Understanding the mind of the German investor

2019 German Wealth Management Research Report

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Contents

Introduction

German wealth clients are among the most loyal in the world, but many are already looking to switch providers. So, wealth managers need to work hard to retain existing customers and win new ones – which makes now a good time to redefine the value of wealth management.

Around the world, consumers are changing how they buy products, thanks to new technologies, innovative business models and disruptive brands. The wealth management industry isn't immune to these trends, which present many challenges and opportunities to both traditional providers and new contestants: from firms with rich legacies to innovative new entrants that are out to change the very definition of the industry.

The good news is that our research shows an increasing number of clients are willing to pay for financial advice – but what they value is evolving rapidly. To help wealth managers understand how best to deliver value, we surveyed 2,000 wealth management clients across 26 countries to find out what matters most to them. The global research report is available at **www.ey.com/wealth2019** and highlights global trends and developments, while this report focuses on the German wealth management market and deep-dives into local client characteristics. To put these findings into perspective, we also provide some European context and comparison, looking particularly at Switzerland and Luxembourg, which are the most important cross-border wealth management destinations for German customers.

Overall, our analysis pinpoints four key areas that need to be addressed by German wealth managers to gain a competitive advantage going forward:

Wealth managers must address each of these areas in planning their transformation, and make the necessary changes not just to retain their current clients but also to win new ones. The EY Wealth & Asset Management Team believes there is a clear opportunity to make financial advice more effective and impactful by aligning it more closely with what clients truly value now.

We invite you to read our findings here, visit **ey.com/Wealth2019Germany** to learn more or contact us directly.

Sebastian Schaefer
Director
FSO Advisory Wealth
Management Leader Germany

Patrick Stöß
Partner
FSO Advisory Wealth & Asset
Management Leader Germany

Robert Melnyk
Partner
FSO Advisory Leader Germany
EY EMEIA Performance
Improvement Leader

Oliver Heist
Partner
FSO Wealth & Asset Management
Leader Germany

Chapter 1

Turning investor switching into an opportunity

According to our research, major life events drive German investors to change their wealth managers, and various trends can be identified by age, product knowledge, level of investable assets, and other characteristics.
Our survey shows that 37% of German private banking investors have changed their wealth managers in the last three years and 33% plan to do so over the next three. Though this shift is happening across all wealth levels, it's more obvious among the wealthiest investors and the younger age group, such as millennials (age 21–37). To create new strategies, and find new opportunities by offering innovative products and customer service, wealth managers need to understand why investors switch and, crucially, who they switch to.

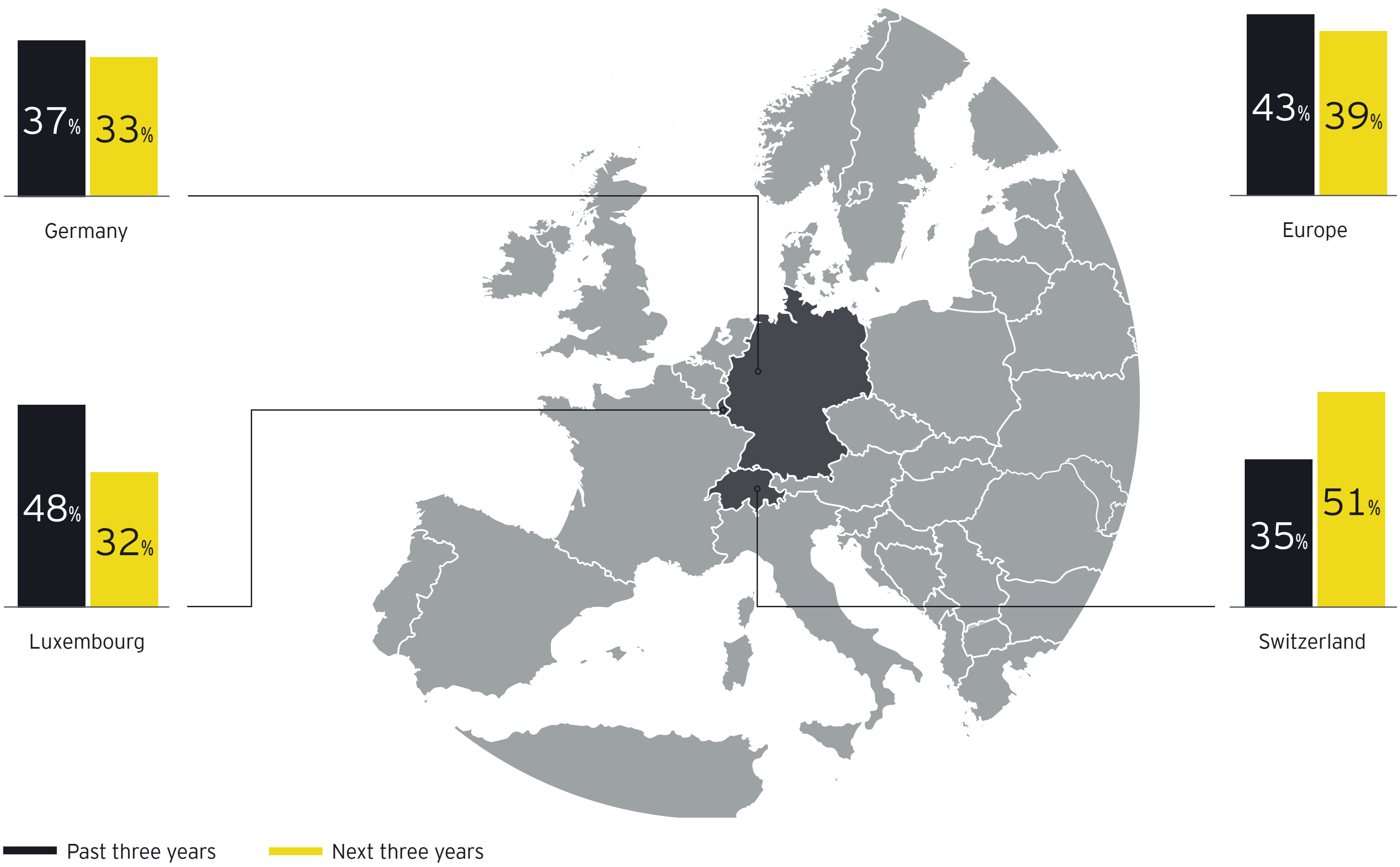
Which investors are switching

Our in-depth survey of more than 500 European investors (including more than 150 from Germany), with investable assets from US$250,000 (mass affluent) to more than US$30m (ultra-high net worth or UHNW), revealed that the wealthiest clients are more inclined to review their financial relationships.

Overall, the good news for German wealth managers is that German clients are more loyal to their wealth managers than the European average, and much more so than in neighboring countries such as Luxembourg. In the past three years, more than 37% of German investors changed their wealth management provider, compared with the European average of more than 43%. Furthermore, the percentage of German investors who see "no need for changing or switching" their wealth managers also stands at above 37%, compared with more than 32% in Europe overall, and more than 35% and 26% in Switzerland and Luxembourg respectively – a reflection of the satisfaction levels that some German wealth managers have achieved.

However, almost one-third of German wealth management clients still plan to switch within the next three years (see figure A1), which would represent a wealth shift of more than US$1.7tr.

