

# Could your clients' needs be your competitive advantage?

The experience factor: the new growth engine in wealth management

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## The growth opportunity

There is approximately US\$120 trillion<sup>1</sup> of client assets managed by global wealth managers, and 4 out of 10 clients are open to switching wealth managers under the right circumstances. This represents a US\$175 billion to US\$200 billion<sup>2</sup> global revenue opportunity for those firms willing to make strategic investments to deliver a superior client experience, while others may find themselves at risk of losing a substantial portion of their current business.

<sup>1</sup>2015 Credit Suisse Global Wealth Database.

<sup>2</sup>2016 EY survey data analysis (see Methodology and research population section)

## About the research

EY wealth management practice surveyed more than 2,000 individual clients and 60 wealth management senior executives globally to demystify client experience and uncover potential revenue opportunities for wealth managers.

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# Executive summary

The wealth management industry is experiencing an unprecedented level of change: depending on where you stand, these changes can feel like opportunities or threats. Shifting client demographics and preferences present new demands. Fintech entrants are commoditizing the traditional asset allocation advice model, which is eroding pricing power and simultaneously raising the bar for better and faster service.

Wealth managers face both significant opportunities to acquire new clients and assets, as well as daunting risks in terms of retaining clients in the face of competitive threats and digital disruption. So, how should wealth managers prepare to weather the storm and grow through this period of rapid change?

## Shifting from efficiency and regulatory compliance to revenue growth

Amid concerns about a potential slowdown in the global economy, wealth managers continue to be challenged by margin pressures and regulatory concerns; however, their level of concern and optimism varies across regions. In the Americas, approximately 50% of firms believe that margins are improving, while the outlooks of firms in APAC and Europe are less optimistic. Although current strategic budgets are focused on addressing margin challenges, looking out two to three years reveals a strong investment shift toward revenue growth. However, firms in Europe and the Americas are more optimistic about directing their strategic budgets toward revenue growth compared to other regions.

The specific revenue growth initiatives that wealth managers are undertaking are focused on, or have a significant impact on, client experience. Yet, among wealth managers, there is much debate on what a differentiated client experience truly means. In our research of 2,000 individual clients across various segments such as

regions, wealth levels and age groups, we aimed to demystify client experience and help wealth managers gain a deeper understanding of the levers that drive overall client acquisition and retention.

## Bridging the gap between clients and wealth managers

Client experience in wealth management is unique as it spans an individual's life journey of managing and preparing for the unknown. Financial market turbulence, life and career changes, and personal ups and downs – all of these shape the experience from the client's perspective. Hence, client experience in wealth management transcends elements of engagement and client service common to other products and services. Our analysis of clients and their expectations highlights three essential elements in the wealth management relationship – **performance, engagement and trust** – which complement each other to form a comprehensive client experience model best suited for managing clients' wealth. Delivering the kind of experience that clients value can be difficult to execute, as the intersection of performance, trust and engagement creates a high level of complexity due to the multiple layers of client needs, wants and expectations in play.

So, are wealth managers investing in the things that clients care about? The answer is yes and no. Clients and firms are aligned on most of the key client experience drivers, but there are three areas where firms are out of step with clients: transparency, channels and role of the advisor. These themes generally hold true on a global level, though some regional variances exist, notably in markets (such as Switzerland) with different wealth management business models.

- **Clients redefine transparency:** Clients overwhelmingly identified transparency of portfolio performance and fees as the top driver

There is a US\$175 billion to US\$200 billion revenue opportunity for the firms that get ahead of the curve and use client experience as a competitive advantage.



of trust. However, clients are pushing the envelope on what transparency means to them and are eager for a new level of public transparency. Clients are eager to rate their advisors and connect with like clients in public forums. Traditional views of transparency are no longer enough.

- ▶ **Digital channels – clients expect more:** Wealth managers that have been first movers in digital innovation and engagement are already moving a majority of service functions to digital channels, while asserting that they will keep core wealth advice activities in face-to-face channels. Clients, on the other hand, are significantly more open than firms to adopting digital channels for wealth advice. In fact, they consider digital to be a primary channel for both advice and service.
- ▶ **Role of wealth advisor must change:** Historically, wealth advisors have been the rock that keeps clients steady through market turbulence and personal life changes. They've owned the client experience when it matters most. This is particularly true in countries where advisors are the only gateway to wealth management or in client segments that require a high level of product and service customization. Yet, some clients are questioning the value of this role and relationship.

### Strategic considerations for wealth managers

Given these fundamental differences in what clients want, how should wealth managers prioritize their strategic bets? Firm reputation is no longer a barrier to entry; newcomers can build trust with transparency and steal current and potential clients. Digital service is already here, and digital advice is inevitable for certain client segments. The wealth advisor's value goes well beyond assigning clients to asset allocation models, but clients need to become believers too. Firms need to evaluate their strategies against how they impact the key elements that drive client experience – performance, engagement and trust. Every

wealth manager, regardless of size, region or target client segment, should ask these strategic questions:

1. What's the optimal core advice model – human, machine or hybrid?
2. Is there a better fee proposition that improves transparency and justifies the value provided?
3. Should you use social media to “talk less and listen more” to increase retention and referrals?
4. How can wealth advisors become successful in the new world now that the rules of the game have changed?

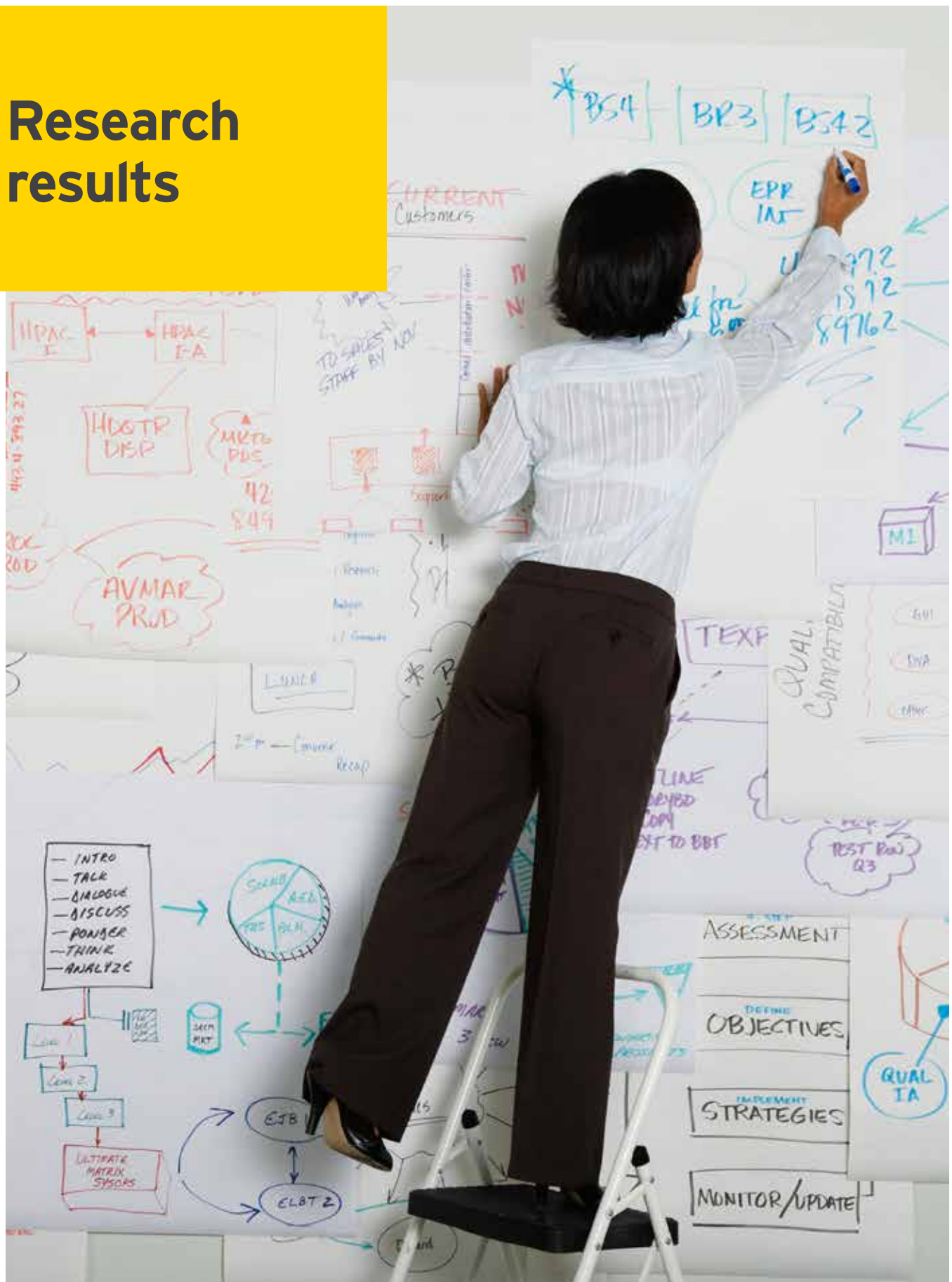
### Why change now?

Our research and analysis show there is a significant amount of assets in play globally. The vast majority (73%) of wealth management clients has relationships with multiple wealth managers, and 57% of them are open to consolidating, meaning 4 out of every 10 clients would consolidate their assets into fewer firms under the right circumstances.

Estimating conservatively, there is a US\$175 billion to US\$200 billion revenue opportunity for the firms that get ahead of the curve and use client experience as a competitive advantage. Wealth managers that take bold action now rather than rely on a wait-and-see approach will be in a prime position to capitalize on the opportunities presented by this changing environment.

Clients and firms are aligned on most of the key client experience drivers, but there are three areas where firms are out of step with clients: transparency, channels and role of the advisor.

# Research results



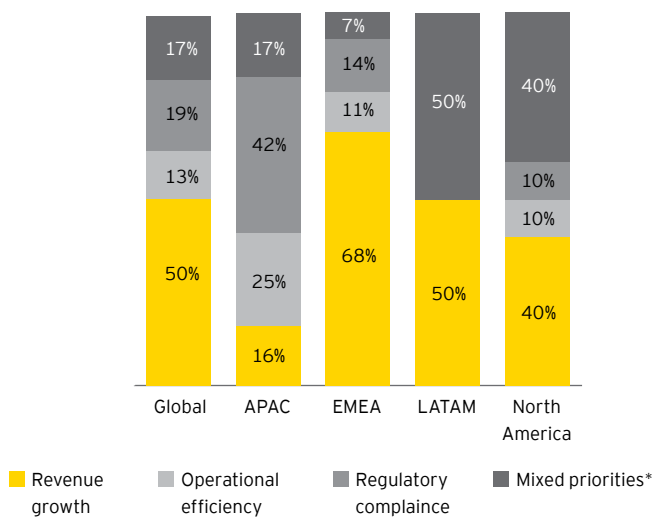
## Growth on the horizon: refocusing strategic budgets

Over the past few years, wealth managers' strategic budgets have tilted heavily toward regulatory compliance and operational efficiency. However, looking forward to the next two to three years, a shift toward revenue growth appears inevitable.

### Strategic shift toward revenue growth

Though the proportion of strategic spending dedicated to regulatory compliance is still relevant among wealth managers across the globe, the trend seems to be shifting. In fact, in markets like the US, regulatory costs are gradually becoming a predictable overhead cost or business-as-usual concern rather than a strategic priority.

#### Primary focus of wealth manager strategic budgets in the next two to three years



\* Firms with priorities that are balanced between revenue growth, operational efficiency and regulatory compliance

As this happens, wealth managers in all regions agree that achieving bottom-line growth through operational efficiencies and cost-cutting measures is an important budgetary factor. Over the last year, many firms have announced new initiatives to reduce total cost of ownership by rationalizing technology stack, right-sizing certain business units, outsourcing various functions and moving operations to low-cost locations. Although similar initiatives have been common in the past, there is clear evidence of renewed cost-cutting.

More important, wealth managers have indicated their intention to shift their priorities toward revenue growth over the next few years, especially in Europe and the Americas. This renewed focus on revenue growth comes at a time when client needs and expectations are changing dramatically, influenced by their daily experiences with Amazon, Apple, Uber and other digital bellwethers. Furthermore, fintech entrants are making inroads in the wealth management space, commoditizing some aspects of the traditional model and creating a higher benchmark for service.

Although client experience has recently become a key area of interest for wealth managers, the concept has proven to be quite abstract with no common definition or benchmark. In this context, our research aimed to establish a concrete and comprehensive reference model to help wealth managers leverage client experience to acquire new clients and assets in support of the revenue growth agenda.

Fintech entrants are making inroads in the wealth management space, commoditizing some aspects of the traditional model and creating a higher benchmark for client experience.

# Combating margin pressure on the road to growth

In the face of increased regulation since 2008, many full-service investment banks have looked at their wealth management arms as their primary growth engines. The expanding fee-based business has provided a steady revenue stream and profit source as assets under management (AUM) increased and margins improved. Yet, more recently, analysts have pointed to margin pressures as a major challenge across the industry. Although profits continue to trend upward in some regions, it is worth asking whether they are sustainable in the face of increased competition and fee pressure, ongoing regulatory costs and a bull market that is showing signs of fatigue.

