rapidly declining operating costs.

Firms that successfully create the right balance of digital tools and face-to-face financial wellness advice will be in prime position to lead the industry as it evolves this decade. Only firms that make the required investments in technology, capabilities, partner-finding, and organizational efficiencies will survive and thrive.

MASS AFFLUENT: WHERE THE FUTURE OF WEALTH MANAGEMENT WILL BE WON

The target customers for this opportunity sit within the banks' existing customer base — the mass affluent segment. It is nothing less than the largest wealth segment in the U.S., both in liquid assets and population. (Exhibit 1.)

Exhibit 1. [Mass affluent liquid asset and population](#)



There is a massive opportunity, given the [pending wealth transfer of up to \\$70 trillionⁱ](#) between boomer parents and their Gen X or younger children. The mass affluent segment makes up a large percentage of customers for traditional banks to cross-sell wealth, which makes the current market even more beneficial for the wealth management industry.

While most firms focus on attracting the high-net-worth and mass market segments using extensive private and retail bank products and services, mass affluent customers have been relatively

underserved. It took the arrival of fintechs and tech giants to show how forefront technologies like artificial intelligence (AI), Agile business models, and engaging user-focused design could appeal to this segment.

As fintechs demonstrated, digital platforms and the ecosystems they create are vital for attracting mass affluent users. The global wealth management platform market was valued at \$3.67 billion in 2021 and is expected to reach \$8.15 billion by 2027, registering a CAGR of 14.56%, according to [Mordor Intelligence LLPⁱⁱ](#).

ONE-STOP-SHOP: WHAT THE MASS AFFLUENT SEGMENT EXPECTS

Younger customers and prospects expect to pursue their financial goals with the same frictionless ease they enjoy in all of their digital experiences. Customers should be able to access advice and solutions incrementally where and when they need it, 24/7. They expect easy-to-use digital tools, such as smartphone apps or digital platforms, to be coordinated with the comfort and personal insights that advisors bring to the table.

In some respects, these offerings are just table stakes — many institutions already bundle most or all of these services. The next step is to create digitally powered, personalized experiences that feature an engaging interface, insights that are proactive as well as deep, and touchpoints with human advisors who are at the forefront of this experience

If wealth managers want to attract customers in this market, **they'll need digital capabilities like these cemented into their strategy around holistic financial wellness.**

One-stop-shop. The one-stop-shop is a digital platform or app that provides access to banking, insurance, financial planning, retirement, and other self-help tools. Insurance companies are responding to the market by building ecosystems where a variety of products and services can be accessed, often provided by partners.

Many surveys point to these opportunities. [49% of wealthy customers prefer a single financial institution to serve most of their financial needsⁱⁱⁱ](#), which include investment management, financial planning, and banking. However, only one-third of wealthy customers engage in firms that do so. Additionally, 66% of investors under age 30 also want a one-stop financial shop.

Hyper-personalized. Younger financial customers increasingly depend on predictive and proactive financial solutions based on their life goals. Products and services must be highly personalized to the customer's needs and meet them where they are, whether transitioning to a new job, dealing with rising care expenses for an aging parent, or exploring non-traditional investment opportunities. The good news is that 65% of customers are [willing to trade off some of their personal data^{iv}](#) for a more personalized shopping experience or price breaks.

Wealth managers focused on financial wellness can utilize socioeconomic data and life-event mechanisms to connect to customer offerings. In addition, a holistic approach must include a behavioral component, such as educating customers on their positive and negative financial behaviors. Providing generic advice ("Time to set up an emergency fund!") is no longer sufficient. Content around financial education must be specific and valuable to the individual customer and their financial needs.

Seamless experiences. Customers have increasing expectations for all their digital experiences. Purchasing a car sight unseen from a computer, which was unthinkable ten years ago, can now be done on any mobile device in thirty minutes or less. The purchase process includes finding the right vehicle, confirming credit approval, obtaining auto insurance, completing registration, and scheduling pickup or delivery.

Firms that fundamentally understand the needs of their customers and take financial wellness seriously with truly integrated digital offerings will see a significant surge in growth. Cerulli Associates projects that by 2042 [baby boomers will be replaced by Gen X as the wealthiest generation](#)^v. Financial firms that delay digitizing and integrating their product offerings risk becoming obsolete.