Switching behavior by region, past and next three years (A1)



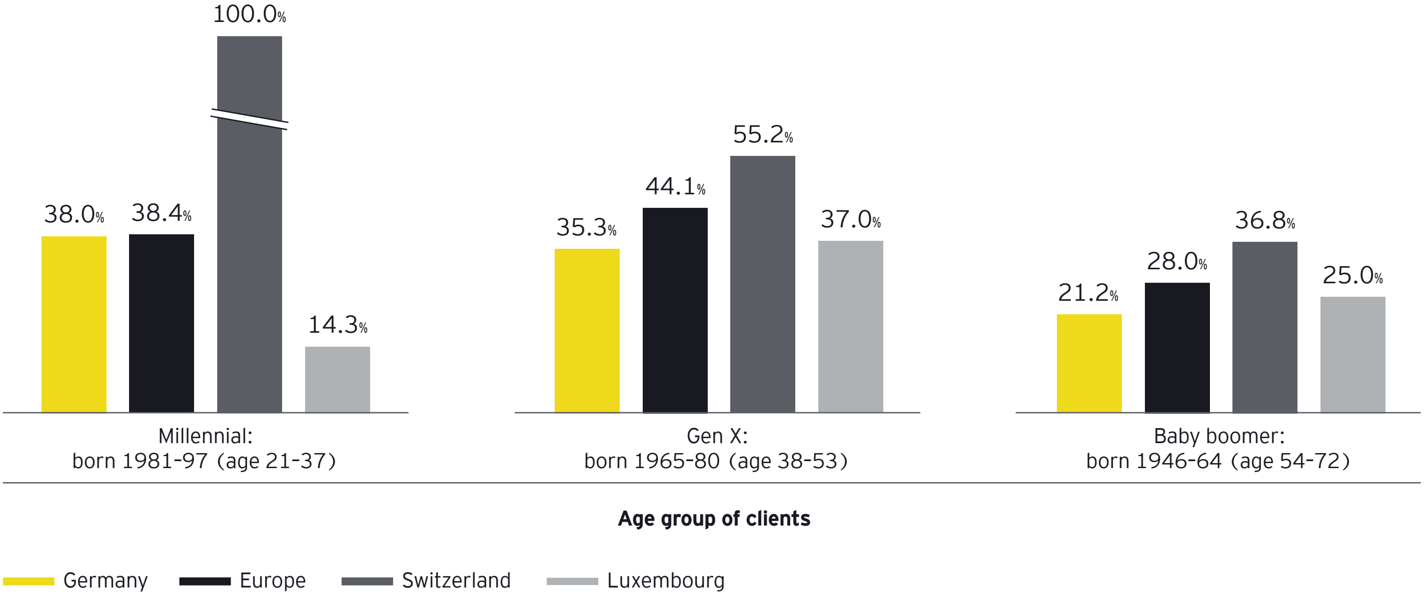
Across Europe, more than 56% of UHNW investors indicated they plan to switch or move money from a wealth management firm in the next three years, compared with only 34.8% of high net worth (HNW) investors, defined as having US$1m to US$4.9m in investable assets. In Germany, only around 38% of UHNW investors indicated that they plan to switch wealth management firms in the next three years. By contrast, a whopping 63% of Swiss UHNW investors indicated that they plan to switch or move their money in the next three years (see figure A2).

In Germany, younger investors, such as millennials and Gen X (age 38–53), are more likely to leave their wealth managers in the next three years compared with older investors. The same trend can be observed in other European countries (see figure A3).

Overall, German baby boomers (age 54–72) are most loyal to their wealth managers. In this age group, only 21% of investors said they might change wealth managers in the next three years. The European average is less conservative, with 28% of investors planning to change. And Swiss private banking clients in the baby boomer generation show a comparatively high interest (36.8%) in changing.

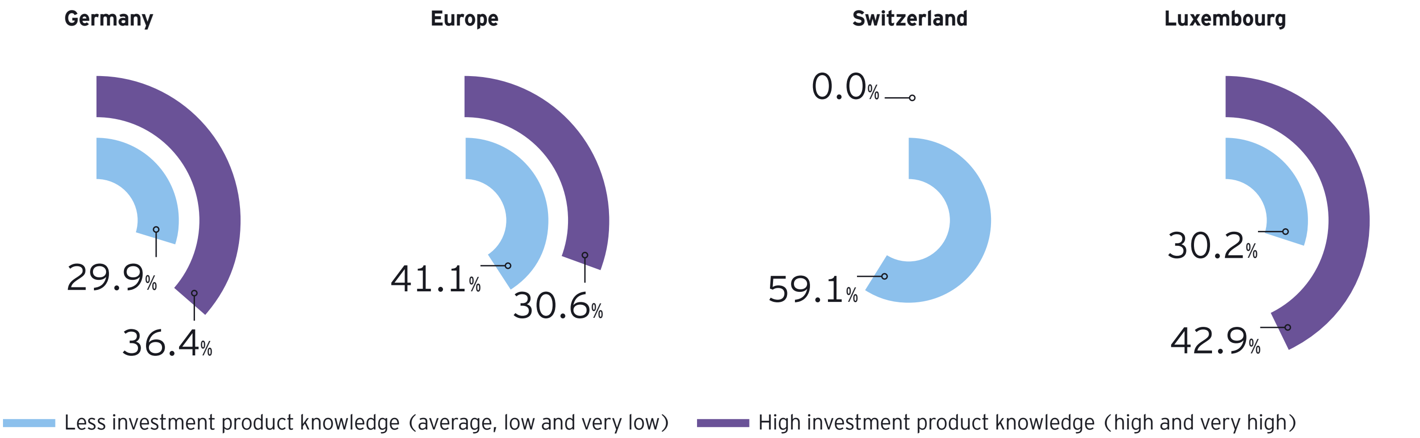
Investor types that plan to switch their wealth manager within the next three years (A2)

Percentage of clients' willingness to switch within the next three years by age (A3)



According to our European statistics, less financially knowledgeable clients (41.1%) are more likely to switch wealth managers than clients who know more about common financial products (30.6%). However, in Germany and Luxembourg, the opposite is true: clients' knowledge of products correlates with an increased willingness to switch wealth managers. In Germany, 36.4% of clients with high knowledge of common financial products are willing to switch, compared with only 29.9% of clients with less knowledge (see figure A4).

Percentage of clients' willingness to switch within the next three years by level of knowledge (A4)



Why investors are switching

It's very important to understand why investors are switching wealth managers, as this is key to retaining and attracting clients. Therefore, we've analyzed which aspects of the wealth management relationship are most valued by clients and clustered those sub-features into the following six categories:

- Pricing and transparency
- Personal service
- Technology
- Quality and reputation
- Products and services
- Advisory capabilities

Although the overall client-provider relationship consists of multiple dimensions, ranging from features with tangible value (measured by quantifiable returns or performance) to the intangible (activities such as planning and coaching, the effect of which can be more difficult to measure), we found that clients broadly assign value across these dimensions evenly. Essentially, clients want everything and prefer not to make trade-offs. However, there are nuances based on different demographic and psychographic factors.

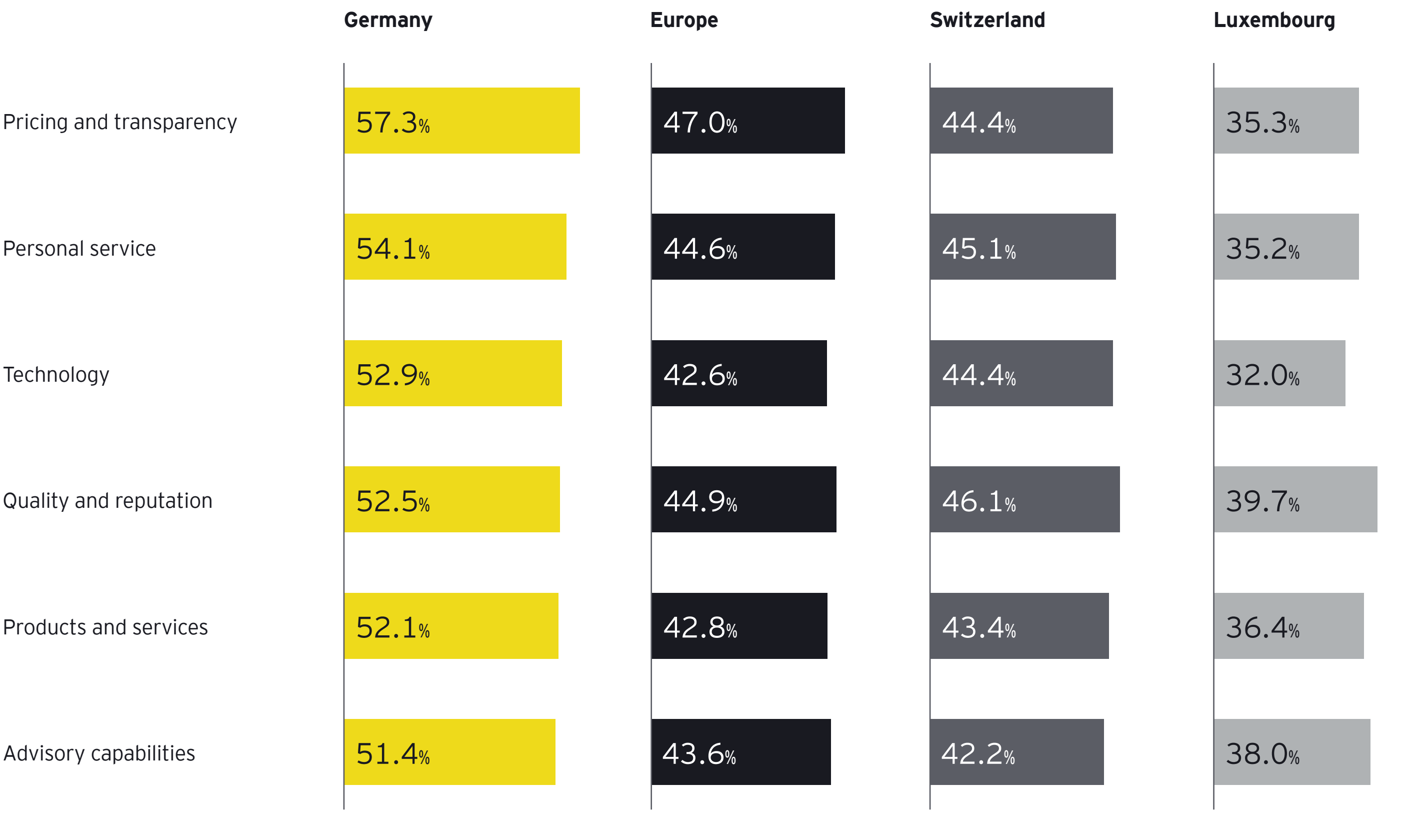
In Germany, the top reason for switching wealth managers is "pricing and transparency," with more than 57% of clients interviewed highlighting the value of this feature. Furthermore, "personal service" scored above average with more than 54%.