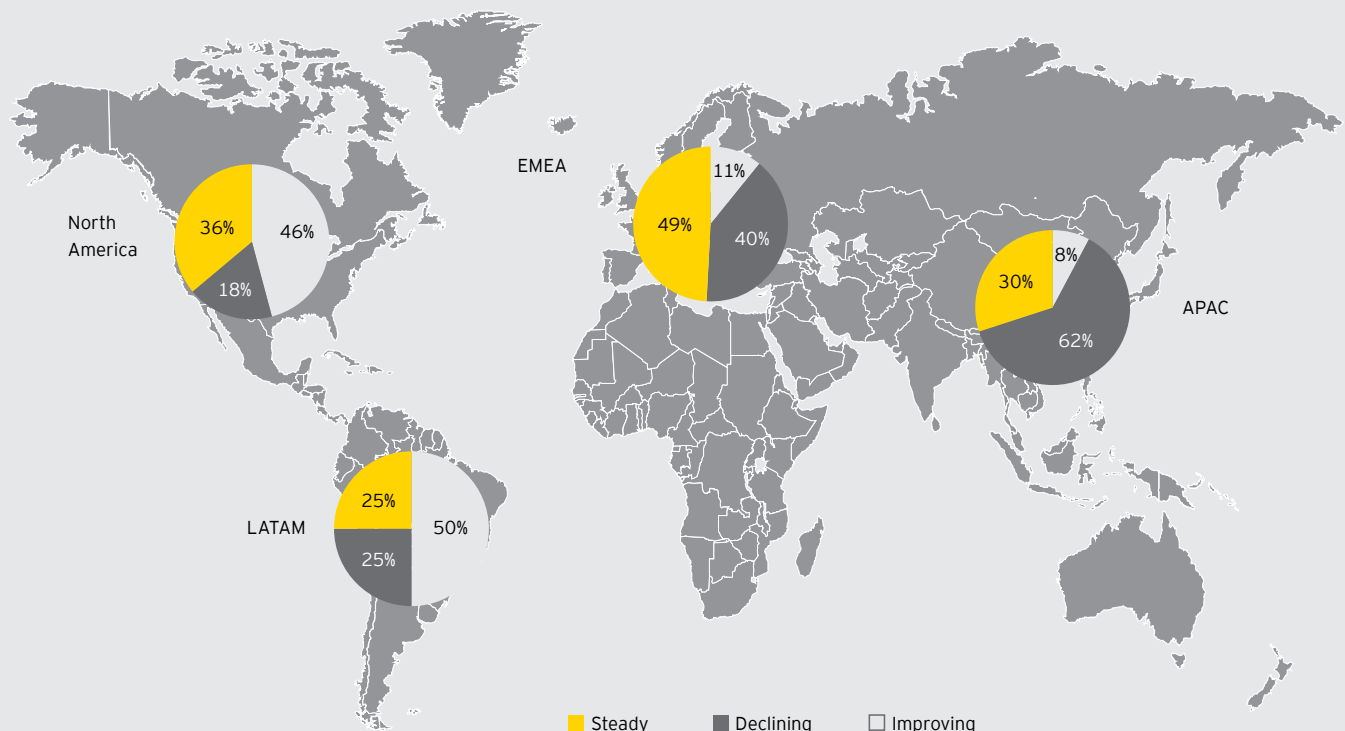
Perceptions on margins vary by region. Approximately 50% of firms in North America and LATAM believe margins are still improving, while views are less favorable in APAC (8%) and Europe (11%). Those citing margin improvements point to the benefits of cost-cutting measures (offshoring, process re-engineering, technology rationalization, etc.) and improved client segmentation strategies. Additionally, the emergence of enhanced digital advice capabilities

will allow traditional wealth managers to service lower-tier clients more cost-effectively.

Although there is a case for improving margins, the global view is that the margin pressures facing the industry are very real. More than 75% of respondents cited the cost of regulatory compliance as the main cause of declining margins, followed by competitive fee pressure (64%) and macroeconomic conditions (52%). Taking the regional view, regulatory compliance costs were most cited in Europe (selected by 93% of respondents), while APAC highlighted fee pressure as the top factor (88%).

Bottom line, the current market turmoil, ongoing regulatory costs and increasing competition from digital entrants have led firms to refocus their efforts toward cutting costs. Although the margin picture varies by region, the compliance costs and fee pressures that are threatening margins are recognized globally.

## Firms' profit margin trends





# Demystifying client experience

Our journey into understanding wealth management clients' views on their experience began by establishing three dimensions that encompass a broader, more comprehensive view of client experience: performance, engagement and trust.



## Performance

The financial performance delivered by wealth managers through various elements of their offerings: products, financial education and advice.

The key of this dimension is that, contrary to the common perception, performance will mean different things for different people.

### Key client questions

- Does my wealth manager understand my financial objectives?
- Am I on track to achieve these objectives?



## Engagement

Encompasses the more common elements associated with client experience, namely the channels and nature of the interactions or touch points between clients and wealth managers, including the processes embedded within those interactions.

### Key client questions

- Can I do business on my own terms and on my own time?
- Is interacting with my wealth manager simple and intuitive?



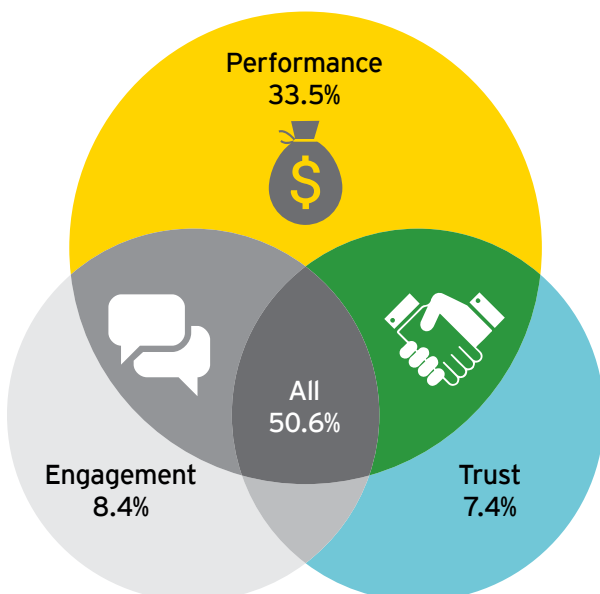
## Trust

Clients' perception of a wealth manager as a trusted advisor and the underlying drivers and elements by which wealth managers can gain that trust.

### Key client questions

- Can I trust my wealth manager with my financial health?
- Does my wealth manager have my best interest in mind?

Next, we aimed to determine how these are perceived and prioritized by clients. Not surprisingly, our research shows that across regions, performance is valued most by clients, with engagement and trust valued equally by them.



However, a closer look at these results shows that half of the client population equally weighs the three dimensions when defining the most important elements of their experience, confirming the need for wealth managers to view client experience as a holistic concept.

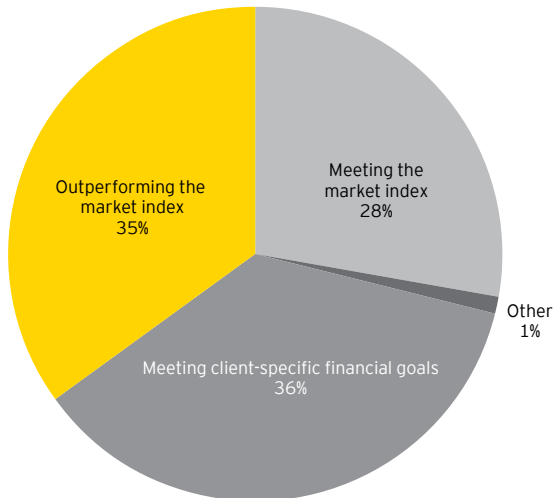


## Performance

**Investment performance is most important to clients, but there is no single performance definition.**

While some clients' expectations are to meet or outperform the market, other clients measure their performance expectations against their financial goals regardless of overall market performance. These varying expectations also lead to nuances in terms of client expectations and preferences regarding wealth advice and products and services.

### Clients' overall expectation of investing

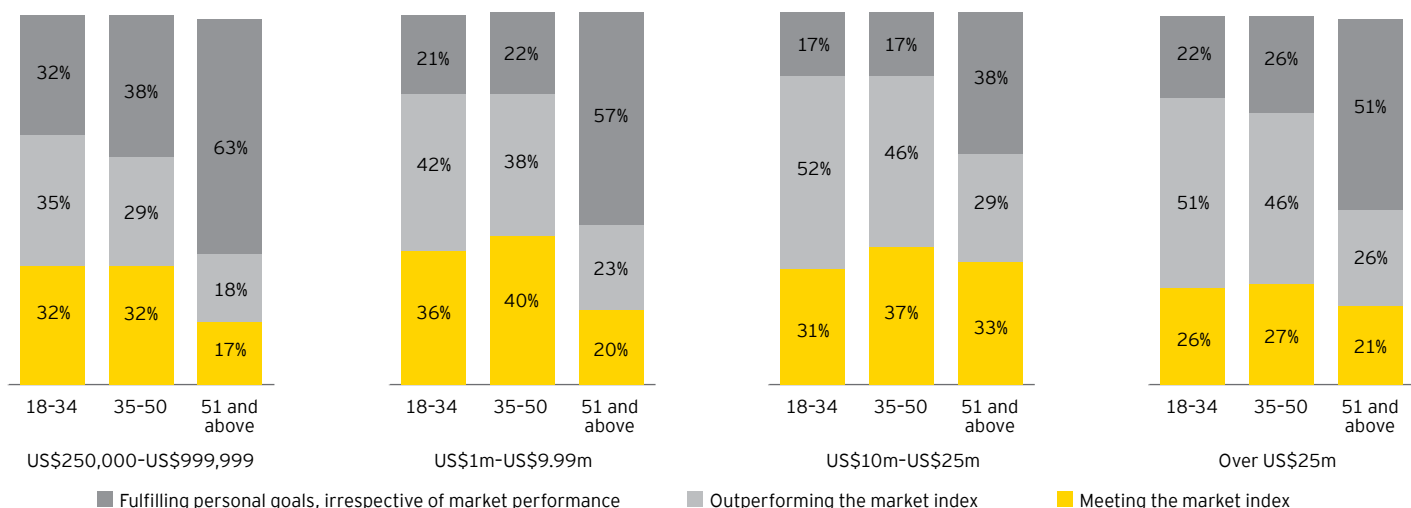


- **Clients who are more focused on achieving their long-term goals value the quality of their interactions**, and tend to prefer face-to-face personalized advice. Furthermore, these clients are more interested in offerings that bundle investment advice with services like banking, insurance and philanthropic services.
- Conversely, **clients more concentrated on outperforming the market are interested in broader investment product offerings** (e.g., hedge funds, private equity). For these clients, speed and frequency of interaction are relevant and they value multichannel interaction. They are also much more willing to receive advice via mobile applications or give digital advice a try. This last point could be seen as counterintuitive considering that current digital advice offerings are exchange-traded-fund-based and therefore have limited ability to outperform the market. Our belief is that ultimately these clients are curious about the innovation behind digital advice, as well as the lower price point, but it does not mean they are considering or interested in shifting the bulk of their assets toward it.

In order for firms to meet these diverse expectations, they need a broad portfolio of products, multiple approaches for providing wealth advice (e.g., goals based vs. traditional asset allocation driven) and different channels for delivery (i.e., face to face, phone based or digital). The challenge is being able to do so profitably and without creating confusion among clients and advisors given the increased complexity arising from such a broad offering.

Furthermore, client segmentation beyond the traditional asset tiers is especially relevant as client investment expectations differ by various demographics such as age, gender and source of income. Firms need to better align client segments to actionable approaches that correlate with the above outlined expectations and behaviors.

### Clients' overall expectation of investing by age and wealth segment





## Engagement

**While clients are demanding broader digital and self-service capabilities, wealth managers can't take their eyes off the basic elements of engagement.**

As expected at a time when digital is front and center for client engagement across industries, digital capabilities are at the top of wealth management clients' must-haves. In fact, the digital bar for wealth managers is rising as clients demand that wealth firms offer more interactions – from account opening to the provision of advice – through digital channels. The bottom line is that digital efforts must continue to evolve and expand.

Social media is one example of clients' evolving digital needs; as clients of all ages have become comfortable with social media, engagement has taken on a new meaning. In clients' minds, interacting with other clients or providing feedback in a public forum is just as relevant as talking to advisors or calling the help desk. Clients are eager to use social media to create and share their own content, while wealth managers see social media mainly as a channel to "push" communications to clients for brand-building and educational purposes.

As wealth managers look to respond to clients' push for more digital capabilities, some might be tempted to delay or de-prioritize them altogether with the rationale that these are not relevant to them,

given the high-touch nature of wealth management (specifically among higher-wealth tiers). Yet, the research shows that the relevance of digital cuts across age and wealth segments and therefore should not be put on the back burner.

Our research indicates that although digital will continue permeating wealth management relationships, advisors will remain important for some key interactions. Firms should then revisit the role of advisors and how they leverage growing digital capabilities to maximize the value, to both clients and firms, of these touch points. In this sense, the future of the advisory model is likely to combine a broad spectrum of capabilities, from pure digital to digitally enabled advisors, aligned to specific client needs and preferences.

Finally, the fact that basic services such as receiving accurate information are top of mind for customers suggests that firms may still need to work in terms of satisfying fundamental client needs. The truth is that wealth managers in general have significant room for improvement across key client-facing processes, which explains why these items remain top of mind for clients because they are not embedded into wealth management firms' DNA as in other industries (e.g., having intuitive user interfaces isn't just top of mind of Apple's customers' priorities; it's a given). Herein is the challenge for firms, as meeting clients' engagement expectations will require them to work both on developing new digital capabilities as well

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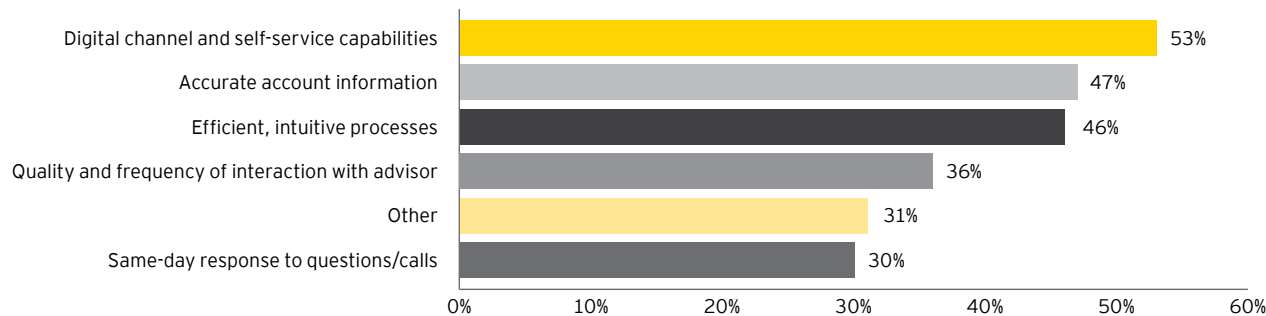




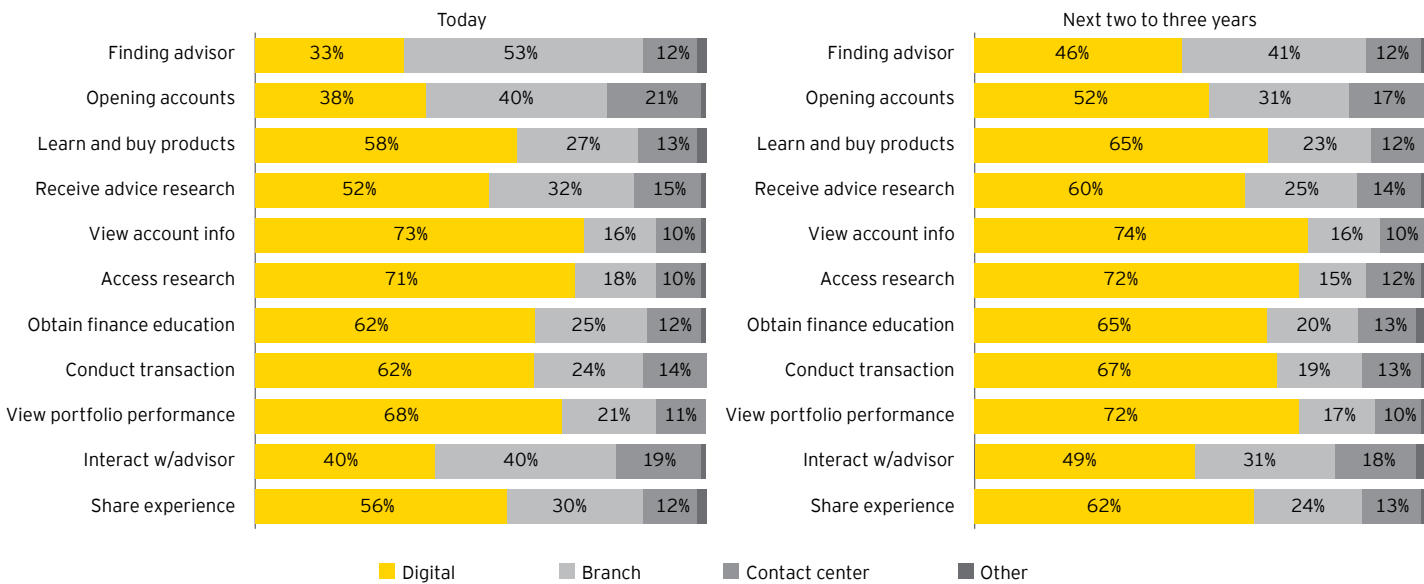
as addressing the inefficiencies and limitations of their existing processes. In this sense, there is a real opportunity to bring the two priorities together – addressing the basics and enhancing digital capabilities – by effectively leveraging digital to reinvent firms’ legacy processes while seamlessly integrating the different channels (on and offline) through which clients can engage with them.