REVENUE, EFFICIENCY, GROWTH: WHAT AWAITS FIRMS WHO EMBRACE HOLISTIC FINANCIAL WELLNESS

Most digital wealth management solutions lack flexibility, are not customizable to the user's specific needs, and do a poor job exchanging data to increase efficiency. These weaknesses result in lost opportunities for attracting new customers, cross-selling opportunities, and cost-saving measures.

An effective program based on digital technology and meeting customer goals will offer at least three advantages for wealth management firms.

Easy exploration of new markets.

Historically, wealth managers prospected affluent customers locally, face-to-face. They offered largely similar insurance products, investments, exchange-traded funds, and mutual funds. Fintechs took notice and competed with easy-to-use mobile apps, low or no-fee services, and innovative insurance products like pay-per-use.

Taking advantage of cloud services, financial institutions can now prospect for customers from any location — truly vital in a post-COVID world as wealth managers choose to untether from the office. Cloud technologies such as Software as a Service (SaaS) and Platform as a Service (PaaS) allow firms to scale up or down at relatively small cost as market needs dictate.

Advanced data analytics tools are also driving to uncover hidden markets. For example, women, often regarded as a niche customer

segment, are now positioned to be one of the largest beneficiaries of the multigenerational wealth transfer and are increasingly becoming the primary financial decision maker within households, according to the available data. As a result, wealth managers must now tailor their service model to meet women's unique preferences as this growing cohort presents a significant opportunity to provide advice and acquire assets.

Enhance cross-sell and upsell opportunities

Traditional firms have limited opportunities to increase revenue by marketing to their existing customers. The reasons for this are varied: lack of incentives for advisors that reward single product sales and promote enhancing lifetime customer value, lack of necessary technology infrastructure, and delay in modernizing legacy systems.

Financial firms must modernize their systems and effectively capture customer data stored in disparate systems over years or decades. To take the next steps in holistic planning, data analysis tools and artificial intelligence must be utilized to build predictive models of customer behavior and generate marketing campaigns accordingly. Lead-generation campaigns will be fueled by customer data gleaned from cross-collaboration between advisors, marketing, and digital media.

Increase engagement and build loyalty

Customers who face significant barriers are likely to jump to a competitor. As the great wealth transfer begins, only 13% of millennials and Gen-Xers say they expect to retain their parent's wealth manager.

Offering customers a one-stop-shop financial service tool elevates the customer-advisor relationship beyond merely transactional: the tool facilitates engagement and loyalty to the brand. From the user's perspective, financial management is suddenly much simpler and

more powerful. All the resources necessary for achieving holistic wellness can be found on one app instead of many. Powered by AI, the app offers advice beyond what a financial advisor might offer for non-financial life events.

For financial services firms, an integrated wealth platform not only makes you more valuable to clients but is also a tool for attracting and keeping advisors, who are empowered with actionable insights to grow their book of business.

THE FOUR PILLARS OF HOLISTIC FINANCIAL WELLNESS

Based on our years of experience serving the financial services industry, listening to practitioners and understanding our clients' needs, we believe in an approach based on four pillars of holistic financial wellness. Those pillars are: goals-based planning, spending and budgeting, debt management, and protection.

Financial wellness contrasts with market-driven planning, where products are recommended to prepare client portfolios for market risk. Wealth managers focused on financial wellness can utilize socioeconomic data and life-event mechanisms to connect the pillars. Products and services are then highly personalized to the advice generated.

These four concepts are well understood in our industry, but let's look at them from the perspective of your financial planning clients and why integrating all four is more potent than serving up separate products.

1. Goals-based planning. Wealth managers must understand what the customer wants to achieve to deliver the proper holistic advice. Agents must work with their clients to determine their short- and long-term goals around a potentially wide range of financial services and life situations. These become goals that the advisor can then tailor a program around. The client benefits from hyper-personalization of the advice.

2. Spending and budgeting. Developing a simple budget and spending plan is not the objective here. Instead, the wealth advisor should help the client realize how their short-term spending impacts longer-term goals. For example, short-term gains can be applied to fund longer-horizon goals like raising children, caring for an aging parent, or retirement.

3. Debt management. Mass affluent clients often face a mountain of school debt that needs to be reduced through careful budgeting, shifting spending priorities, and exploring alternative sources of income. What-if scenarios driven by AI help clients play out scenarios such as increasing financial reserves by purchasing a smaller house, buying an older car, or swapping a staycation for that budget-buster travel plan.