The average European is generally less demanding, with top scores around 45%. This is even lower for clients in Switzerland and Luxembourg, where "quality and reputation" ranked the highest (see figure A5).

Drilling down into those features of the wealth management relationship for German clients, the overall finding is confirmed, with "pricing and transparency" having three sub-features within the top 10 (see figure A6).

However, the most valued sub-features are "superior investment performance and track record" and "robust cybersecurity and data privacy," with almost 60% of German clients assigning a high value to each. Meanwhile, for the average European client, trust and the understanding of personal needs is the most valued sub-feature, and the Swiss rank cybersecurity and data privacy the highest.

Most valuable features of the wealth management relationship (A5)



Top 10 sub-features of the wealth management relationship (A6)

	Germany	Europe	Switzerland	Luxembourg
Superior investment performance and track record (quality)	59.5%	47.8%	39.2%	32.0%
Robust cybersecurity and data privacy (technology)	59.5%	45.2%	52.9%	34.0%
Payment method and fee structure (pricing)	58.2%	47.2%	49.0%	42.0%
Transparent pricing and performance results (pricing)	56.9%	47.6%	43.1%	36.0%
Low or competitive fees (pricing)	56.9%	46.2%	41.2%	28.0%
Broad range of investment products across asset classes (products)	56.9%	45.4%	47.1%	24.0%
Trusted wealth manager or advisor who understands my goals and needs (personal)	56.2%	48.5%	41.2%	38.0%
Access to low-cost passive management investment products (products)	56.2%	45.4%	43.1%	44.0%
Ability to trade on my behalf (personal)	55.6%	47.0%	51.0%	38.0%
Ability to provide strategic and tactical investment advice (advisory)	55.6%	44.6%	51.0%	38.0%

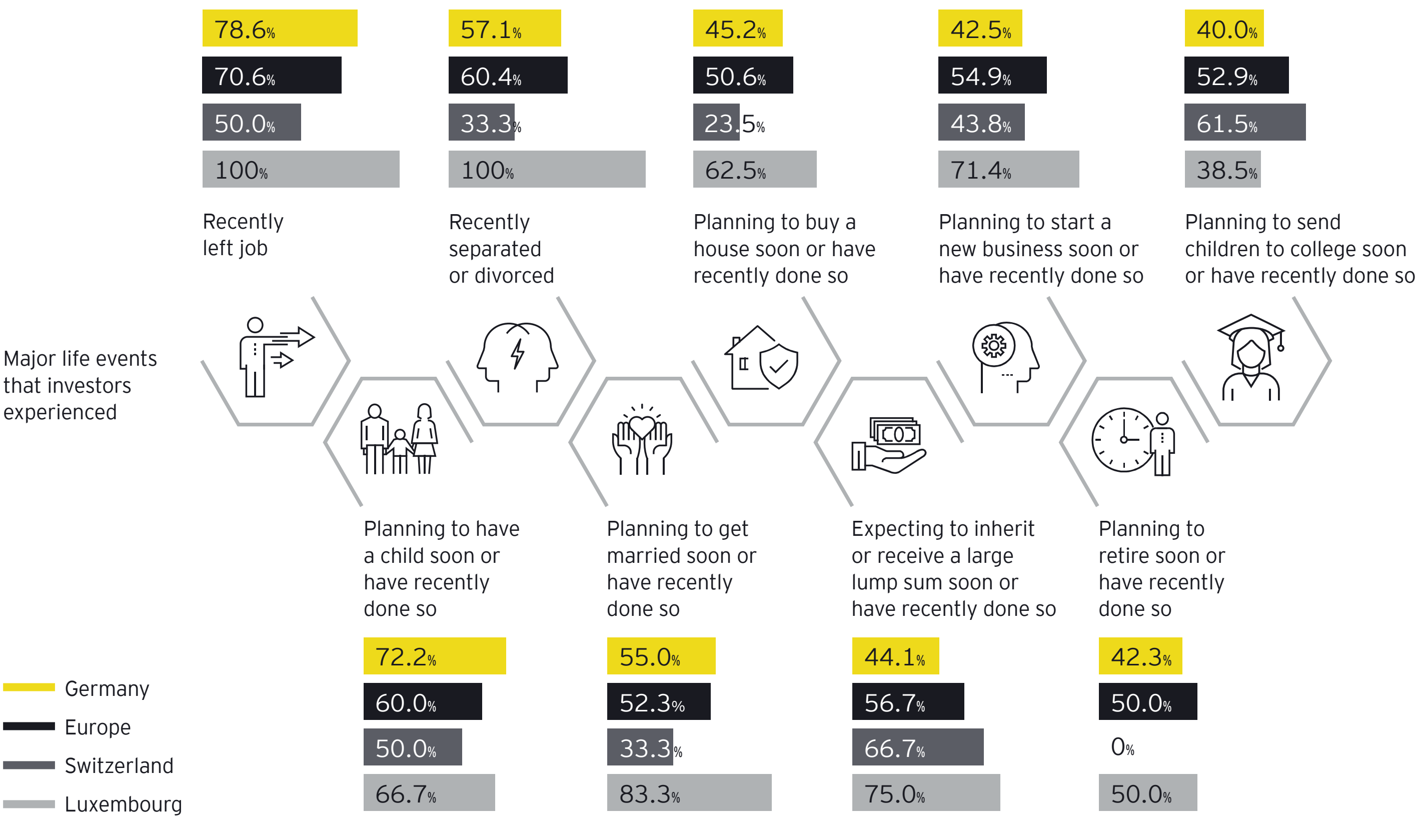
When investors are likely to switch

According to our research, it's not just quality of service or price that affects how individuals rethink their financial relationships; major lifetime events, such as taking on a new job, influence the decision to switch. For example, in Germany, about 78.6% of the interviewed investors that had changed their job also changed their wealth management provider over the last three years. Wealth managers should therefore take those influencing factors into consideration (see figure A7). Other life time events that coincide with German investors switching their wealth managers include:

- Planning to have a child soon or have recently done so (72.2%)
- Recently separated or divorced (57.1%)
- Planning to get married soon or have recently done so (55.0%)

In Europe overall, we see a similar pattern as in Germany, but in Switzerland, the expected inheritance or reception of a large lump sum was the main influencing factor for switching wealth managers (66.7%).

Percentage of investors experiencing major lifetime events who have switched providers in the last three years (A7)



Where investors are going

In Germany, according to our research, FinTechs will see the greatest jump in popularity over the next three years (+54.2%), whereas private banks only show a moderate increase of 1.1%. All other types of firms are likely to see a decrease in their use – this is especially true for big players such as commercial and retail banks (-32.3%), family offices (-24.1%) and universal banks (-8.9%).

Across Europe, investors also plan to move their investments to FinTechs, but here independent financial advisors (+9.7%) and universal banks (+7.1%) can also gain over the next three years. However, in Switzerland, clients have other plans, which include moving their portfolio away from FinTechs (-5.3%) toward brokerage firms (+41.7%), independent financial advisors (+31.1%) and universal banks (+25.0%), as shown in figure A8.