Ultimately, it's clear that firms must find a way to balance all these priorities within their strategic plans and budgets if they are to stay relevant and competitive.

### Clients’ top factors for client service experience



### Clients’ primary channel preference



# Social media: client content is king

One of the most common questions asked by wealth managers over the past two years is how, and to what extent, to leverage social media. The lack of clarity is evidenced by the limited scope of wealth managers' social media footprint. In general, firms see social media mainly as a channel to push communications. This could be for brand-building purposes, to provide institutional information and education, or to attract clients. Even with this limited scope, few wealth managers find their social media strategies to be effective. Firms attribute this to poorly articulated strategies, lack of cultural fit and regulatory compliance implications.

Yet, the key challenge with social media is that it's different from other digital channels. First and foremost, it is a communication channel, with most of the content generated by users. Therein lies its power as social media has become one of the most effective ways for clients to provide feedback to firms.

Our research indicates that almost half of clients believe wealth managers can leverage social media to improve their experience by offering a platform to provide feedback (rate advisors, exchange experiences, ask questions of other clients, etc.). Considering the importance of word of mouth and referrals in wealth management, it could be argued that firms should benefit significantly from the amplifying power of social media. That said, if firms are not delivering what clients want or expect, this power can work against them.

The nature of social media doesn't preclude "talking" to clients and sharing information via social channels, but clients will expect relevant and insightful content (e.g., issue-driven blogs, objective

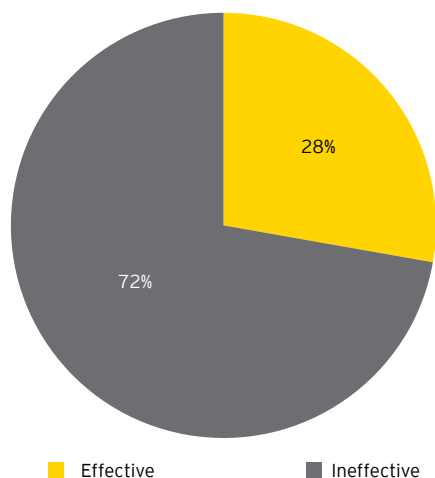
research and educational information) as opposed to generic sales content. They also expect to control the flow of such content (e.g., subscriptions and opt-in). Ultimately, success in talking to clients via social media is tied to a firm's ability to listen and tailor content accordingly.

Whether a social media strategy is focused on talking, listening or both, wealth managers need to first acknowledge the fundamental differences that exist between social media and other traditional communication channels and reflect on key questions:

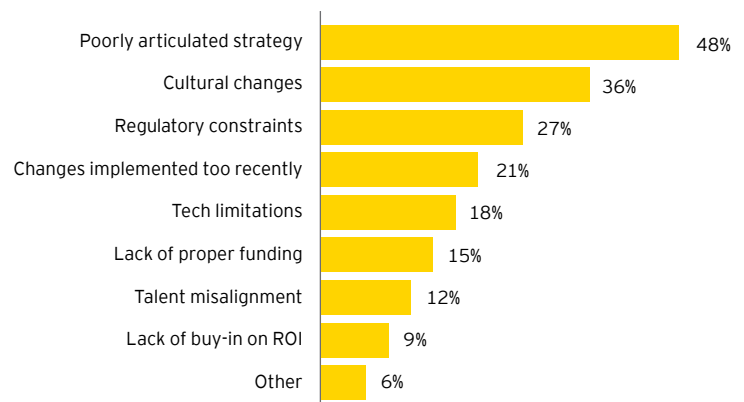
- ▶ Are you willing to relinquish control (totally or partially) of the content flowing through your social media platforms?
- ▶ Are you confident that your value proposition will drive positive content from clients?
- ▶ Are you ready to act quickly to respond to content and feedback as needed?
- ▶ Are you willing and capable of creating content for social media that goes beyond generic brand-building and sales collateral?
- ▶ Are you prepared to commit appropriate resources and stay invested throughout to establish and maintain social media channels?

As wealth managers evaluate their commitment to social media, they need to determine their readiness to go "all-in." A half-hearted approach (i.e., answering "no" to any of these questions) could negatively impact the firm's overall credibility and brand.

## Firms do not believe their social media strategy is effective



## Reason(s) for ineffectiveness





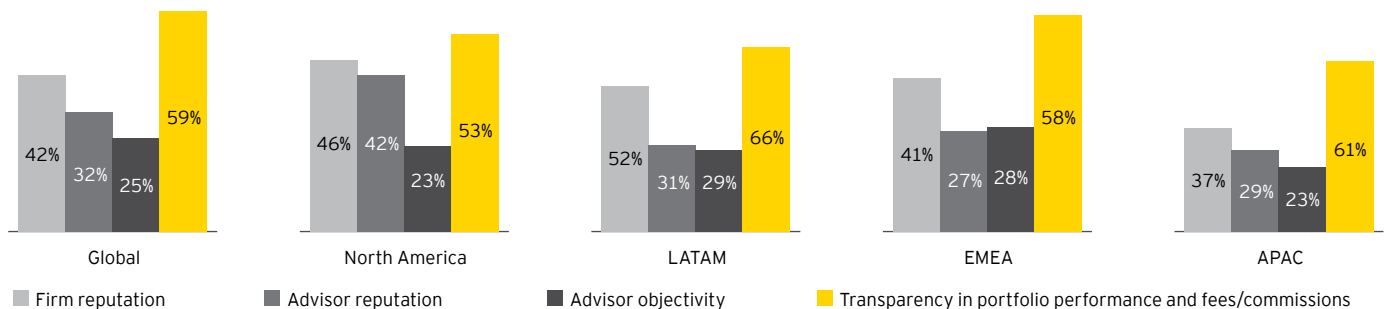
## Trust

### Transparency in the digital age is challenging reputation as the main driver of clients' trust

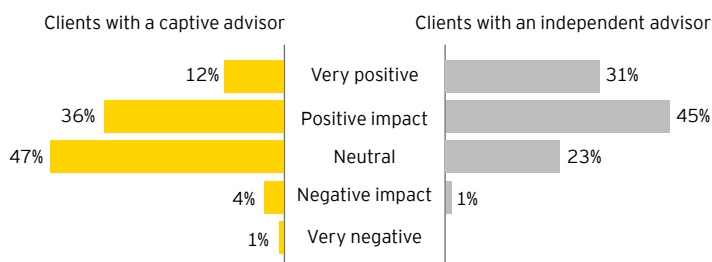
Historically, wealth managers and advisors have relied heavily on their reputation to gain the trust of clients. Strong reputations are not easily won; they must be earned over time through investment results and exceptional client service. While some regional markets have particular considerations for building trust, our research confirms the importance of reputation, but also illustrates the significance of transparency in fees and portfolio performance, as the top factor in building trust and delivering a superior client

experience. Clients overwhelmingly identified clarity in fees and performance (e.g., clear explanation of fees, disclosure of impact of fee changes, real-time performance) as the top driver of trust (28%), followed by firm reputation (17%) and advisor reputation (13%). These preferences are generally consistent across regions, though Latin American clients value firm reputation slightly higher (20%) and North American clients value the advisor relationship higher (16%).

### What are the client trust drivers?



### How clients' understanding of their advisor's compensation impacts trust levels



With clients globally demanding more transparency, independent advisors seem to have a slight edge over captive advisors in inspiring trust. A full 75% of clients working with independent advisors responded that understanding advisor compensation drivers had a positive impact on trust vs. only 48% of clients working with captive advisors. In other words, clients perceive captive advisors as more sales-driven, an attribute that negatively impacts client trust.




Our research suggests that reputation must be balanced with transparency across multiple elements (e.g., holdings, performance, fees). Meanwhile, this dynamic also lowers the barrier to entry for the competition; with firm and advisor reputation secondary to transparency, new entrants have an opportunity to quickly gain client trust.

New dynamics lowering barriers to entry: with firm and advisor reputation secondary to transparency, new entrants have an opportunity to quickly gain client trust.



## The ideal wealth management experience – the client's view

Individual clients will have distinct views on an ideal experience, but most will incorporate the three key elements of client experience.

Performance		
<b>Duncan</b>  <ul style="list-style-type: none"> <li>▶ Late 40s entrepreneur</li> <li>▶ Sold business to a Fortune 500 company</li> <li>▶ US\$20m in investable assets</li> </ul>		What's important to him?
		<ul style="list-style-type: none"> <li>▶ An advisor who has a good understanding of his goals</li> <li>▶ A correlation between his goals and the advice being provided to him</li> <li>▶ An understanding of how his portfolio performance is tied to achieving his goals</li> </ul>
		Ideal experience
		<p><b>Duncan's</b> advisor walks him through the performance of his investments over the past three months, focusing the conversation on each of the key goals set with him during the account opening process. These include guaranteeing a desired level of income when he takes an early retirement, his children's college education and financing the purchase of a summer home in Tahiti. The walk-through is supported by a series of digital reports that illustrate graphically the progress made against each of his personal goals.</p>
Engagement		
<b>Helena</b>  <ul style="list-style-type: none"> <li>▶ Late 30s executive</li> <li>▶ Tuned into the global economy</li> <li>▶ US\$3m in investable assets</li> </ul>		What's important to her?
		<ul style="list-style-type: none"> <li>▶ A multichannel offering to engage the firm on her own terms</li> <li>▶ Digital capabilities providing her real-time account and advisor access</li> <li>▶ The ability to provide feedback and connect with like clients via social media</li> </ul>
		Ideal experience
		<p><b>Helena</b> is reading <i>The Economist</i> on the way home from work about the impact that oil prices are having over the global economy. She wants to know how her investments are being affected by global events, so she logs into her firm's wealth management portal to look at her real-time performance. As she does so, she receives a live notification of a change in the fees charged to her account and what the estimated impact will be. She has a follow-up question on this, so she uses the portal to connect with her advisor and address her concern.</p>
Trust		
<b>Ganesh</b>  <ul style="list-style-type: none"> <li>▶ Mid 30s doctor</li> <li>▶ Recently inherited assets</li> <li>▶ US\$500k in investable assets</li> </ul>		What's important to him?
		<ul style="list-style-type: none"> <li>▶ Transparency in terms of performance and the value provided for fees charged</li> <li>▶ Social media capabilities for him to exchange experiences and rate his advisor</li> <li>▶ Alignment of advisor incentives with achievement of his goals</li> </ul>
		Ideal experience
		<p><b>Ganesh's</b> advisor lets him know that his newly invested assets will result in a fee rate change and explains the overall impact as well as potential alternatives. After listening to his options, Ganesh is curious about his firm's digital advice offering. To learn more, he logs into the firm's client forum and posts a question about digital advice. Within 24 hours, Ganesh has received feedback and connected with 10 individuals who have shared their experiences with the digital advice service. With this information, he goes back to his advisors and inquires more about the service.</p>

# UHNW millennials: not your average next-gen investors

It's January 4, 2016, and 29-year-old Paul Liang is waiting for his friend and cofounder of their technology start-up to meet him for lunch. These entrepreneurs and their growing business recently partnered with a larger, more established player; in addition to deliberating their 2016 strategy and recounting his New Year's Eve spent skiing in the French Alps, Paul plans to mention his desire to invest his recently augmented assets with a wealth management firm. Paul represents the ultra-high-net-worth investors (UHNWI) millennial segment, and although the industry presumes it knows how this conversation may play out, our research highlights a few surprises.

## The accepted view

Millennials are the largest and fastest-growing adult segment across the globe and represent the greatest opportunity for the wealth management industry. Born after 1980, this group is unlike their predecessors in terms of attitudes toward their careers and finances, personal values and expectations in relation to client experience. Not only is this group growing in number, it is also accumulating assets at an impressive rate. In fact, as millennials enter their prime earnings years and face the prospect of inheritance, they have the potential to become the wealthiest generation in history.

But do all millennials think alike? Do successful entrepreneurs like Paul have the same objectives, values and concerns as your typical mass affluent millennial client with modest investments, student

loans and a mortgage? Wealth managers tend to typecast millennial clients, regardless of wealth segment, around a few observations:

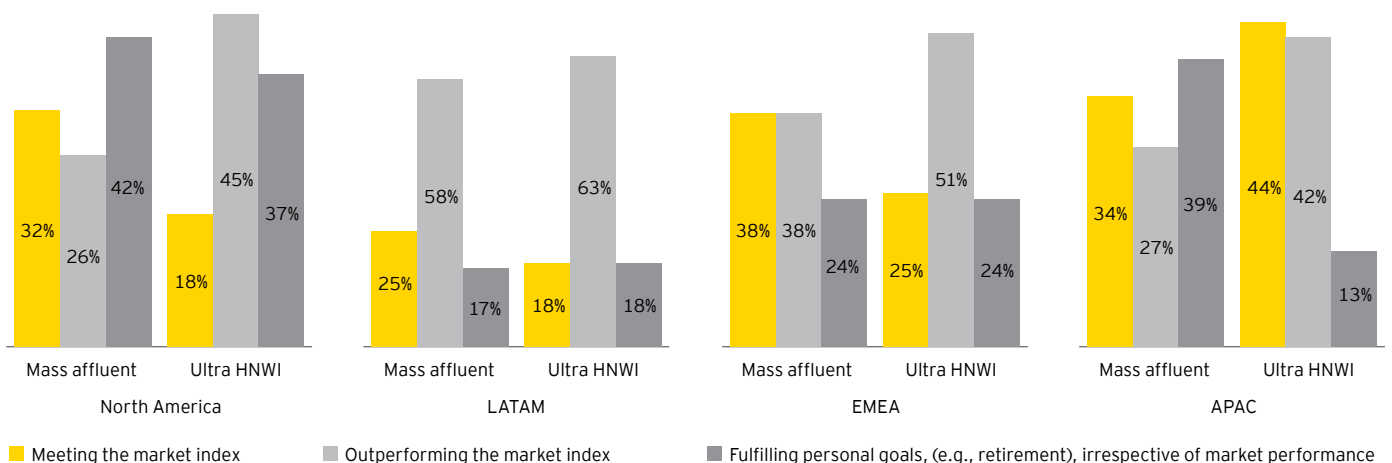
- ▶ Millennials are more concerned with meeting their personal and financial goals than beating a benchmark.
- ▶ Trust and price sensitivity issues have led some millennials to explore do-it-yourself investing and others to remain on the sidelines.
- ▶ Efficient processes, accessible financial advisors and intuitive digital platforms are a baseline expectation.