4. Protection. Risk reduction is the focus of this pillar. Does the client have enough insurance coverage for their age? Are their financial assets protected from volatile market shocks? Are they prepared to weather a spouse losing a job or a parent needing long-term care? Addressing the protection pillar gives the client a sense of control in uncertain times.

THE SWEET SPOT: BALANCING HUMAN ADVICE WITH TECH-DRIVEN SOLUTIONS

Wealth managers must be more than just a trusted advisor selling products to create a tech-driven holistic financial wellness experience. At the same time, rolling out a robo-advisor, while helpful in some situations, falls short of offering customers personalized financial management. Today's financial customers want to combine the efficiency of self-service tools configured to their goals with access to deep subject matter expertise from advisors — active partners who work with customers proactively to prepare for what's coming down the road.

Larger firms will merge their wealth, banking, and insurance offerings to deliver holistic advice on a single digital platform. Smaller firms will inevitably partner or acquire resources to create their own platforms or participate with others.

Wealth management services need to update traditional capabilities and organizational structures to take full advantage

of the digital ecosystem. For example, their solutions could employ the knowledge of a behavioral psychologist to help customers reinforce positive long-term financial health habits. Those solutions will also rely on customer analytics generated by AI and machine learning algorithms that can tease out behavioral shifts by analyzing customer spending data or changes in personal goal statements.

AI and data analytics become critical drivers for creating what-if scenarios and predictive insights. Even if firms outsource these capabilities, they will still require in-house expertise and strategies to take advantage of new behavioral data.

Firms must reorganize their organizations with the customer at the center. They must speed up time to market with new offerings by learning to innovate better and faster and attracting top talent for key strategic positions.



WHAT YOU CAN DO

Wealth managers with a defined vision for delivering digital-based services and a validated business case will expand their customer base. Here is what we recommend as the first steps.

- **Understand what the customer wants.** The good news is that many wealth management firms and banks already know about their customers' financial habits based on previous spending and saving activity. A goals-based planning experience will generate insights that will provide value to the customer. Wealth managers who deeply understand the firm's capabilities and products will give actionable advice on how to help customers reach those goals. If that advice is incorporated into a digital platform or app, such as Capco's prototype solution called LifePlus, the customer can turn to the app for self-directed advice and connect with their wealth manager for additional guidance.

- **Find a partner.** This whitepaper lays out an ambitious menu of change for insurers, banks, and wealth management firms to consider. If the firm does not have the resources to create these changes in-house, it will need a trusted partner that can help the firm understand the technology requirements and build the platform to attract the mass affluent segment.
- Consider making **mergers or acquisitions** to create a functional ecosystem that delivers additional value to customers. For example, by merging with E-Trade in 2020 (and Eaton Vance a few months later), Morgan Stanley no longer had to depend solely on their wealth advisors to bring in new customers, and their customers had exposure to a broader range of services and one-stop shopping.
- **Lead with advice.** Position your products and services based on your unique capabilities and your customer's needs. Then educate users throughout their journey.

SUMMARY

Customers face new challenges and expect more from financial service firms. To be successful, financial advisors must reset their traditional product-sales-first approach to provide a one-stop-shop experience that brings together the customer's complete, personalized financial picture.

To properly serve customers, firms must be able to contextualize advice to life events and suggest products as vehicles to implement financial and lifestyle solutions. This capability requires investments in digital operating models and data-driven solutions while

retaining the high-touch personal relationships the industry is known for.

Banks, wealth, and insurance firms are now positioned to help customers improve their financial literacy, identify negative financial behaviors, and reach overall financial wellness targets. Building a foundational financial wellness program will require research and design to differentiate experiences, thereby guiding institutions and wealth managers in delivering truly holistic, personalized, and effective products for customers.

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ABOUT CAPCO

Capco, a Wipro company, is a global technology and management consultancy specializing in driving digital transformation in the financial services industry. With a growing client portfolio comprising of over 100 global organizations, Capco operates at the intersection of business and technology by combining innovative thinking with unrivalled industry knowledge to deliver end-to-end data-driven solutions and fast-track digital initiatives for banking and payments, capital markets, wealth and asset management, insurance, and the energy sector. Capco's cutting-edge ingenuity is brought to life through its Innovation Labs and award-winning Be Yourself At Work culture and diverse talent.

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