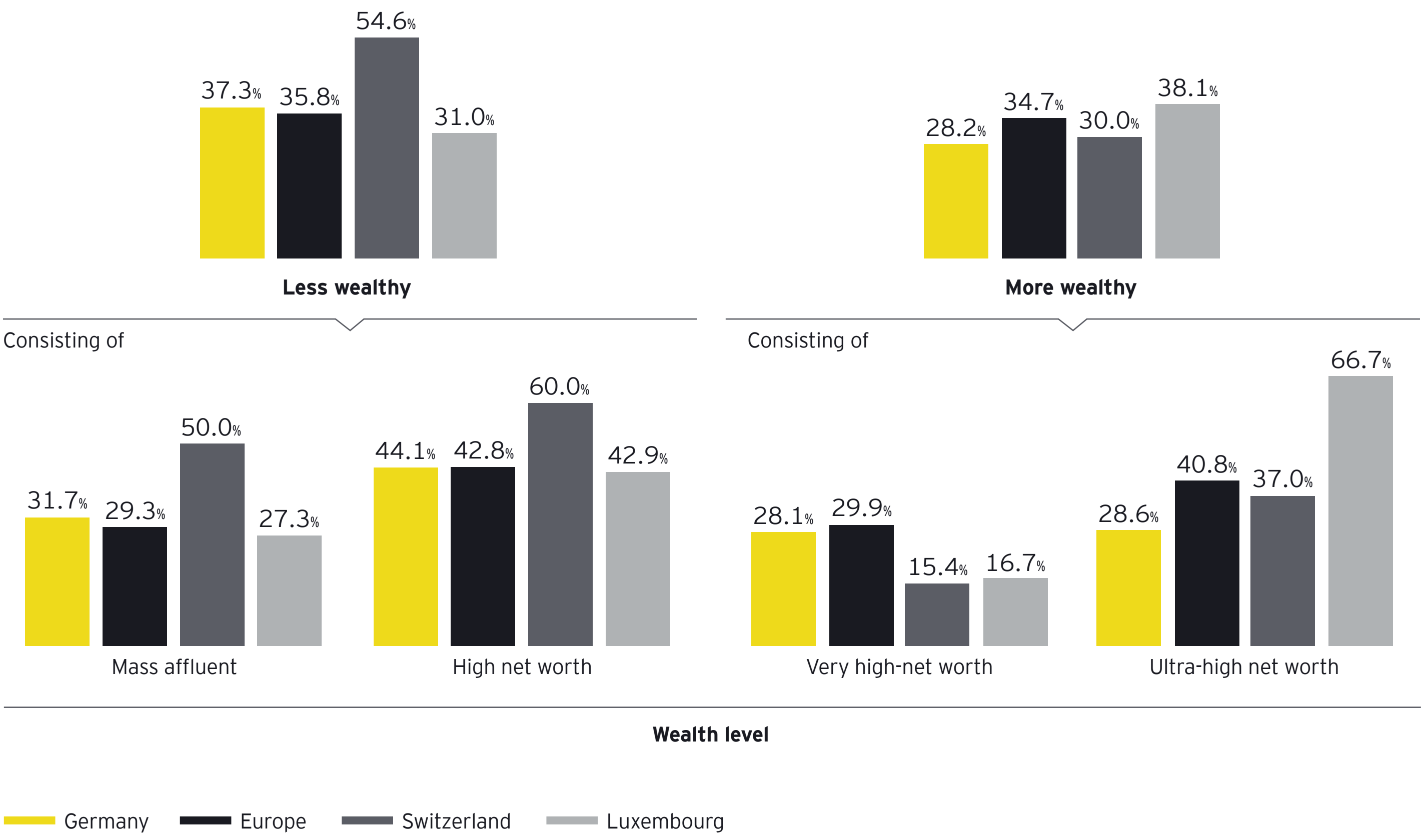
Percentage difference between the proportion of investors using each type of firm now and those expecting to use that type in three years (A8)

The types of firms investors will move to	Germany	Europe	Switzerland	Luxembourg
FinTech (including robo advisors)	↑ 54.2%	↑ 42.3%	↓ -5.3%	↑ 30.8%
Private bank	↔ 1.1%	↓ -6.9%	↔ 0.0%	↔ 0.0%
Independent financial advisory firm	↓ -4.4%	↑ 9.7%	↑ 31.1%	↑ 4.5%
Annuity provider	↓ -5.1%	↓ -5.1%	↔ 0.0%	↔ 0.0%
Independent financial advisor	↓ -7.3%	↔ 0.8%	↔ 0.0%	↑ 5.6%
Full-service institution or universal bank	↓ -8.9%	↑ 7.1%	↑ 25.0%	↑ 70.0%
Asset or fund manager	↓ -9.9%	↓ -16.2%	↔ 0.0%	↓ -21.7%
Brokerage firm	↓ -18.0%	↔ -2.3%	↑ 41.7%	↑ 40.0%
Alternative investment firm	↓ -18.5%	↔ 0.3%	↓ -12.5%	↑ 4.8%
Online trading platform	↓ -19.4%	↓ -12.5%	↓ -17.4%	↑ 40.0%
Family office	↓ -24.1%	↓ -15.4%	↓ -17.6%	↔ 0.0%
Commercial or retail bank	↓ -32.3%	↓ -9.0%	↓ -12.0%	↓ -18.5%

↑ Upward trend ↓ Downward trend ↔ Almost no change

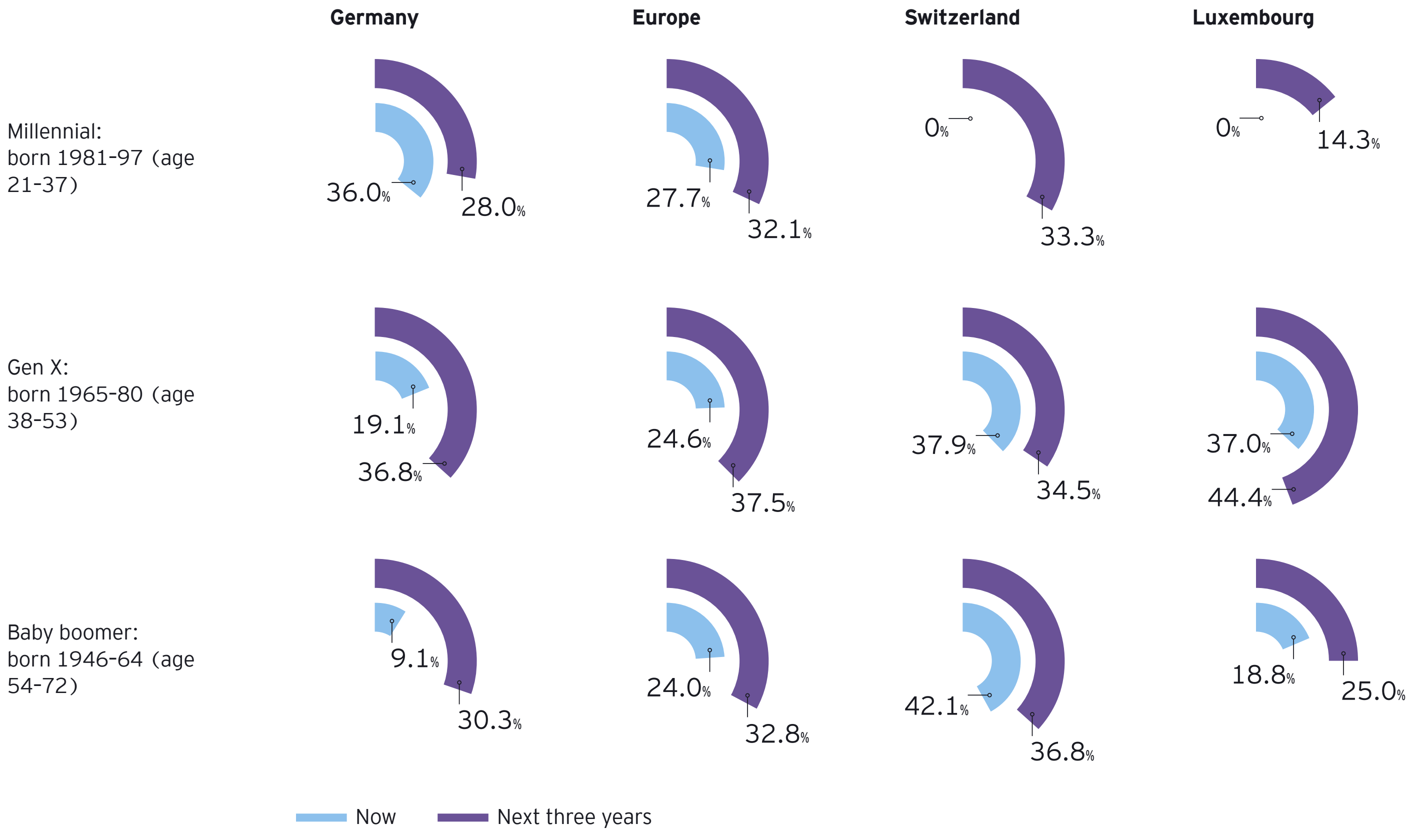
For investors across all wealth levels, FinTech usage is expected to increase in the next three years in Germany – the highest increase across all regions. The expected use of FinTechs is more significant among “less wealthy” investors (more than 37%) than for “more wealthy” investors (approximately 28%) in the next three years (see figure A9).