## Global investment objectives

So, does the industry perception of millennials hold true for the UHNW and across regions? From an investment standpoint, ultra-high-net-worth (UHNW) millennials globally view outperforming the market (51%) as more aligned with their objectives than fulfilling their personal goals (22%). Looking regionally, only 13% of UHNW millennial clients in APAC and 18% in LATAM cite achieving their personal goals as a top investment priority.

Even mass affluent millennials are equally distributed globally between those looking to meet the market, outperform the market and attain their goals. Interestingly, mass affluent millennials from North America have the greatest preference for fulfilling their goals (42%) versus beating the market (26%), implying that the goals-based buzz may not have permeated globally. This presents an opportunity for wealth managers to shift clients' mindsets in regions that still value alpha above all.

Millennials investment objective by region



## Trust breeds loyalty

When it comes to client engagement expectations, millennials are fairly consistent across regions and wealth segments, valuing efficient processes, digital channel offerings and positive advisor interactions as the main drivers of an exceptional client experience. Additionally, millennials would generally “pay a bit more” for an enhanced experience across these factors (as opposed to baby boomers, where 63% would not be willing to pay more). So where does the stereotype that millennials are price-sensitive come from? And, based on this data, does it hold water?

Millennials value transparency with regard to fees and performance as one of the most important factors when establishing trust. If a millennial did switch firms in the last two years, the top reasons were also related to fees and performance; millennials aren't necessarily searching for lower fees, but rather for more transparency and a stronger correlation between what you pay and what you get (in other words, fees paid vs. value delivered). Millennials are also more loyal to advisors than firms: 35% of millennials say they would move assets to continue working with a specific financial advisor (irrespective of the firm), as compared to only 12% of baby boomers (who are generally more loyal to the firm). Advisor loyalty is greatest among UHNW millennials and declines when moving down wealth segments.

Although more loyal than anticipated, 51% of UHNW millennials would be “very likely” to consolidate assets into fewer firms as compared to only 9% of UHNW baby boomers (and 26% of mass affluent millennials). A possible explanation is that if a strong relationship were established with a trusted advisor, UHNW millennials would be more willing to go all-in and maintain that relationship than other segments. With UHNW millennials housing assets at three firms on average, this represents an opportunity for wealth managers and financial advisors to establish trust by differentiating themselves through transparent fees and performance reporting.

## Digital natives

With the importance placed on transparency, digital platforms and intuitive processes, should traditional wealth managers be worried about UHNW millennials shifting assets to digital advice providers? The answer is yes. Millennials are by far the most aware of digital advice offerings and 43% of UHNW millennials would be “very likely” to consider opening an automated advice account (versus only 15% of mass affluent millennials globally).

Furthermore, UHNW millennials have the assets, but their financial needs may not be as complex as UHNW baby boomers, who may require tax and estate planning, insurance products and trusts. These products are not currently part of digital advice offerings but are also not required by most UHNW millennials given their life stage. Their top concerns are that digital advice is “too generic” and that these firms have a limited track record. Although the needs of most UHNW clients exceed the current capabilities of digital providers, this data seems to indicate strong interest among the UHNW millennial segment and an opportunity to capture additional assets as digital advice capabilities mature.

In summary, conventional wisdom regarding millennials doesn't always apply to the UHNW segment. Specifically, UHNW millennials' desire to beat the market and their apparent advisor loyalty contradict the common industry perception of millennials as driven by personal goals, wary of advice and fickle. With that said, UHNW millennials' expectations for seamless processes, digital platforms and interaction channels, and transparency are aligned with industry views. **In order for traditional wealth managers to capture and retain the assets of wealthy millennials, they will need to be ready to compete with new entrants by raising their digital game and confirming alignment of value delivered with fees charged.**





# Bridging the gap between firm strategy and client expectations

Our research results reflect that, to a large extent, wealth managers understand client needs and wants, but there are a few important areas of divergence.

Both clients and wealth managers agree that understanding and fulfilling investment performance and goals are keys to superior experience. These two drivers are somewhat connected as it is difficult to deliver on performance expectations if the wealth advisor does not understand them in the first place, and it is not worth splitting hairs on which is more important.

However, clients and firms diverge on the importance of advisor interactions and transparency in driving client experience. Clients place significantly higher emphasis on transparency in fees and portfolio performance while somewhat downplaying the role of advisor interaction. In contrast, wealth management firms emphasize the role of the advisor interactions, while overlooking the impact of transparency.

Given recent market history, it is not hard to see why transparency takes a top spot in clients' minds. But why do they discount the role of advisors? The answer is multi-faceted, but client willingness to adopt digital channels for service as well as advice is a big driver. These differences between clients and firms come together in three fundamental, but evolving, areas: transparency, advice and service channels, and the role of the advisor.

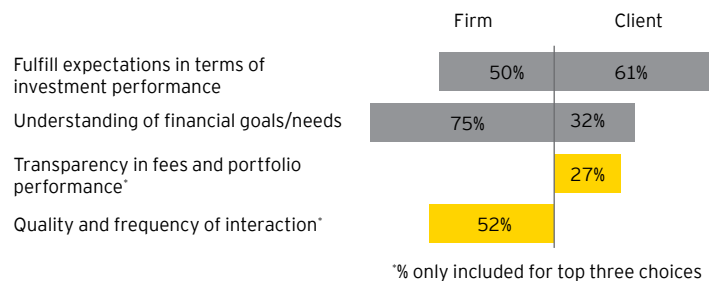
## Clients redefine transparency

At its core, wealth management is about planning for future unknowns and trust is a key element of this equation. Clients identified transparency of performance and fees as the top driver of trust. Clients are demanding firms to be significantly more transparent than they are today while pushing the boundaries on the traditional view of transparency.

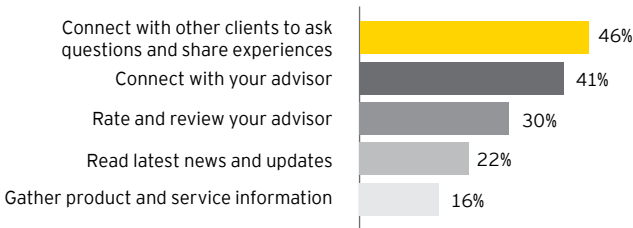
**Public transparency:** Clients are now looking for a level of public transparency well beyond receiving accurate and informative quarterly reports. Clients are ready to "rate" their advisors and connect with "like" clients to exchange ideas and share positive and negative experiences in public forums. These expectations are driven by the new norm of customer experience across everyday life, whether it's purchasing an airline ticket, taking a car to the airport or finding a physician. Rating your financial advisor the same way you might rate an Uber driver may be unthinkable to wealth managers, but not necessarily to digital-first millennials. At minimum, it is a shift in mindset worth closely watching.

Clients across regions, wealth bands and age groups identified the ability to review or rate their advisor as an important way in which wealth managers could effectively leverage social media. Yet, empowering clients with this type of influence is not on the radar of any wealth manager that participated in our research.

### Firm vs. client view: top three drivers of client experience



### Client's view on best ways to leverage social media to improve client experience



**Fee-for-value transparency:** Approximately a third of clients are dissatisfied with the way they are charged and roughly a quarter of clients are not sure how they are being charged. While the industry has moved from transaction-based compensation (i.e., commissions) to asset-based fees, client preferences are moving clearly toward fixed fees. Client preference for fixed fees is rising, while preference toward both asset-based fees and commissions is on the decline. Furthermore, clients are becoming less sure about how they want to be charged in every single region.

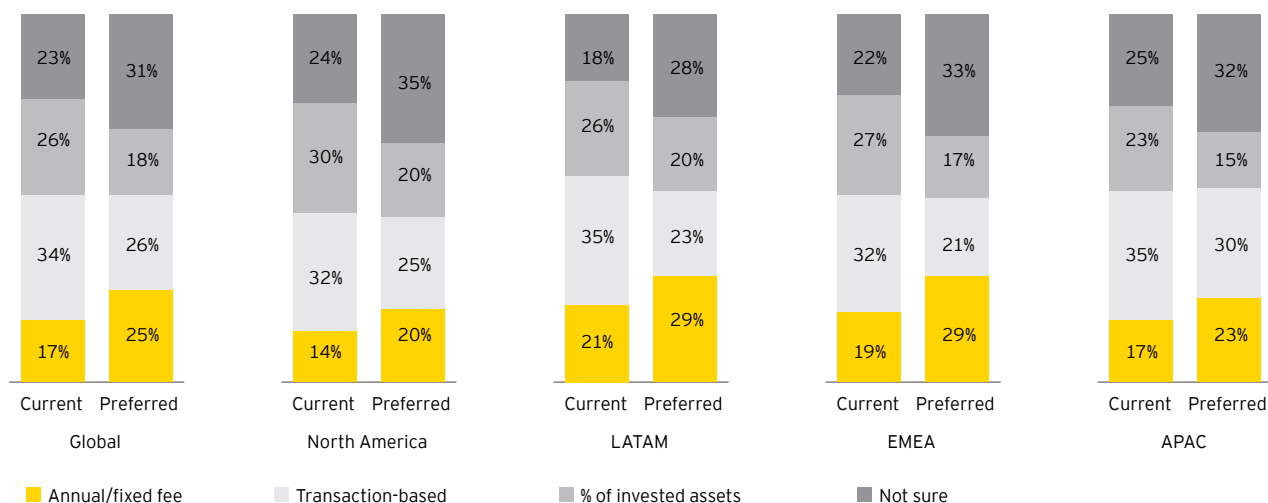
With the emergence of digital advisors offering low fees for asset allocation advice, clients are looking to better understand the value added by human advisors. Clients are also challenging the correlation between size of the account and fees implied by AUM-based fees. All this has made clients doubtful about the current fee propositions, and the firms that figure this out will have a distinct competitive advantage. Our research does not suggest a wholesale shift in pricing from asset-based and commission to fixed fees, but

it does point out that there is a clear opportunity for firms to move the needle on trust by rethinking how they charge clients today.

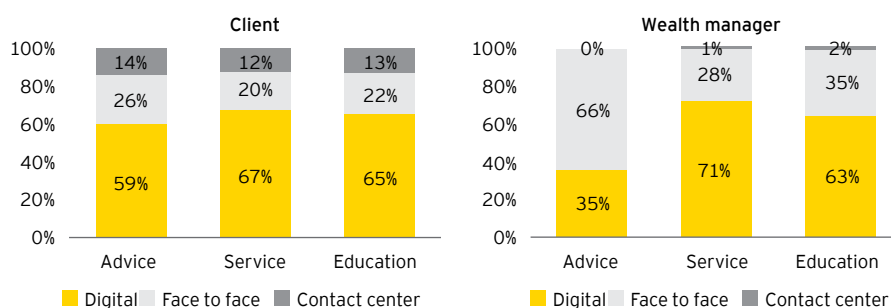
## Digital channels – clients expect more

Although face-to-face meetings are still the primary way for traditional wealth managers to interact with clients, most firms agree that key **service** activities, such as viewing portfolio information and accessing research, will be primarily digital within the next three years. Consistent with client views, firms that have been first movers in developing digital channels have stated that they will designate the majority of administrative functions to digital, including client onboarding and transactions. However, they have also stated that they will keep core wealth **advice** activities in the branch. Clients, on the other hand, are significantly more bullish than firms on adopting digital channels to receive wealth advice. Most notably, clients say websites and mobile capabilities will be their primary channel for receiving advice (59%) compared to branches (26%) in the next two to three years.

### Clients' current and preferred fee structure



### Primary channel for doing business in two to three years



Clients say websites and mobile capabilities will be their primary channels for receiving advice (59%) compared to branches (26%) in the next two to three years.

Meanwhile, robo-advisors are gaining awareness and traction around the globe, but there remains plenty of room for digital advice to expand. The sweet spot for awareness and preference for robo advice is driven by the HNW segment, not the mass affluent or emerging HNW segments, as commonly believed by some wealth managers. HNW individuals have significantly greater awareness (63%) and are more likely to consider using a robo-advisor (71%) when compared to the mass affluent segment, of which only 34% are aware and only 37% would consider using robo-advice.

The HNW segment interest creates an opportunity and a challenge for wealth managers. Firms with an existing automated advice offering may need to make their HNW clients more aware of it. On the other hand, it also highlights an untapped, wealthier target audience in the waiting. For established wealth managers creating automated advice offerings as a complement to the traditional advisor channel, there is some risk that their human advisors and robo-advisors may be targeting the same HNW client segment in the near future. This overlap will require firms to carefully and proactively coordinate across offerings targeted to the same clients.

