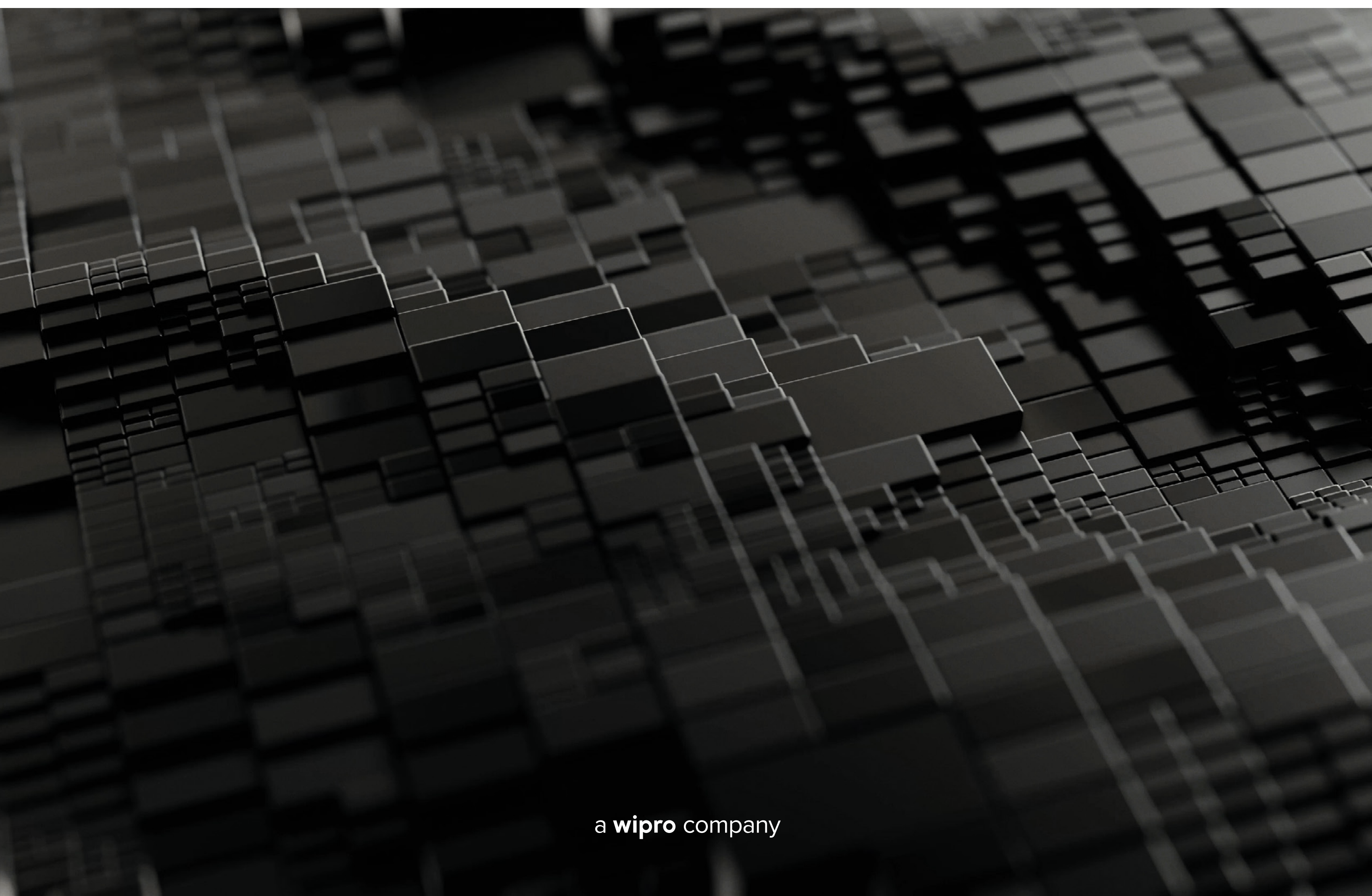
CAPCO

TOP WEALTH MANAGEMENT TRENDS TO WATCH IN 2022:

POSITIONING FOR THE NEXT WAVE OF GROWTH



INTRO

Wealth managers have embraced shifting client demands during the pandemic, prioritizing digital engagement and hyper-personalization preferences to provide comprehensive advice and capture asset growth across the wealth spectrum.

In 2022, firms will compete on the next wave of growth within products, including digital assets, ESG, and custom indexing; client segments involving emerging High-Net-Worth investors and women; and service models comprising holistic advice, digital engagement, and fee modernization. Against the backdrop of a changing regulatory environment and looming disruption from ‘big-tech,’ incumbents must balance retaining existing assets with growth opportunities as firms build and deepen relationships with next-gen investors.

TRENDS

Digital Assets Become Mainstream

The slow pace of crypto adoption by wealth managers has provided an opportunity for new entrants to engage wealthy investors. As firms continue grappling with regulation uncertainty and volatility while advisors remain skeptical of the asset class, clients have invested their assets outside of their primary money manager relationships.

With crypto market capitalization exceeding $2 billion, the institutionalization of crypto has created a sizeable revenue opportunity for asset and wealth managers.[1]

While leading wealth managers, including J.P. Morgan and Fidelity, provided availability to Bitcoin funds in 2021, competitors should re-evaluate the products currently offered and incorporate digital assets as part of their portfolio. We expect to see more strategic partnerships and potential acquisitions between vendors within the digital asset ecosystem and institutional investors.