Use of FinTechs among different investor types over the next three years (A9)



Furthermore, the current use of FinTechs in Germany is concentrated among younger investors, with 36% of millennials using their services. But within the next three years, the use of FinTechs is expected to increase more than threefold for baby boomer investors, from 9.1% to 30.3%. Across Europe, this trend can be observed for all age groups, as more and more investors switch to FinTechs in the next three years, showing a clear expectation that those digital offerings will gain ground with all age levels (see figure A10).

Usage of FinTechs by age – now vs. in the next three years (A10)



How to turn investor switching into an opportunity for German wealth managers

In the German market, it's very important that wealth managers focus on the most valued characteristics of their offering to retain customers who are considering leaving and build strategies to acquire new clients in such a demanding and volatile environment. To keep clients and attract new ones, wealth managers should consider the following actions:

- Focus on retaining clients by better understanding their needs, e.g., pricing and transparency
- Take customer-centricity to the next level rather than defining client segments by age, gender and wealth, which is no longer enough to understand the market
- Consider enhancing products by offering a digital investment platform with personal wealth advisory services
- Build up their ecosystem by cooperating with or integrating FinTech solutions
- Monitor clients' life events, especially those that are life-changing, as their investment needs change

Chapter 2

Capturing clients through evolved products and services

The value that clients place on the wealth management relationship is strongly influenced by products and services. The future of new client acquisition and referrals will be shaped by a combination of an individual client's needs and preferences for both products and services. Historically, clients have managed their increasingly complex financial lives through a network of relationships. But great advances in managing personal data and the improved quality of technology-driven interactions are set to enable firms to provide hyper-personalized advice and services that both anticipate and react to changing client needs and circumstances.

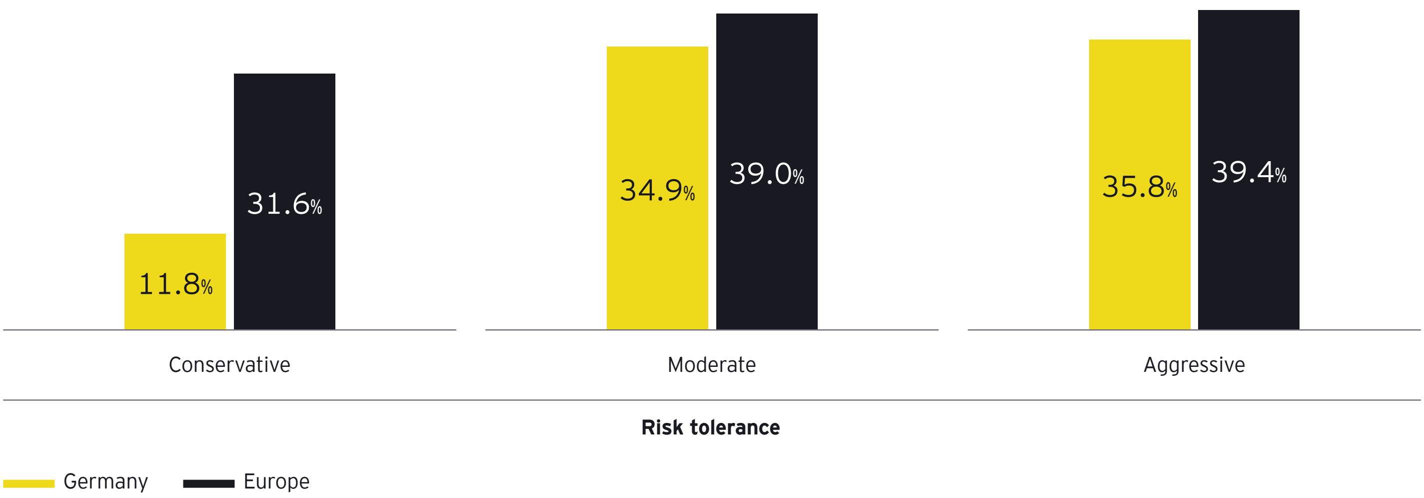
As this evolution takes place, wealth managers must prioritize and provide new offerings and capabilities, first to the clients who value them the most, then to meet the increasing demand from all clients for sophisticated and specialized products and services. The technological and cost-specific limitations of providing them to all clients is a key consideration here.

Delivering client value

Having analyzed clients' overall willingness to switch in the previous chapter, we can now drill deeper and identify investors by their risk appetite to see if similar patterns can be observed.

Looking from that angle, it becomes clear that a higher risk tolerance correlates with a higher likelihood that clients switch within the next three years (see figure B1). Ultra-wealthy, knowledgeable clients, with high to very high risk appetite, are therefore the prime target in attracting new clients from competitors, as they're the most likely to switch. Moreover, these clients should be especially attractive, as they're well suited to higher-margin products and services – they have the required assets, the right risk appetite and the product knowledge for such offerings.

Percentage of clients' willingness to switch within the next three years by risk tolerance (B1)



In assessing what wealth management clients value most in products and services, we looked at the breadth of available investment and non-investment products, access to specialized and exclusive products, and a mix of planning and advisory services. In aggregate, our results showed that 52.1% of German clients assigned a high value to this mix of product and service offering, significantly more than the European average of only 42.8% – with striking variations across demographic profiles (see figure B2).

The perception of value varied most by investment knowledge, with three out of four clients who self-identify as having very high investment knowledge assigning high value to products and services. The more a client understands, the more value they perceive. Therefore, wealth managers should prioritise those clients when targeting their new product and service offerings.