### Role of wealth advisor must change

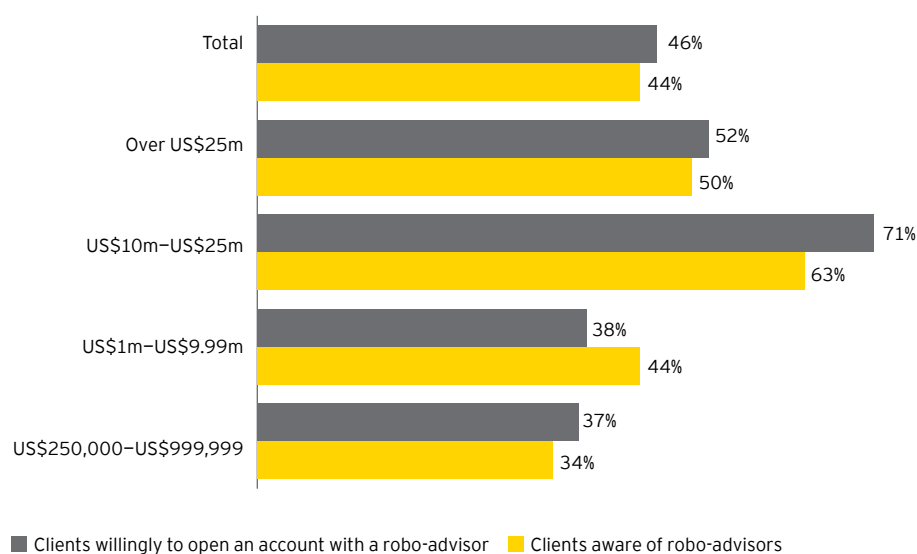
The wealth advisor, which could be a private banker, portfolio manager or relationship manager, has historically been viewed as the steady hand that guides clients through rough markets or personal life changes. This is particularly true in countries such as

Switzerland, where the business model is focused on confidentiality, political neutrality and financial stability and where UHNW individuals requiring highly customized services comprise the main client segment. Firms committed to the advisor channel believe that the quality and frequency of advisor interactions is one of the most important elements of a superior client experience. Thus, they are making strategic investments in enhancing the advisor channel. In contrast, clients seem to generally downplay the importance of this relationship.

The fact that clients do not consider the quality of interactions with their advisors as critical to their overall experience should cause concern for wealth management firms. This finding may not be surprising, given that advisors at large wealth managers may serve more than 150 clients, constraining their ability to treat each client as truly distinct. The digital investments that wealth managers are making to move some service and transactional activities away from the branch will help free up advisors to focus on quality interactions with their clients.

Wealth advisors are the guides who help clients achieve their financial milestones and life goals, but firms need to do a much better job of helping clients understand that value. Furthermore, firms need to acknowledge that the role of wealth advisors will look dramatically different in 5 or 10 years and begin preparing for that transformation now.

**Clients' awareness and willingness to open a robo-advisor account**



# Conclusion





So, what does all this mean for wealth managers, and how can these client insights be leveraged to capitalize on the opportunities presented by the various disruptions while mitigating the threat to client retention?

## Capturing clients and assets in motion

Our research shows that the vast majority of clients surveyed have relationships with multiple wealth managers, and 4 in 10 clients would likely consolidate their assets into fewer firms given the right incentives. Asset fragmentation across firms has been a key theme in financial services for more than a decade, and it is clear that clients have not had a compelling reason to consolidate thus far.

The top three reasons clients may consolidate are nothing new: better pricing, better returns, and breadth of products and services. What is new, however, is a deeper understanding of what is meant by each of these factors.

- ▶ **Better pricing** does not mean lower pricing, but transparent pricing with clear and demonstrable value for fees paid.
- ▶ **Better returns** may mean anything from beating the market to achieving personal goals.
- ▶ **Breadth of products and services** could mean new banking and lending products, mobile access or someone to advise on the financial implications of a divorce.

Herein lies the challenge of getting client experience right: individual expectations of performance, trust and engagement, the core elements of client experience, are incredibly diverse. Given this complexity, wealth managers should ask the following strategic questions when prioritizing their revenue growth investments and initiatives:

### 1. Re-evaluate your core advice offer(s) in terms of human, machine or hybrid

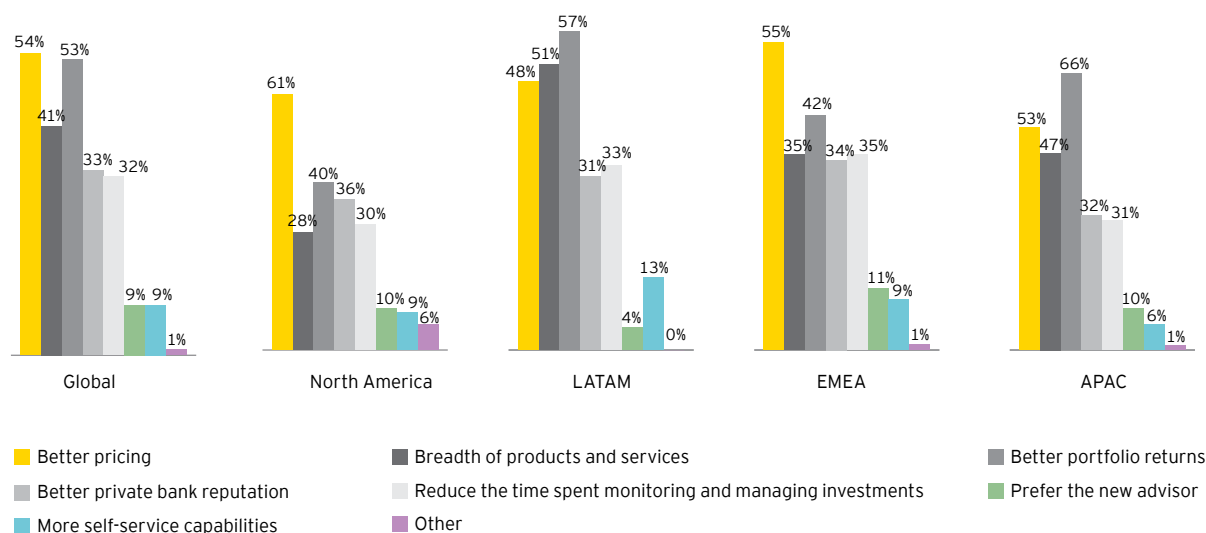
Since performance and engagement mean different things to different individuals, offering targeted advice that is efficient

and cost-effective for the firm is a challenge. Addressing this will require firms to leverage more sophisticated analytics to develop new segmentation models based on preferences and behaviors, as opposed to the traditional method of wealth levels and demographics. This will enable firms to not only better refine their offering(s), but also to define targeted solutions for specific segments that ultimately limit complexity and confusion across segments.

Given changing client expectations and the inevitability of digital engagement, it is crucial to define an approach that offers clients a balance between face-to-face and digital interactions. This will have the added benefit of enabling advisors to focus on higher-touch interactions and activities such as goals discussions with clients. A key component of this will be targeting digital advice to the HNW segment, moving beyond the current mass affluent target market. This effectively means that all firms, regardless of their target client segment, will need to consider including a digital advice component to their offering in the near future. How they go about this and the underlying challenges will vary depending on the firm and the importance of automated advice to their overall strategy:

- ▶ **New market focus:** For firms looking to tap into the mass affluent or emerging HNW segments, there is a significant opportunity to align less profitable clients with the more cost-effective digital advice model. However, firms will have to carefully delineate the boundaries across their offerings to avoid confusing their clients and upsetting their advisors. When devising a strategy to build internally, acquire or partner, firms should seriously consider their internal capabilities and culture in relation to propensity to innovate and time to market.

## What will drive clients to consolidate assets?



Finally, as firms develop their digital capabilities they should leverage the proposed client experience framework to truly redefine processes through the use of digital (paperless, real-time tracking and notifications, etc.). This should yield tangible improvement in terms of efficiency and effectiveness, but also address clients' digital expectations in a more impactful way than "pretty" mobile apps ever could.

Better pricing is the top reason a client would pull the trigger to consolidate assets. However, better pricing does not necessarily mean lower pricing; it often means a better understanding of the correlation between what you pay and what you get. A pricing strategy that provides transparency into the value delivered is almost as important as competitive pricing.

Wealth managers need to rethink their pricing strategies from AUM-based fees to a more hybrid approach that incorporates fixed and/or transactional elements that provide better correlation to services provided to clients. Wealth managers should examine

Traditionally, wealth managers have leveraged financial advisors and portfolio managers to get a pulse on clients' needs and preferences. The challenge with this is that advisors and bankers are only a proxy for clients and the two do not always see eye to eye. Social media offers an opportunity to address this gap and "listen" directly to clients while identifying the drivers of retention and attrition. The key, though, is for wealth managers to acknowledge and accept that social media is a client-driven channel where the majority of the content will not be generated by the firms themselves.

Furthermore, firms need to understand that clients are not only expecting to be listened to, but also to have their feedback responded to. If firms do not have the right infrastructure in place to respond appropriately in a timely manner, it will only lead to disappointment and negative experiences. In essence, if you can't fix what's broken, don't ask in the first place.

Embracing the voice of the client on social media requires firms to challenge established paradigms of client communications. That is a defining reason why very few firms are currently harnessing the power of social media. Ultimately, those willing to lead the charge will enjoy a clear first-mover advantage and have an edge in terms of delivering an outstanding client experience.

The nature of managing wealth is changing dramatically. Today, clients want even greater transparency on their investments and fees, and the value delivered by wealth managers. In the near future, clients will expect to do a lot more digitally (including rating their advisors like they do their doctors) and fintech firms will continue to raise the bar for transparency and service expectations.



Advisors will need to spend less time providing standard asset allocation advice and other activities that can be automated by an algorithm or a robo. They will need to spend more time calming jittery nerves in choppy markets, helping clients drop bad spending habits and increase savings, assisting clients through a divorce and providing clients with the tools to achieve life and financial goals. In essence, the role of the financial advisor may become more like a financial therapist in the future.

Wealth managers who are committed to the advisor channel should take a step back to paint the picture of what they want their advisor profile to be in three to five years and adapt their recruiting, incentive strategies and platform investments to align with this new profile. There should be a new lens used for recruiting new talent – recruiting efforts should focus on a profile that is more interested in helping vs. selling. Performance metrics should factor in client health so that nonfinancial metrics such as client satisfaction, retention and referrals are balanced with the financial metrics around assets and fees.

### **Executing on client experience**

Delivering the kind of experience that clients value is no simple task as performance, trust and engagement impact multiple business functions and stakeholders. The wealth managers surveyed are at varying levels of maturity when it comes to understanding and delivering client experience, and the majority of firms (61%) self-reported that they are ineffective in executing.

Firms that self-identified as ineffective in this area cited technology limitations as the leading reason for their inability to deliver. These firms also seemed less proactive in terms of obtaining feedback from clients on a regular basis. Finally, from an execution perspective, these firms also lacked a single owner of client experience with responsibility effectively shared, and perhaps diluted, across multiple functions in the firm. Given the cross-functional nature of client experience, it is imperative to have a single owner or team that connects the dots between the various dimensions and across functions such as marketing, product development, sales, service and technology.

### **Final thoughts**

Our overarching conclusion is that delivering on the proposed comprehensive concept of client experience can be what makes or breaks a firm's ability to succeed in the changing wealth management landscape of disruption and chaos. There is a substantial revenue prize of US\$175 billion to US\$200 billion, and it will be captured by the firms that dare to challenge some of the traditional norms while remaining true to their core value proposition. The established players need to cultivate a culture of innovation where decision-makers are comfortable tackling innovators' dilemmas as they make their strategic bets. In an industry where advances in technology, new competition and shifting client expectations are forever changing the game, it will be the firms that continue to innovate that come out on top.

The role of the financial advisor may become more like a financial therapist in the future.

# Regional highlights

This section outlines the key drivers of client experience for the Asia-Pacific (APAC), Europe, Middle East & Africa (EMEA) and Americas regions. It reveals important distinctions between each region and the global findings, as well as key insights across the countries comprising each region.





# APAC

The APAC region offers tantalizing opportunities for wealth managers with large populations, a burgeoning middle class and governments willing to invest for the future. However, success in this region requires navigating diverse work practices; disparate regulatory and tax policy; skill shortages and maturity differences; and, at times, limited distribution opportunities.

The findings in this section are based on client responses from mainland China, Hong Kong, Singapore, Japan and Australia and firm responses from Hong Kong, Singapore and Australia. They demonstrate important distinctions between APAC and the rest of the world, as well as between countries within the region itself.

## Regulatory compliance dominates strategic investment budgets across APAC

While wealth managers in other regions have their strategic investment budget focused on revenue growth, those in APAC are still bogged down in regulatory compliance. In the next two to three years, APAC has the highest percentage of firms citing regulatory compliance as the primary focus of their strategic budgets at 39%, as compared to European and North American firms at only 11% and 9%, respectively.

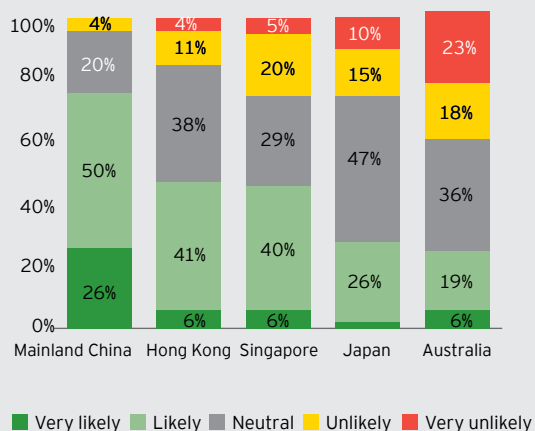
This highlights the continuing struggle for wealth managers in APAC to comply with regulations that are constantly changing, seize opportunities through various passporting schemes and compete to develop innovative wealth products and services that align with customer preferences. Although the passporting schemes will facilitate the cross-border marketing of managed funds across participating economies, their immediate impact is to ramp up the cost of compliance.

Not surprisingly, more than half (54%) of APAC wealth managers see regulatory change in a negative light. More than two-thirds (69%) say it is damaging the client experience, particularly by extending the onboarding process. In contrast, only 22% of wealth management executives in North America believe regulatory change is having a negative impact, with 44% actually seeing it as a positive.

In addition to the high cost of regulatory compliance, firms are also facing tremendous pressure from new competitors that are driving down fees. In APAC, 62% of wealth management firms say their margins are declining (compared with just 18% in North America). When asked for the top factors, 88% pointed to competitive fee pressure and 63% cited the cost of regulatory compliance.

## Chinese clients most receptive to robo-advice

### Likelihood to open an automated investment advice account



Despite recent publicity, only 39% of APAC respondents are aware of robo-advisors. Chinese clients, who already have a strong preference for advice via mobile and social media, are most aware of these services (66%). Lower levels of awareness exist in Japan (29%) and Australia (28%), where wealth management is still dominated by banks.

In good news for robo-advice providers, 43% of APAC respondents would consider opening a robo-advice account, with the greatest enthusiasm in China (76%) and the least in Japan (29%) and Australia (25%). To break into these developed APAC markets, robo-advice providers will need to invest in significant promotional activity or partner with established local wealth managers on white-labeled solutions. Respondent concerns about robo-advice suggest future solutions should consider personalizing advice with goals-based planning and escalation to real advisors when assistance is required.

In the next two to three years, many regions see strategic budgets shifting to revenue growth, while the focus in APAC remains on regulatory and is even expected to increase on operational efficiencies initiatives. Although challenges exist, firms will need to address current cost obligations while still placing strategic bets on enhancing the client experience across the region.