ESG – The New Normal

Investors are increasingly looking to align their assets with environmental and social goals. A survey conducted by Broadridge suggests 49% of millennials and 27% of baby boomers expect to make socially responsible investments over the next five years.[2] Beyond the social aspects, there are material performance implications for firms that embrace the initiatives.

MSCI reviewed companies in their ACWI index by ESG rating over a seven-year period finding the top third outperforming peers through higher earnings growth and higher reinvestment returns.[3] There has also been pressure from regulators, asset managers, and governments to provide better ESG disclosure. S&P Global noted many large managers have urged management to reveal their ESG strategies and “stewardship priorities”[4] while some governments have moved to divest “non-complying” companies from sovereign investment funds.

Given the lack of criteria in measuring the effects or achieving social goals, U.S. wealth managers should look to prioritize efforts around ESG data.

Custom Indexing – The Next Battleground

Direct Indexing, a $400 billion market as of Q2 2021, is set to outpace the growth of ETFs, Mutual Funds, and SMAs over the next five years as investors seek customized investment solutions that align with their ESG objectives while optimizing tax management.[5] With growth expected to rise to approximately $1.5 trillion by 2025, there is a significant revenue opportunity linked to these actively managed products.[6]

Advanced technology, low trading fees, and the proliferation of fractional shares has democratized access to investors across the value chain. Following the wave of acquisitions in 2020 and 2021, firms continue scrambling to integrate these strategies as part of the portfolio construction process to meet clients hyper-personalized investment preferences.

Attracting Next-Gen Clients

Millennials and Gen-X are set to inherit an estimated $72.6 trillion over the next two decades via a multigenerational wealth transfer, yet only 13% of this cohort is expected to retain their parent’s financial advisor.[7] To capture the pending money in motion, incumbents are moving down market while FinTechs move up market to meet clients where they are in their financial journey. Wealth managers that establish sustainable advisory relationships with this younger cohort of mass affluent and emerging high-net-worth investors would be well-suited to focus on financial literacy, including them in family meetings, aligning with next-gen advisors, and understanding their investment preferences, including ESG and digital assets.

Women in Wealth

Despite accounting for more than half of the U.S. population and having longer life expectancies than men, women are often regarded as a niche client segment within wealth management. Women are positioned to be one of the largest beneficiaries of the multigenerational wealth transfer and are increasingly becoming the primary financial decision maker within households as evidenced by the younger cohort of Gen X and millennial women. Although women are taking a more active role in managing their money, there is a gap in addressing their financial needs. Women tend to prioritize long-term goals and an increasingly mission-driven view of investing compared to men. Wealth managers must tailor their service model to meet women's unique preferences as this growing cohort presents a significant opportunity to provide advice and acquire assets.

Digitizing for Growth

Wealth managers have embraced the digital transformation to meet the growing hyper-personalization demands of clients. According to a Capco survey, 64% of executives believe non-face-to-face interactions will be permanent.[8] As 50% of millennials anticipate using digital channels to access a wide range of investment services and connect with their advisors, firms must continue to enhance a hybrid approach where personal interaction intersects with digital offerings. Further, more personalized investment solutions and access to advice will be critical to retain clients and increase wallet share.[8]

Modernizing Fees

Given the transition to lower costs and more transparency, wealth mangers are reevaluating their pricing and service models. The traditional method of asset-based fees currently makes up 70% of an advisor's compensation on average and is anticipated to reach 74% in 2022.[9] While advisors with strong fee-based businesses have benefitted during the rising bull market, the model was tested during volatile and down markets.

Younger investors have indicated they are willing to pay for advice and bespoke services. The demand for a goals-based approach to portfolio management underscores the need for a comprehensive financial plan, which can serve as an opportunity to introduce new pricing strategies.

Industry Consolidation Set to Continue

With M&A activity at a record high, the lines between wealth managers and other financial institutions continue to blur. 66% of investors under the age of 30 want a "one-stop-shop" option for their finances, according to a recent Capco survey.[10] In response, wirehouses and FinTech's have launched integrated offerings that break down silos between banking, wealth management, and insurance.

As 92% of survey respondents in the industry expect players like Amazon, Apple, Meta, and Alphabet to enter the market, incumbents can capitalize on existing client relationships and data to drive new client acquisition between banking and wealth.[10]

Financial Advisor Succession Plan

After years of slowing growth, advisor headcount is set to decline beginning in 2022 with up to 40% of advisors expected to retire in the next decade.[11] 62% of industry survey respondents have expressed a higher level of concern for employee retention since the pandemic began.[10] Succession and continuity planning for retiring professionals has become a strategic imperative for leading firms, resulting in the launch of new programs to retain and attract talent.

Firms must devise a clear strategy to engage with next-gen investors while navigating the transition of baby-boomer advisors and limiting churn of assets.

SEC Regulatory Agenda – Now or Never

As digital assets became mainstream in 2021, cryptocurrency is now a high priority initiative for SEC Chairman Gary Gensler with regards to increased requirements around transactions, reporting, advisory services, and custody services.

Similarly, conflicts of interest and better protecting investors related to self-directed digital engagement will be addressed in the near-term along with broader market structure items including shortening the trade settlement cycle (T+1) and short selling. However, with November's midterm elections looming, 2022 will be a critical year for the SEC Chair to implement his agenda.[12]

CONCLUSION

A changing of the guard is underway within wealth management whereby a younger cohort of millennial and Gen-X investors are forcing firms to rethink their product offerings and client service model. Driven by evolving client demographics, demand for customized investment solutions, enhanced technology, and industry consolidation, firms that meet clients where they are and effectively serve the younger generation will be well positioned to capture asset growth.

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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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