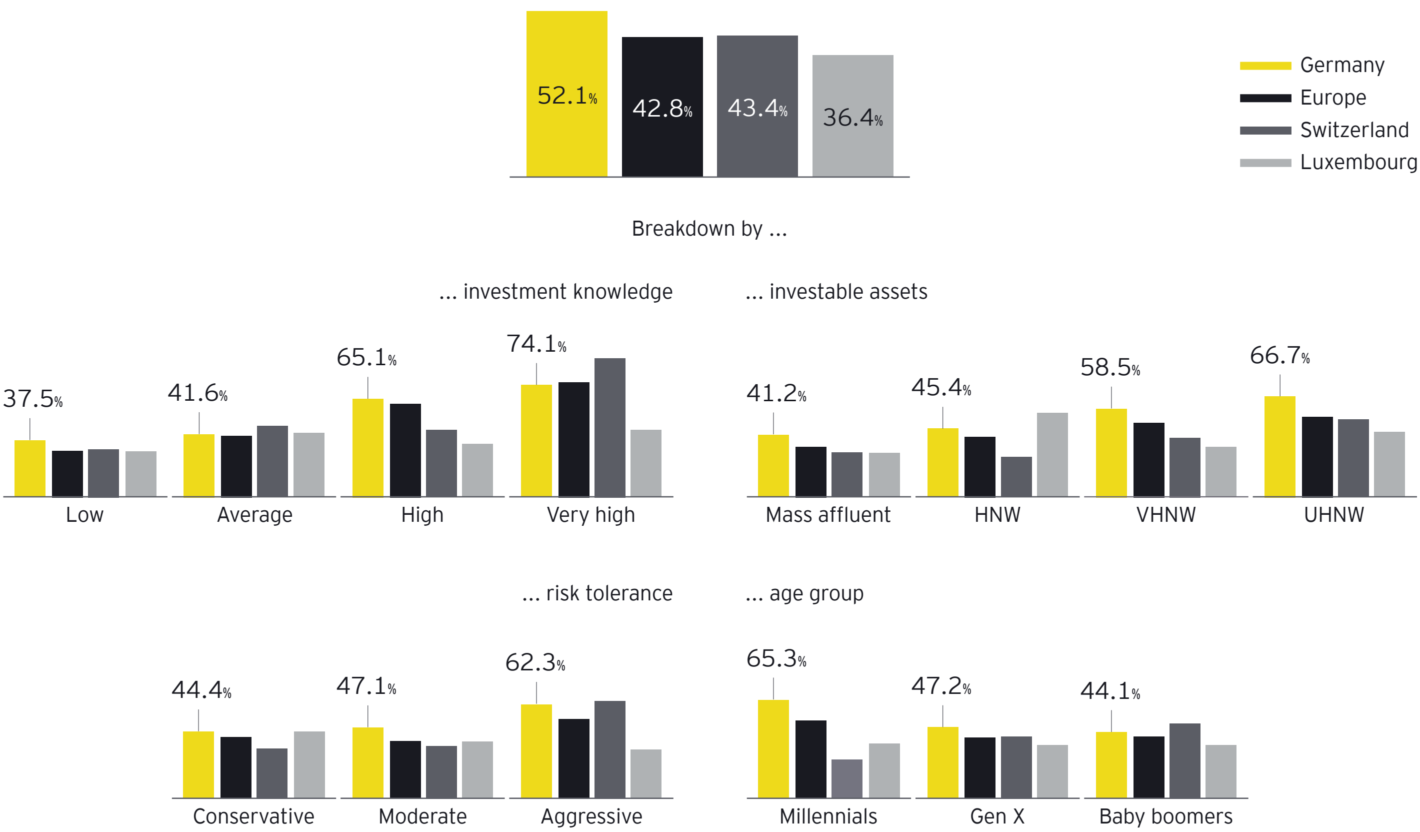
Similarly, client perception of value increases in line with the level of their investable assets. But wealth managers must consider whether those who are seeing less value today (i.e., 41.2% for German mass affluent clients vs. 66.7% for German UHNW clients) will change their perception as their situation changes. Will today's mass affluent clients see greater value in products and services as their assets increase, or will they simply never see that value?

German clients with the highest tolerance for risk see greater value in products and services (62.3%) than more moderate (47.1%) and conservative (44.4%) clients. This could stem from an openness to try a range of products, including less traditional ones, to achieve better results. Wealth managers use several methods to assess client risk levels, including an array of new behavioral finance technologies that aim to measure risk tolerance and sensitivity more accurately. Such methods can enhance service to more conservative clients, who may not embrace the same diversity of products; they may even help to demonstrate the value delivered.

Looking at the different age groups of German wealth management clients interviewed, it's apparent that the millennials have a significantly higher value perception of products and services (65.3%) than other age groups, such as Gen X and the baby boomers with a percentage of 47.2% and 44.1% respectively.

Furthermore, gender breakdown doesn't show any significant difference in the value perception of products and services (female: 55.6%; male: 51.0%).

Proportion of clients who rate products and services as high value (B2)



Expanding wealth management services to all clients

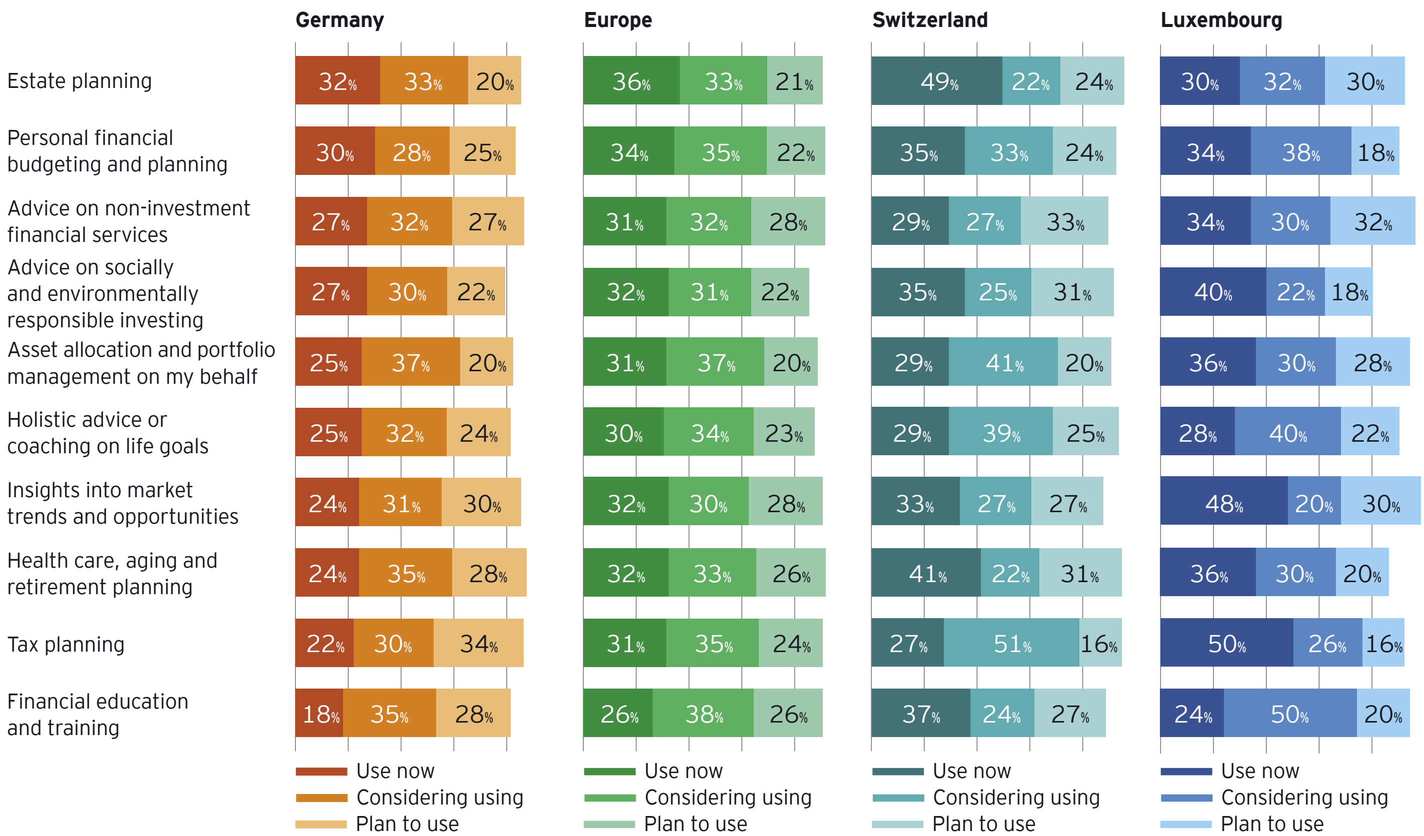
Through a combination of greater access to financial services and the growth of defined contribution plans, clients have increasingly greater control – and responsibility – in their financial lives. The availability and complexity of wealth management services has expanded over the last generation, as investors turn to a diverse mix of providers to help them manage this growing responsibility in preparing for the future.

Our research confirms that clients turn to wealth managers for a breadth of planning and advisory services. But for every client currently using a specific service today, there is another — if not two more — who are considering using or planning to use the same service, which represents an incredible opportunity to firms who can engage these clients (see figure B3). For German clients, as for the European average, estate planning is the most widely used service, which is not very surprising considering the overall demographic transition. However, Germany is lagging behind in the planned use of tax, health care and retirement planning services, as well as services around financial education and training. Consequently, those services offer a great opportunity for wealth managers.

Furthermore, our research revealed that, for most planning and advisory services, Switzerland and Luxembourg are ahead of the German market. Therefore, international wealth managers should leverage this information and bring their expertise from other jurisdictions to their German clients.

This data represents a great opportunity for German wealth managers: clients have an awareness of the diverse set of services provided by wealth managers, but are holding back from engaging for a number of potential reasons. Therefore, each individual client's requirement needs to be assessed so that a tailored offering can be put together to make this a win-win situation for the client and the wealth manager.