## APAC clients go digital: are wealth managers ready?

Today, personal interaction is the most common channel for APAC wealth customers to receive financial advice (39%), followed by online (24%), phone (18%), mobile (13%) and social media (5%). However, looking forward two to three years, respondent preference for personal and phone advice will diminish, with online, mobile and social media growing to fill the gap. If these predictions are realized, digital will soon become the preferred channel for interacting with advisors in APAC.

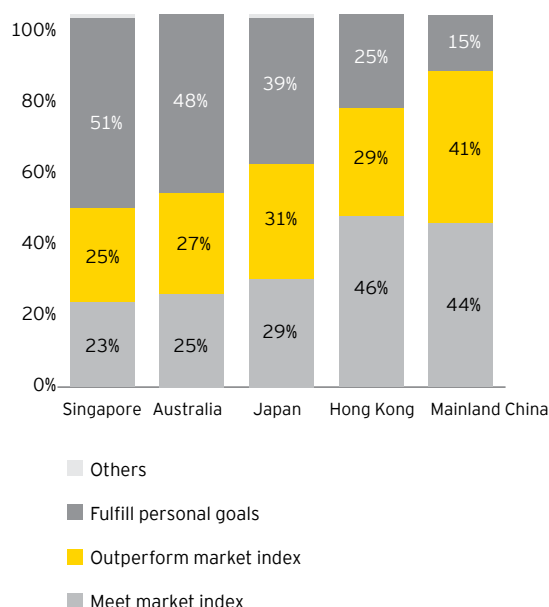
More than one-third (37%) of APAC respondents have no issues at all communicating with their wealth management firms via digital channels. Those with concerns are worried about security of personal information (40%), transactions not being processed in real time (29%), inaccurate data display (28%) and limited connectivity (25%). APAC wealth managers will need to resolve these issues to meet their clients' future preferences for digital interaction. Wealth managers will also need to improve the effectiveness of social media strategies and campaigns. None of the APAC firms participating in this study rated their social media footprint as effective; three-quarters rated it as ineffective or very ineffective.

## Distinct country differences challenge pan-regional approaches

There are stark differences in client preferences across the APAC region, especially between developed and emerging markets. This further indicates that generalized approaches are unlikely to work. Instead, APAC wealth managers need to align offerings to country-based differences in investor attitudes toward the following:

- **Approaches and expectations of investing** – Fulfilling personal goals resonated most with investors from developed markets, such as Singapore (51%) and Australia (48%), but with just 15% of Chinese clients. In contrast, mainland Chinese (44%) and Hong Kong (46%) clients cited meeting the market index as their main expectation of investing, followed closely by outperforming the market. Based on these findings, wealth managers and advisors may need to recalibrate how they interact with clients. Although it appears that clients in developed APAC countries would be more receptive to a goals-based dialogue, there appears to be an opportunity to shift the conversation in emerging markets that still view performance as their key benchmark.
- **What constitutes good client service** – APAC respondents value accurate account information (49%), intuitive processes (46%), and quality and frequency of interaction with their wealth management firm (37%). Accurate information is particularly important for respondents in developed countries (Singapore, Australia and Japan) indicating that what should be a “hygiene

## Approaches to investing



## Financial advice interaction – channel preferences

Market	Top 2 channel preferences in 2-3 years	Change from current preferences
Mainland China	Mobile – 27%	▲ 8%
	Online – 21%	▲ 5%
Hong Kong	In person – 29%	▲ 1%
	Online – 29%	▼ 1%
Singapore	In person – 44%	▼ 6%
	Mobile – 17%	▲ 6%
Japan	Online – 38%	▲ 5%
	In person – 35%	▼ 7%
Australia	Online – 35%	▲ 9%
	In person – 35%	▼ 9%

factor” remains an important differentiator in these countries. In contrast, respondents in mainland China and Hong Kong place greater value on efficient and intuitive processes, such as no paper and a single contract.

- **Channel preferences for advice** – Advice via personal interaction is most common in Singapore (50%) and least common in Hong Kong (28%) and mainland China (27%). Chinese respondents also have the region's greatest propensity to interact with their advisors through mobile (19%) and social (11%) channels. By 2018, digital channels will become increasingly popular across the region. What's interesting is respondents in mainland China and Singapore have a preference to receive advice via mobile apps, whereas those in Japan, Australia and Hong Kong prefer online advice interaction.

## Some firms out of touch with clients

The research identified a number of worrying disconnects between the region's wealth managers and their clients. For example, 57% of APAC firms expect personal interactions to remain their primary channel in the next two to three years, compared with just 32% of clients whose preferences are instead shifting to digital. This lack of awareness of clients' digital preferences may account for the slow progress of the region's wealth managers to allocate budget and transform the front office and service models.

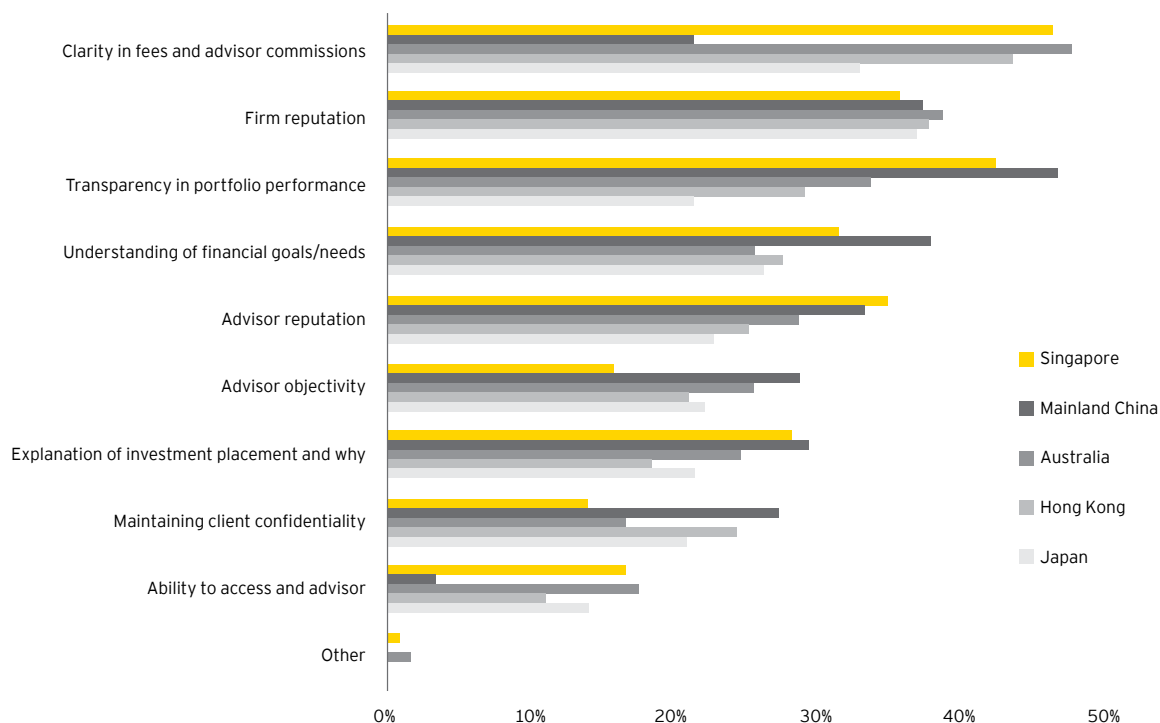
In addition, the region's wealth managers do not always understand client priorities. In particular, firms appear to underestimate the importance of transparent fees and performance reporting as well as reassuring clients about data privacy and security. Transparency in fees and portfolio performance was actually the most important factor for Australian investors (38%), indicating that fixed-fee and unbundled investment fee pricing should resonate strongly with Australian wealth clients. Hong Kong respondents were more likely to cite a broad suite of products and tools, whereas mainland Chinese and Japanese respondents considered transaction security as one of the top factors impacting their experience.

Although wealth managers were aligned with clients on the importance of performance and understanding clients' financial needs, they equally weighted the role of the financial advisor. In contrast, "access to a human advisor" and "quality and frequency of advisor interaction" ranked fairly low with clients at only 10% and 13%, respectively. APAC investors are also generally less satisfied with their main advisor than those in other regions. Just 68% say they are currently satisfied with their advisor, compared with 83% in North America and 77% in Europe. These findings indicate that firms looking to deliver an exceptional experience may want to focus more on factors such as fee transparency instead of relying too heavily on the strength of the advisor relationship.

## Opportunities to differentiate through transparency

The main factors that determine client trust with APAC wealth management firms were clarity in fees and advisor commissions (38%), firm reputation (37%) and transparency in portfolio performance (34%). Wealth managers that score highly on these attributes are likely to form deeper and more trusting client relationships that will be less susceptible to underperformance, higher fees and other drivers of client attrition.

### Wealth manager trust factors



Although APAC as a whole was aligned on the importance of firm reputation, clients from more developed countries like Singapore and Australia placed greater value on transparency in performance and fees. Of all the countries surveyed globally, Australian respondents (48%) were most likely to cite transparency in fees and commissions as an important trust factor. The opposite is true of mainland Chinese respondents, who felt strongly about transparency in performance as a key trust factor (46%), further demonstrating the performance focus in mainland China.

In terms of fees and commissions, over half of the respondents from APAC cited that an understanding of advisor compensation is a key trust driver. Out of all the countries surveyed globally, Australia had one of the highest proportions (15%) of respondents who did not know how their advisors were compensated. This may be a reflection on how fees have typically been bundled by investment platforms and superannuation funds. There is a clear opportunity to differentiate through transparency in fees and commissions in APAC – if traditional firms don't act fast, this could open the door for digital entrants with simple pricing models to increase awareness and gain traction in the region (especially in developed markets).

### **Assets ripe for consolidation**

As a region, APAC had the highest percentage of clients with relationships at more than five wealth management firms (15%). Among the UHNW segment, it jumps to 29%, which is far greater than the global average for UHNW clients (17%). Additionally, more than half (53%) of APAC clients indicated a preference to consolidate their assets, most notably in the emerging countries throughout the region.

In China, an astounding 83% of respondents have a preference to consolidate assets. This could mean that clients in emerging markets like mainland China are less satisfied with their current products and/or more likely to seek solutions that better integrate their banking, wealth and insurance products. In developed regions like Australia and Japan, only 38% and 35%, respectively, want to consolidate (as compared to 57% globally), which could be due to the longer-term nature of wealth management relationships and more holistic offerings in these countries. The top factors driving asset consolidation in APAC are better portfolio returns (66% compared to 53% globally), better pricing (53%) and breadth of products and services (47%).

Overall, APAC respondents who recently switched their primary wealth management firm were most likely to cite better pricing and better portfolio returns as the reasons. Mainland Chinese (60%) and Hong Kong respondents (67%) were significantly more likely to cite better portfolio returns, while Australian investors were more likely to cite better pricing. Australian and Japanese investors were far less likely to cite better portfolio returns at 27% and 18%, respectively, indicating that product and advice fees are more important than performance in causing clients in these countries to make a switch.

In summary, the research reveals key drivers of client experience and trust in APAC, as well as client expectations for investing, digital channel preferences and the likelihood of consolidating assets. That being said, there are significant differences between emerging and developed countries in APAC, which highlight more than ever the complex strategies that wealth managers must employ to capture, retain and grow assets in this region.





# EMEA

Increasingly, firms across EMEA are shifting their focus away from regulatory compliance issues to seeking opportunities for growth, principally through a client-driven agenda.

Wealth management firms in EMEA were more confident that they deliver an effective client experience today (71%) compared to their peers in APAC (54%), North America (50%) and Latin America (50%). However, the research indicates some key areas in which firms and clients prioritize client experience differently, as well as a strong client preference for digital capabilities, indicating opportunities for improvement in EMEA.

## Wealth managers in EMEA are optimistic about directing their strategic budgets toward top-line growth

According to the research results, firms have focused recent investments on reviewing product and pricing strategies, centralizing portfolio management and developing robust risk management and governance frameworks to remain compliant with increasing regulation. Investments have been targeted at upgrading legacy technology platforms and coping with additional data and transparency requirements.

Looking forward, many wealth firms across EMEA are now feeling confident to invest in growth and efficiency and compete for new

clients. The research anticipates a shift toward revenue and growth initiatives in the next two to three years in the following areas: digital capabilities, IT infrastructure, IT modernization, acquisitions, increased numbers of advisors and operational effectiveness. As wealth managers focus on the growth agenda, client experience will be the key differentiator to winning the race for acquiring net new money and retaining wealth in the generational wealth transfer.

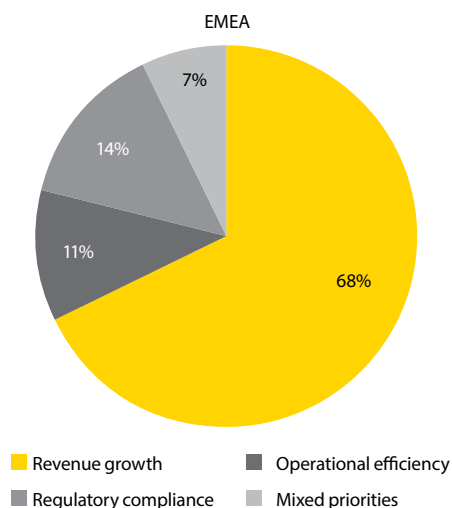
### Investments in client experience grow in the UK

Firms in the UK are moving budgets previously focused on regulatory initiatives, like the Retail Distribution Review and Investment Suitability, toward growth by hiring additional advisors and pursuing consolidation activity in the market. However, while these efforts target client assets in the short term, sustained growth will be driven by improvements in the client experience.

Clients are increasingly looking for a multichannel offering to help them manage their wealth, as the traditional view of the advisor-driven relationship evolves. The industry, however, continues to be slow at delivering true multichannel offerings, which, for traditional wealth managers in the UK, is largely driven by challenges of working with legacy core IT systems, bureaucracy and regulatory priorities.

Looking two to three years ahead, the integration of digital, including mobile applications, will increasingly be expected as the way in which clients will access all elements of their wealth management services. Developing digital capabilities will not only enable firms to enhance the service they provide to their existing clients, but also re-engage with clients who currently do not have access to advice.

### Investment priorities in two to three years



Performance and goals are similarly crucial to clients in EMEA, but market considerations affect the dynamics between firms and clients

Both clients and wealth managers in EMEA agree that understanding and fulfilling investment performance and goals are the keys to superior client experience – a consistent finding with the global research. However, clients tend to place greater value on transparency, while firms emphasize the quality of client/advisor interactions.

Clients broadly view their advisor relationship as less important than other factors such as data security, available products and self-service capabilities, which indicates that firms need to bolster their technology infrastructure and tools to improve engagement with their clients. To address these preferences, a large number of firms in the UK, for example, have invested in developing financial planning capabilities alongside traditional investment management to better understand their clients’ needs and goals.