Proportion of clients' usage of planning and advisory services (B3)



Balancing a breadth of wealth management product preferences

Equipped with greater knowledge and tools to evaluate performance, clients have increasingly been able to identify products best suited to their needs. Across demographic groups, they're engaged in a diverse set of investment products and show a high willingness to expand their usage across categories (see figure B4). The key challenge for wealth managers is to determine how to balance this willingness with their clients' best interests, client risk appetite, and the cost of providing access to new products and services.

In addition, the data collected clearly shows that German clients still rely more on individual stocks and bonds than their European equivalents. At the same time, it's apparent that more specialized products, such as tax-exempt investments, charitable and socially responsible investments, and passive products, are showing the greatest potential going forward.

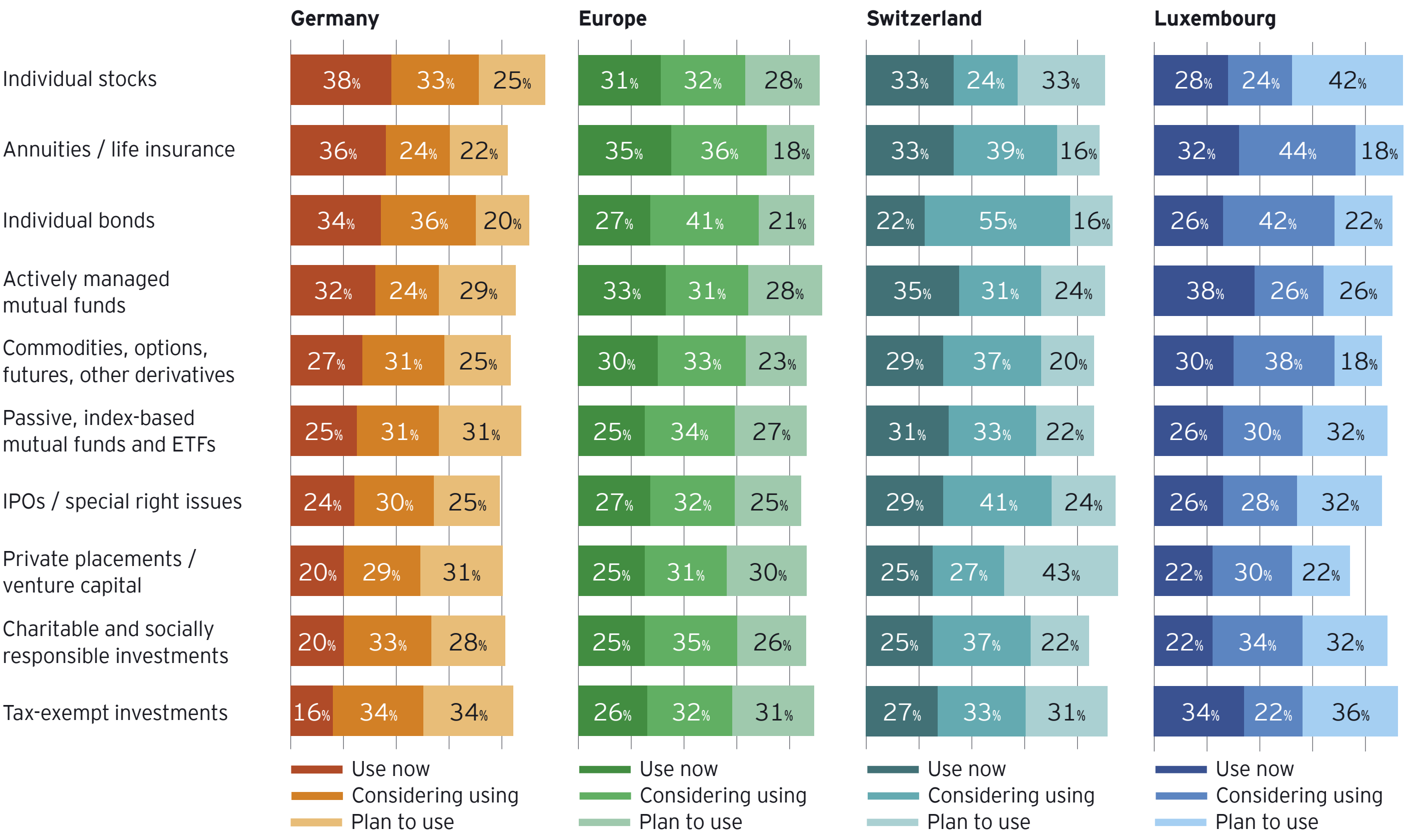
Despite the high use of annuities and life insurance products, these products are currently not seen as an attractive future investment by wealthy German investors.

What seems to be more appealing are passive products such as exchange-traded funds (ETFs) and index-based mutual funds and derivatives (e.g., futures or options).

But meeting client demands needs more than the provision of access to those products. Wealth managers seeking to build long-term relationships with their clients must provide a breadth of knowledge across this product landscape, while offering specific products on the basis of the individual client's portfolio. Educating and empowering clients in the diverse investment products that have captured their interest is a key factor in building greater trust and diversifying their portfolio.

In a nutshell, when looking at products and services, German wealth managers should leverage the insights they can gain from more mature markets, and tailor their offering to the changing needs of their clients. Due to certain aspects of the German tax system, clients see an increased need for tax planning services and passive products.

Proportion of clients' usage of investment products (B4)



Chapter 3

Digital evolution will raise the bar in wealth management

The digital evolution from screens to mobile apps to digital assistants

Client engagement in wealth management needs to keep step with the opportunities of advancing digital innovation. First-generation digital channels such as websites are becoming less important, while mobile apps set the new standard for enhanced client engagement. But wealth managers should be aware that a new digital wave is on the horizon: voice-enabled assistants.

Clients are slowly beginning to demand technologies that can listen, learn, process complex language and anticipate needs – not just for basic, transactional activities, but also to manage wealth and receive financial advice. The ongoing challenge for wealth management firms around the world is how to balance such evolving high-tech solutions with "high-touch" advisory services that offer clients the seamless and personalized experience they demand.

Our global research revealed that the adoption rate for voice-enabled technologies is likely to be quicker in other markets around the world than in Germany. This provides an opportunity for German wealth managers to learn from other jurisdictions and industries and give clients what they're looking for. Mobile apps are now the most preferred interaction channel in Germany, but the data shows potential for further growth. Voice-enabled assistants, on the other hand, aren't yet widespread, and personal interaction remains a key element in client relationships.

We believe that wealth managers should develop their digital change agenda by embedding mobile apps and voice-enabled technology in their arsenal of client engagement tools in order to keep up to date with evolving client preferences.

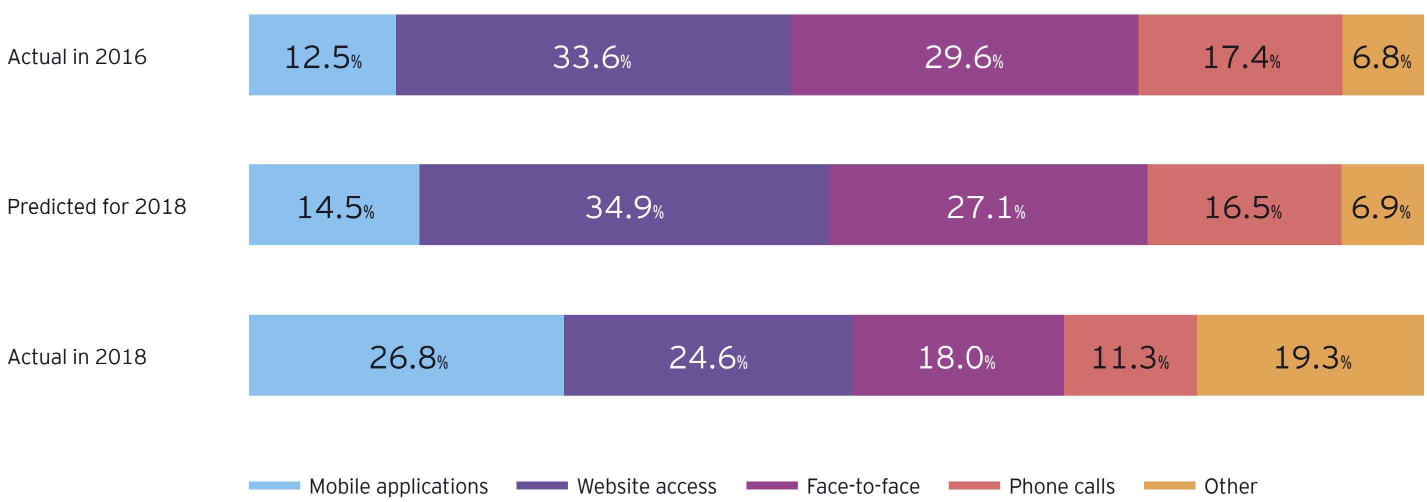
Keeping pace with digital change

In recent years, digital technology has evolved faster than wealth management companies – and their clients – expected. A comparison of results from the most recent EY global research study of wealth management clients and our 2016 survey highlights how challenging it is for German wealth managers to predict future changes accurately.