Meanwhile, market considerations in EMEA alter the dynamic between firms and clients. In Switzerland, for example, the focus on the high-net-worth and ultra-high-net-worth segments, coupled with a large concentration of offshore assets, requires a more nuanced approach to managing the client experience. The research, however, indicates that few firms in Switzerland have allocated specific resources to improving the client experience. Often, client satisfaction is confused with the concept of customer experience, and the responsibility for confirming it is typically delegated to the front office. As a consequence, client experience metrics and goals are typically missing from Swiss firms’ strategic objectives.

Integrating digital offerings with the evolving role of the advisor

Digital channels – including websites, mobile applications and social media – will increasingly be viewed as the way in which clients will access all elements of their wealth management services. These platforms are already the clear favorite for clients in EMEA today; websites are seen as the primary channel for most key activities, including viewing account information and portfolio performance,

A changing client profile in Luxembourg and its impact on growth

In Luxembourg, the last three years has witnessed a focus on expanding product portfolios and on actively managed products in order to better meet clients’ needs. Firms have experienced a strong decline of margins in Luxembourg due to the change in client profiles; small, high-margin clients have been replaced by bigger, lower-margin clients. Historically low interest rates and rising costs (largely due to regulatory factors) compound the difficulties faced by wealth managers in Luxembourg.

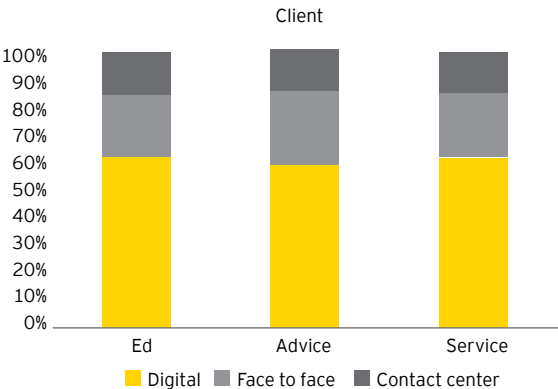
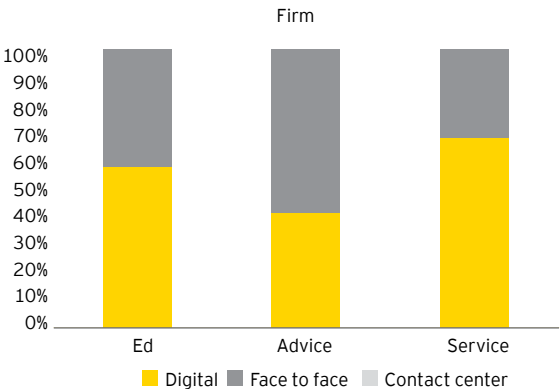
This shifting focus to client goals is expected to continue in the years to come – to a greater extent than in the broader European market – with a more marked interest for discretionary services and active management. This shift is driven by the direct focus on client needs, as well as by the need to improve margins and respond to changing regulations.

Meanwhile, the advisory service model is expected to evolve in the coming years toward a team approach. This trend seems more pronounced in Luxembourg than in the rest of Europe or in Switzerland, where the advisor model is the rule, due to the repositioning of the financial marketplace on higher value-adding services with strong financial structuring and engineering components requiring multiple competencies.

conducting transactions and receiving advice and research. Clients still prefer branches for finding and interacting with their advisors, though they see digital channels becoming the primary means of interaction in the next three years.

Firms in EMEA, however, continue to have strong convictions that clients will be looking for core services to be delivered through the traditional, in-branch channel, particularly in relation to advice and product purchase. Additionally, demands for client confidentiality and the strong reliance on personal relationships in countries like Switzerland drive firms to limit development of new channels for communicating and interacting with clients.

Primary channel for doing business in two to three years



Financial technology entrants with a clear digital channel focus present a threat to firms in EMEA. The research indicated that approximately half of the clients in the region are familiar with automated advice services and are likely to consider opening an account with a provider, though this proportion is smaller in the Middle East, where only 30% of clients show interest.

However, firms broadly see technology as a tool to support wealth managers rather than replace them; digitalization efforts are focused on increasing efficiency and automating time-consuming, back-office processes as well as areas such as customized research, portfolio health checks and portfolio analysis, and electronic communication. The trend is not as marked in some countries with large nonresident client bases, such as Luxembourg, where the priority remains on the more traditional internet channel to further develop transactional aspects in addition to consultative features.

While the direction toward digital channels is clear, the industry continues to be slow at delivering true multichannel offerings as firms face challenges with legacy core IT systems, bureaucracy and regulatory priorities – challenges that traditional wealth managers can confront by utilizing a range of tools and functionality available through specialist third-party technology vendors.

Making the right investments relies on a careful understanding of what clients value, as their relationship with their advisor continues to evolve. Maintaining certain traditional standards in the client relationship will remain crucial to satisfying the needs of current clients; however, firms across EMEA that deliver a nuanced client experience that is truly in touch with their clients' needs are poised to attract the next generation of wealth in the region's diverse markets, both new and old, as well as domestically and abroad.

### **Opportunities for leveraging the power of social media in Switzerland**

Swiss firms hold a more traditional view toward the use of social media, viewing it primarily as a platform for marketing with the opportunity to build their brand and, to a minor degree, to attract new clients. According to the results, Swiss wealth managers are reluctant to see social media as a primary channel for interaction when compared to the branch network or a firm's website while also expecting social media to enable more effective interactions with both their advisors and peers.

Today, Swiss firms use LinkedIn and Twitter as their primary social media channels, in line with their global peers. Interestingly, firms in Switzerland use video-sharing sites at the highest proportion of all countries surveyed (42%), exceeding the proportion of remaining countries (32%), with the primary purpose being educational.

While social media currently remains an isolated element within the marketing areas of Swiss firms, the integration of social media into a wider client experience strategy is imminent, as it is required to enhance the client experience.



# Americas

## Americas wealth managers: shifting toward revenue growth

In general, wealth managers in the Americas have a more optimistic outlook on margins than other regions of the world; approximately 50% of respondents believe margins are improving (vs. 11% for EMEA and 8% for APAC). This optimism is reflected in the clear shift of strategic budgets from regulatory compliance and operational efficiency to revenue growth over the next two to three years.

Yet the sky is not completely clear across the continent. Firms facing margin pressures cited regulatory compliance, fee pressure, concentration of low-margin products and changing market conditions as key underlying factors. In Canada, firms have been challenged to improve margins during the past couple of years, with rising regulatory compliance costs (e.g., Client Relationship Model Phase 2) having a significant impact. These regulatory pressures are not expected to abate in the near term, with major implementation

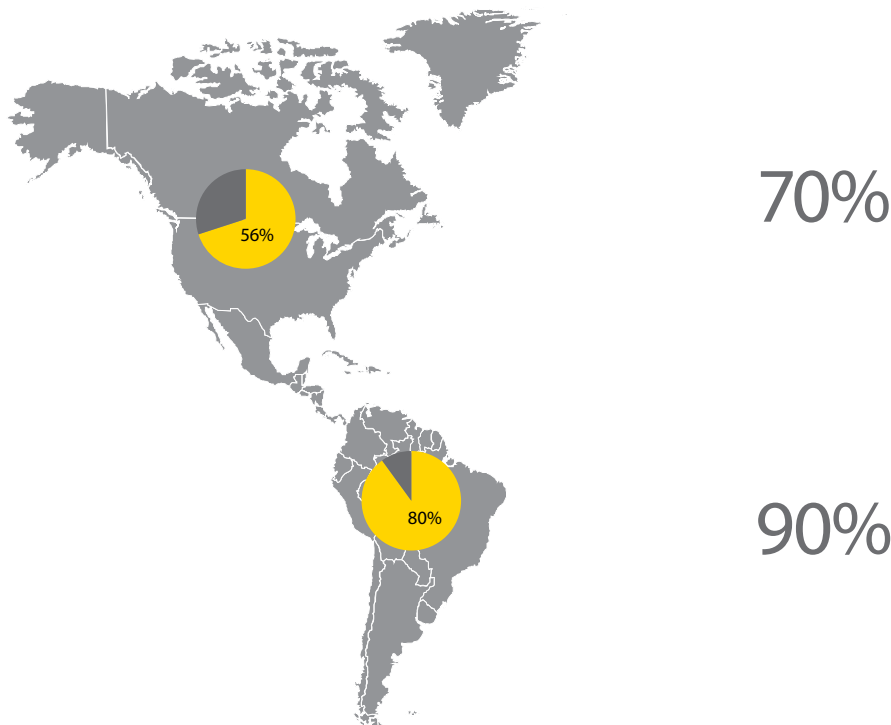
deadlines and securities commissions' decisions (e.g., Best Interest Duty) scheduled for 2016 and 2017. As for the US, the final ruling by the Department of Labor (DOL) and the potential for upcoming Securities and Exchange Commission guidance regarding a uniform fiduciary standard may cause disruption in the industry and drive significant change across business models and processes.

The shift in priorities by Americas' wealth managers is timely as the consolidation opportunity is clear.

Factors driving North American clients to consolidate assets include better pricing and better portfolio returns. Factors driving Latin American clients to consolidate assets include better portfolio returns, breadth of products and services, and better pricing.

Percentage of clients with more than one wealth manager

Percentage of those clients open to change wealth managers





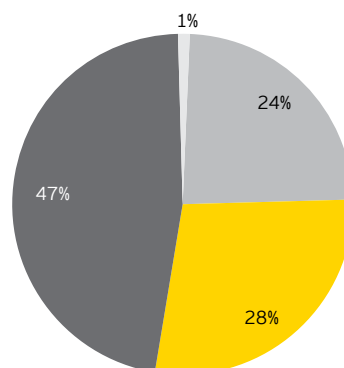
## Client experience in the Americas

In line with global trends, clients and firms in the Americas are aligned on two of the top three drivers of client experience: meeting investment performance expectations and understanding clients' financial goals and needs. However, clients in the Americas tend to place greater value on transparency, whereas firms emphasize the strength of the relationship with the advisor. This suggests that the heavy reliance among wealth managers in the Americas on the advisor model is not necessarily in line with their clients' expectations.

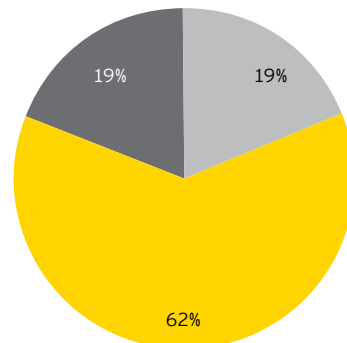
Beyond this, a closer look at the client experience dimensions across the Americas reveals key differences between North and South.

- **Performance:** North American clients are focused mainly on fulfilling personal goals, while those in Latin America want to outperform the market index. Clients focused on fulfilling personal goals are more likely to prefer more personalized attention and value quality of interaction with their advisor or firm. Clients centered on outperforming the market are interested in clarity in performance and the speed and quality of interaction and are more receptive to digital advice.
- **Engagement:** Clients in the Americas are, like their peers from other regions, embracing digital and self-service adoption, a fact that contrasts with firms' desire to keep most of their core wealth advice activities in their branches. The push for digital is especially strong in Latin America.

Clients' overall expectation of investing – North America



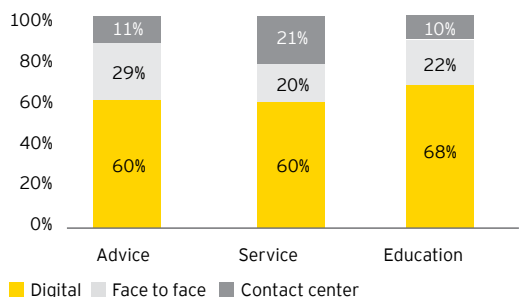
Clients' overall expectation of investing – Latin America



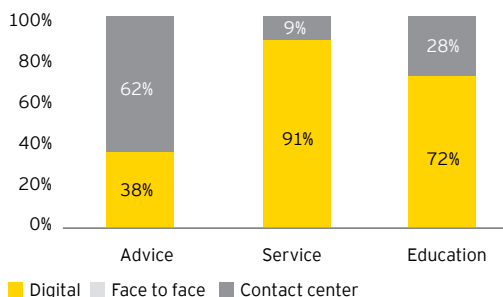
■ Meeting the market index ■ Outperforming the market index ■ Fulfilling personal goals

Latin American respondents posted the strongest appetite for digital advice via online or mobile apps with limited or no human advisor interaction. A full 61% of clients in Latin America are familiar with automated advice services and 72% are very likely or likely to consider opening an account with an automated advice service. Furthermore, recent data from Brazil and Mexico shows a very high acceptance and usage of digital channels for other banking services, with less demand for face-to-face or telephone interactions. Latin American respondents do expect that these interactions and their data are secure.

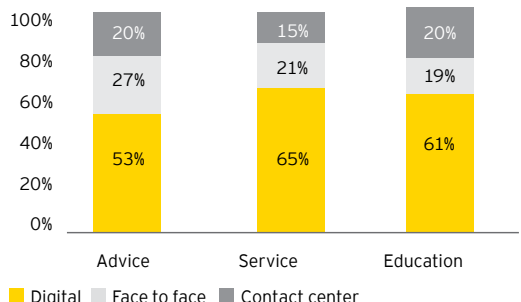
Primary channel for doing business in 2-3 years  
North America – client



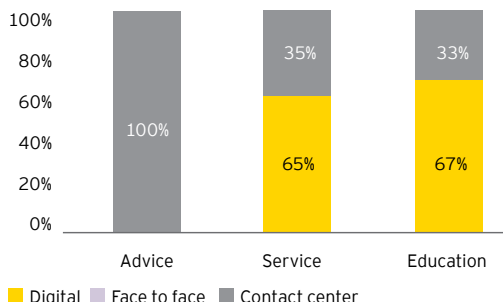
Primary channel for doing business in 2-3 years  
North America – wealth manager



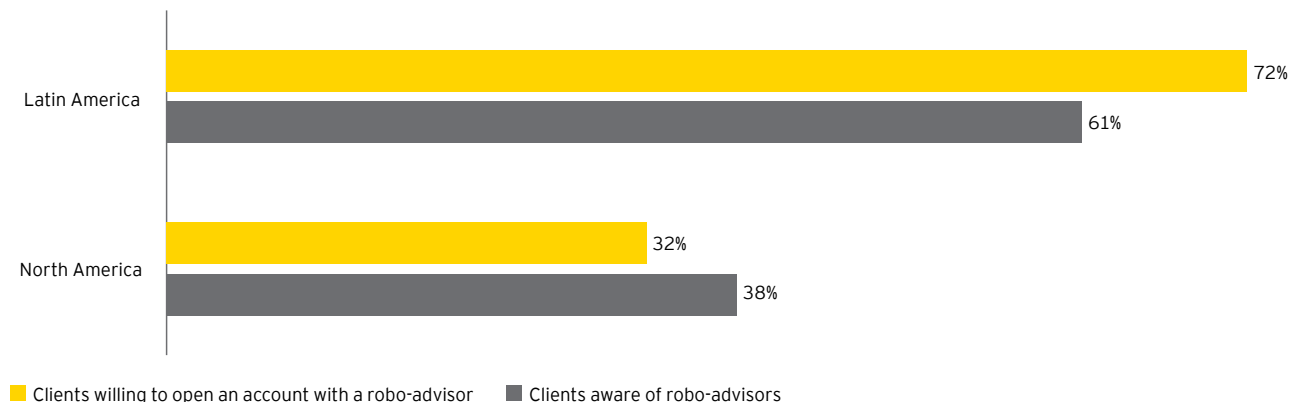
Primary channel for doing business in 2-3 years  
Latin America – client



Primary channel for doing business in 2-3 years  
Latin America – wealth manager



## Clients' awareness and willingness to open a robo-advisor account



This interest in robo-advice signals an opportunity for Latin American firms to leverage the potential cost-to-serve reductions implied in a digital advice model. However, even though more than 50% of Latin American firms indicate they are moving toward developing automated advice, they lag their counterparts in other regions in developing a robust digital advice capability. First-mover advantage is at stake in what appears to be an underserved demand in a highly digitalized public.

Meanwhile, in North America, the issue is not necessarily firms' capabilities, but client awareness: only 38% of clients say they are familiar with this new advice model, meaning there is still plenty of work ahead for North American wealth managers looking to leverage digital advice.

► **Trust:** Clients in the Americas identified firm and advisor reputation, clarity in fees and performance, and transparency in portfolio performance as the top drivers of trust. These preferences are generally consistent with the global perspective, although Latin American clients value transparency in portfolio performance higher and North American clients value advisor reputation significantly higher than other regions. Clients in the Americas want advisors who understand their financial goals and are transparent about performance and fees. Conversely, lack of accessibility and a purely sales-driven focus are the main negatives.

Wealth management clients in the Americas place greater emphasis on transparency such that an understanding of the main drivers of an advisor's compensation positively impact client trust. Preferences on fees are also beginning to change, as

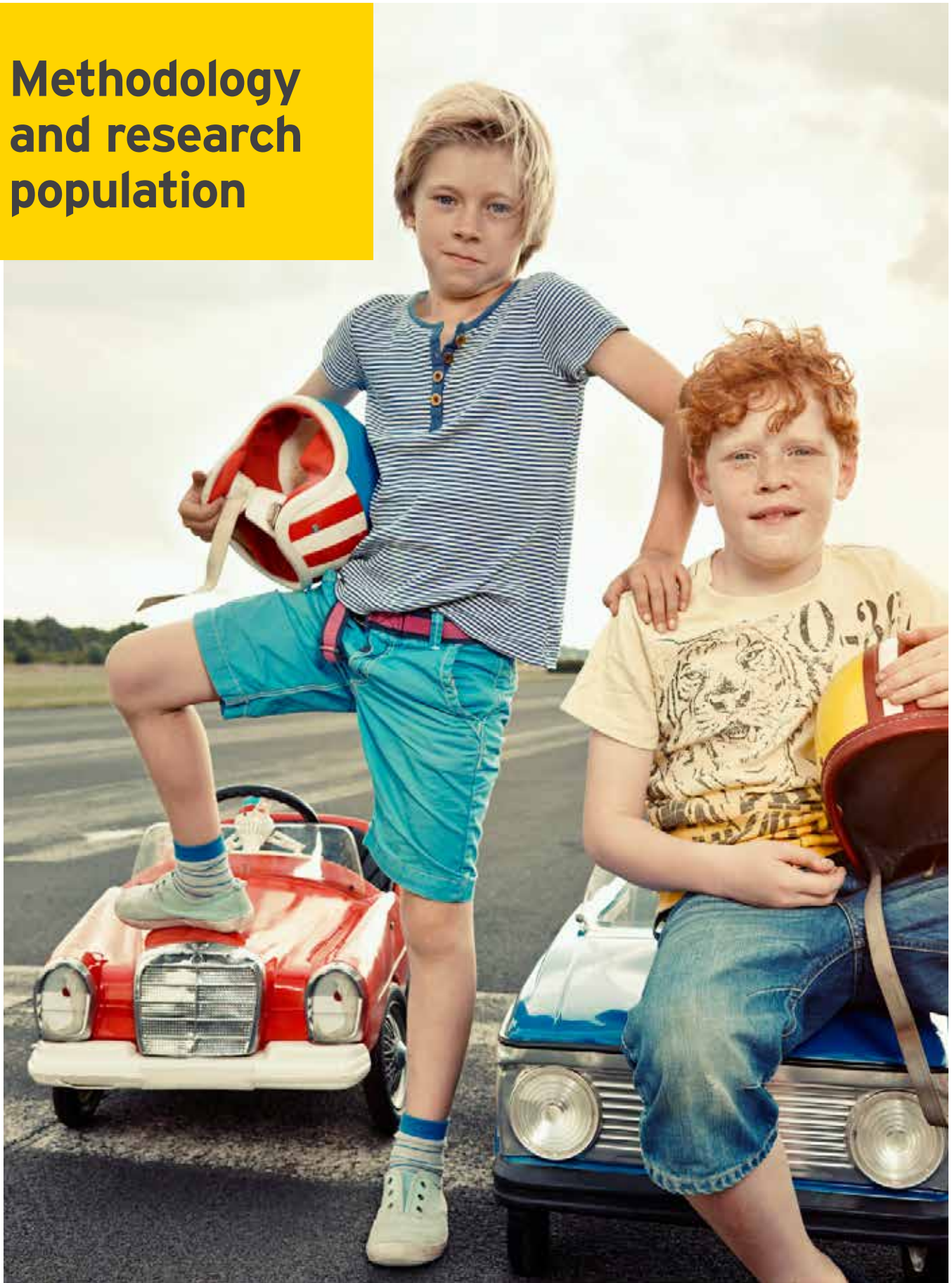
approximately one in every five clients is currently dissatisfied with the way he or she is being charged. Similar to global trends, Americas clients' preferences toward fixed fees are increasing, while preference toward AUM and commission-based fees is declining.

## Conclusion

The Americas perspective is one of evolving priorities and increasing opportunities to attract new and retain existing clients and assets through superior client experience. According to our research, there is a US\$65 billion to US\$75 billion revenue opportunity for the firms in the Americas that use client experience as a competitive advantage to capture the clients who are willing to consolidate assets, given the right incentives. In this sense, wealth management firms with a Pan-American footprint need to acknowledge that client preferences vary across subregions. As such, their client experience models will need to balance global consistency with the proper regional customization to account for these differences.

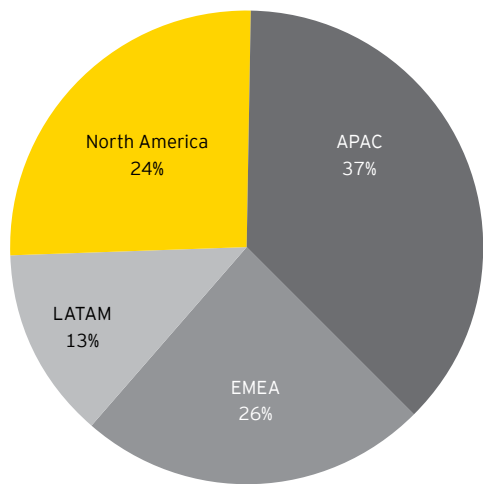
What matters most is how firms communicate the value of their services and advice and how they adapt to increasing demand for transparency, digital and self-service capabilities, and deeper interaction and engagement.

## Methodology and research population

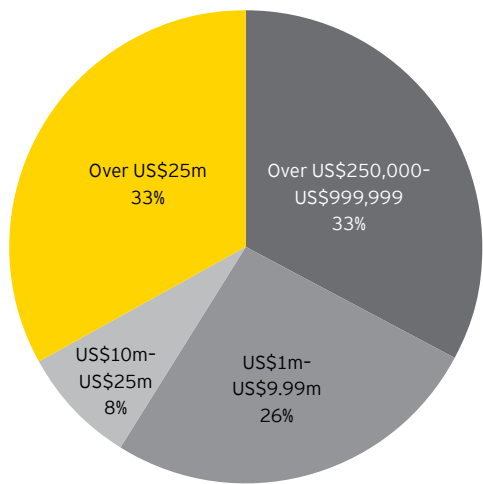


More than 2,000 wealth management clients representing a broad spectrum of segments, including wealth level, age group, regions and gender, participated in our survey.\* Survey population targets were set for each segment to optimize accuracy and representation. The survey was also translated to local languages and administered online by Oxford Economics in the latter part of 2015.

Client survey – breakdown by region

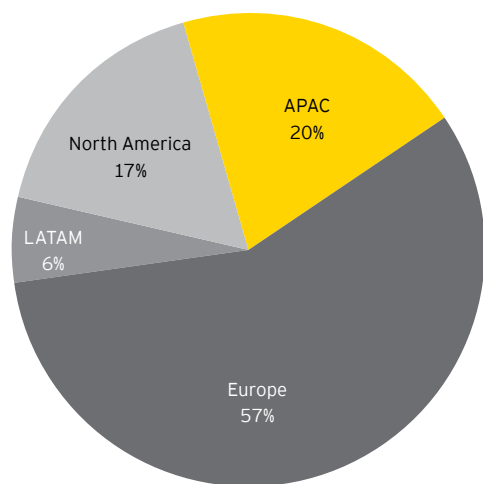


Client survey – breakdown by AUM

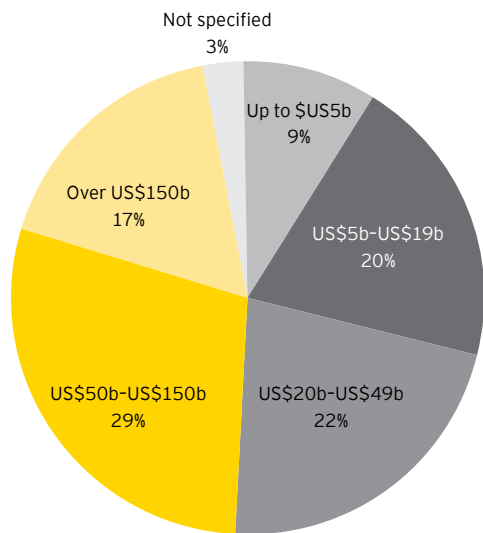


EY also conducted interviews with more than 60 wealth management executives globally to understand how wealth managers are thinking about and investing in key industry topics.

Firm results– breakdown by region



Firm results – breakdown by AUM

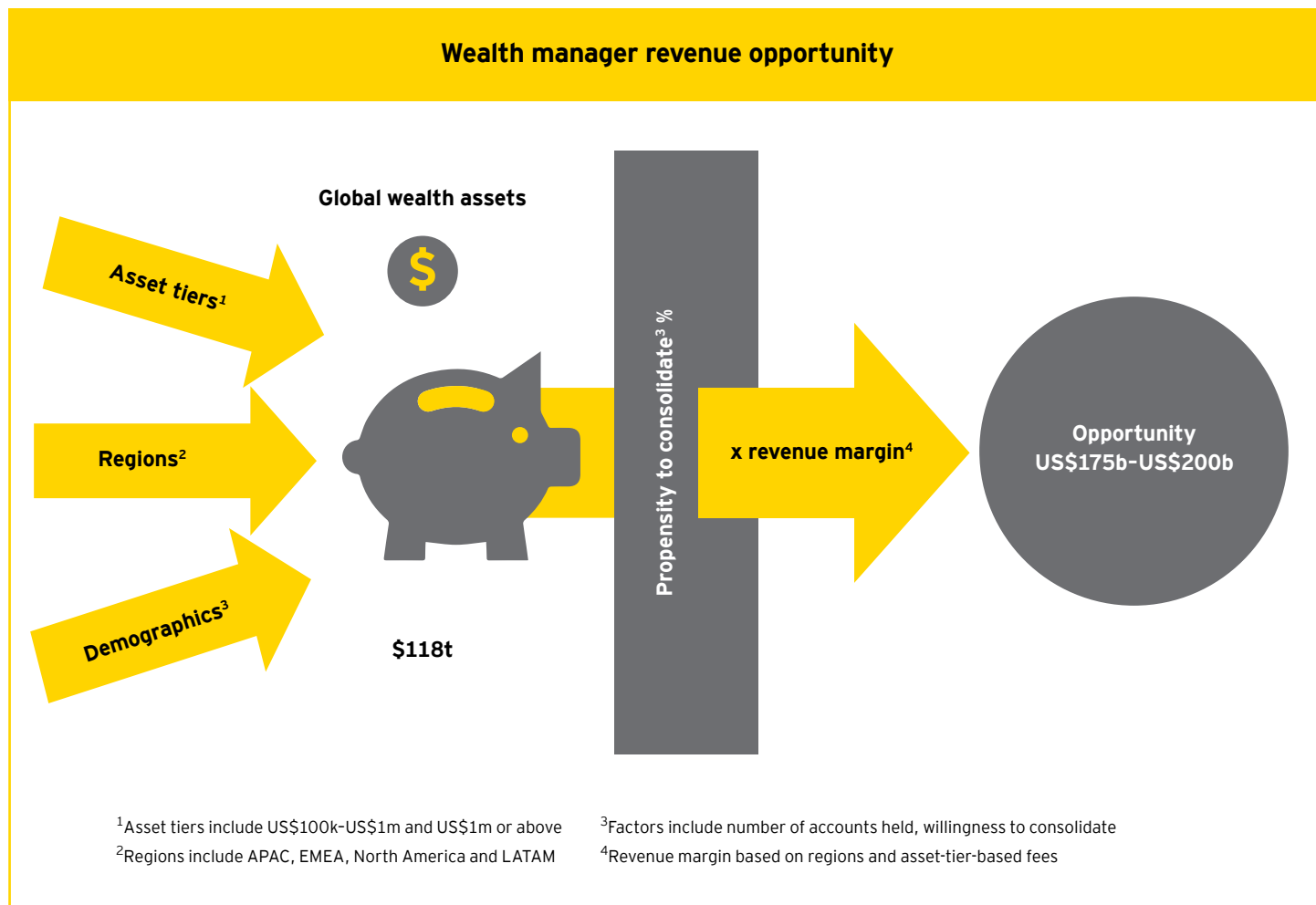


\* Participating markets include Australia, Brazil, Canada, Mainland China, Germany, Hong Kong, Japan, Luxembourg, Mexico, Middle East (Kuwait, Saudi Arabia, UAE), Singapore, Switzerland, United Kingdom and United States of America



## Opportunity

The revenue opportunity is based on EY analysis of global wealth across asset tiers, regions and demographics as well as fees across those segments.





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