For example, in 2016, clients in Germany vastly underestimated how quickly their preference for mobile applications would grow over other methods of engagement. In that year, on average, approximately 13% of clients preferred mobile apps across the different wealth management activities, and the projected usage was only marginally higher at almost 15% in the next two to three years. However, since then, actual preference has almost doubled that projection: mobile apps are now the preferred channel for almost 27% of German wealth management clients to engage with their provider, followed by websites and face-to-face interaction (see figure C1).

The shift from first-generation digital channels such as websites to mobile apps is evident in Germany but with a slower adoption rate than in Europe as a whole.

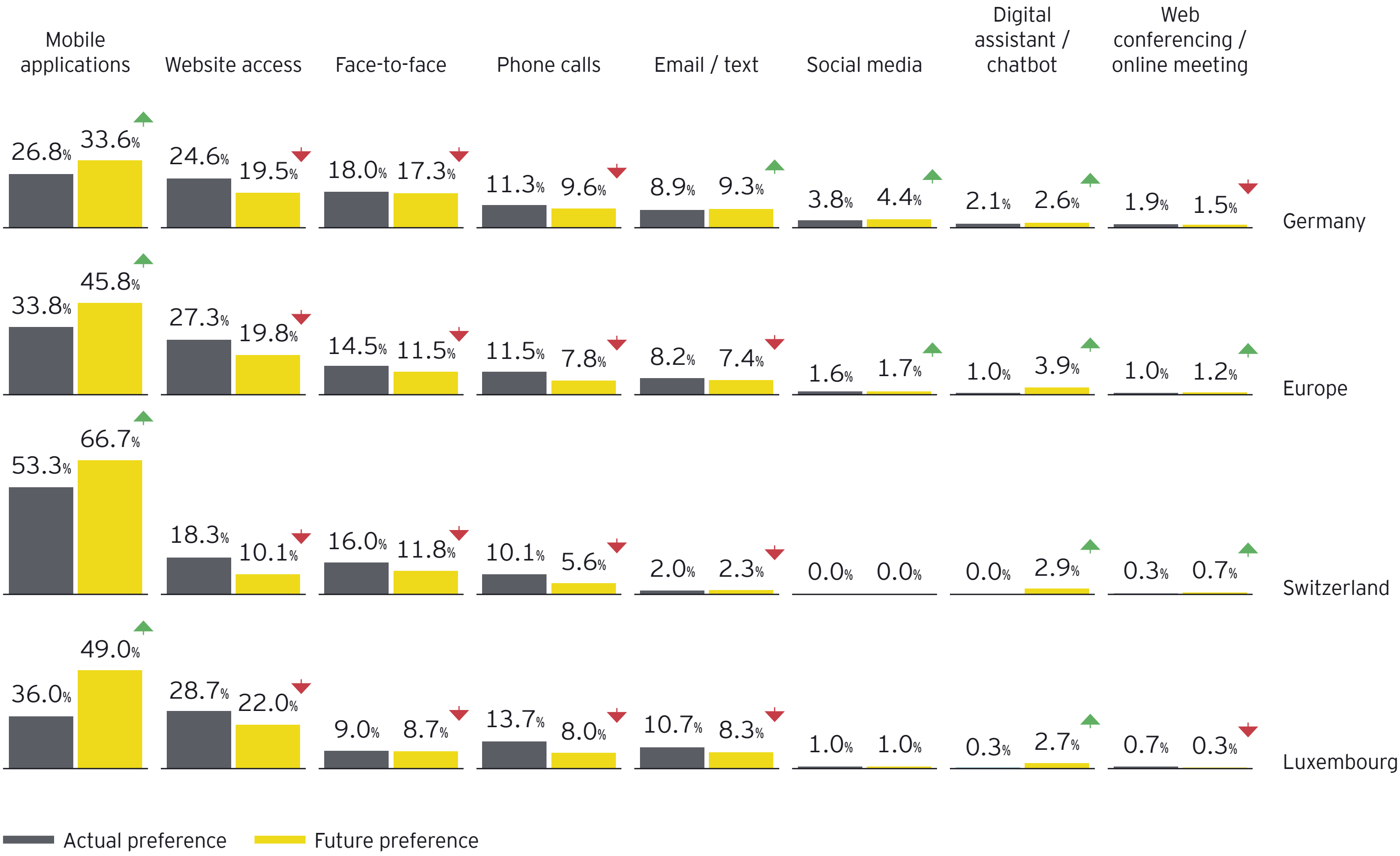
Clients' preferred channel across all wealth management activities (C1)



In Germany, 26.8% of clients now prefer mobile apps for a wider variety of wealth management activities, which is 7% lower than the European usage (33.8%), and those that prefer websites (24.6%), phone calls (11.3%) and email or text (8.9%) remain notable (see figure C2). Meanwhile, our neighbors, Switzerland and Luxembourg, have already exceeded the average European use of mobile apps. In Switzerland, they're preferred by more than half of the client population (53.3%), and in Luxembourg, by 36.0%. Switzerland seems to be one of the European frontrunners in the shift from first-generation technologies to mobile apps, with use of email (2.0%) and website (18.3%) below the European average.

Looking at the activities for which German clients are likely to use mobile apps, juxtaposed with the least preferred channel, is a good indication of where wealth managers should focus first. Since different client types and interactions require the availability of different channels, a clear omnichannel strategy needs to be pursued. This is further illustrated within the following sections, where we look at the next generation of digital channels and clients' future preference by key wealth activity.

Clients' preferred channel currently and in the future (C2)



The next digital wave is already on the horizon

As mobile technologies are now the market standard, wealth managers need to catch the next wave of client engagement: digital and voice-enabled assistants.

These assistants, commonly known as chatbots, can offer a more personalized and user-friendly experience than mobile apps. With their use of natural language processing and ever-advancing machine learning capabilities, chatbots and digital assistants can answer questions, monitor transactions, place orders, perform screening functions and link clients to advisors. Furthermore, they can help advisors to become more efficient in their daily activities, enabling them to spend more time with their clients.

The use of digital and voice-enabled assistants is expected to increase in the years to come. As shown in figure C2, today, only 2.1% of German clients prefer digital and voice-enabled assistants as a primary channel, while 2.6% say that they would use them in two to three years. This increase isn't as high as for Europe as a whole (from 1.0% to 3.9%), or in our neighbors Switzerland (from 0.0% to 2.9%) or Luxembourg (from 0.3% to 2.7%), and the overall projected usage is quite low.

However, technological advancements are already happening quickly: Google has just announced that it has reduced the size of its voice recognition software to 1/200, allowing Google Assistant to run on a mobile phone without a constant internet connection. Such technological breakthroughs, combined with evolution in artificial intelligence (AI), clearly have the potential to accelerate the shift toward digital and voice-enabled assistants, while opening the door to a completely reshaped client interaction. And perhaps, once again, change is happening faster than anticipated.

Notably, future demand for these technologies isn't restricted to basic, repeatable activities. Our research shows that the preference for digital assistants is greatest for learning about products and services (almost 4%), seeking financial advice (almost 4%) and opening accounts (almost 3%), as shown in figure C3.

As well as voice-enabled assistants and mobile apps (from 26.8% to 33.6%), social media (from 3.8% to 4.4%) and email (from 8.9% to 9.3%) are expected to increase in usage over the coming years in Germany. This next generation of predominantly digital channels needs to be the focus for German wealth managers, and investments should be directed into the relevant customized solutions.

As this digital turnaround from first-generation to next-generation digital channels is predicted for Germany in the coming years, a robust business strategy and model, as well as detailed processes, needs to be established. For mobile apps, German wealth managers can learn from other industries and markets, while with upcoming technologies such as digital or voice-enabled assistants, they could even become market leaders and differentiate themselves from their competition.

Blending high-tech with a human touch

Despite growing demand for digital engagement, wealth managers must continue to balance digital solutions and personal interaction by developing scalable, automated offerings with a human touch.

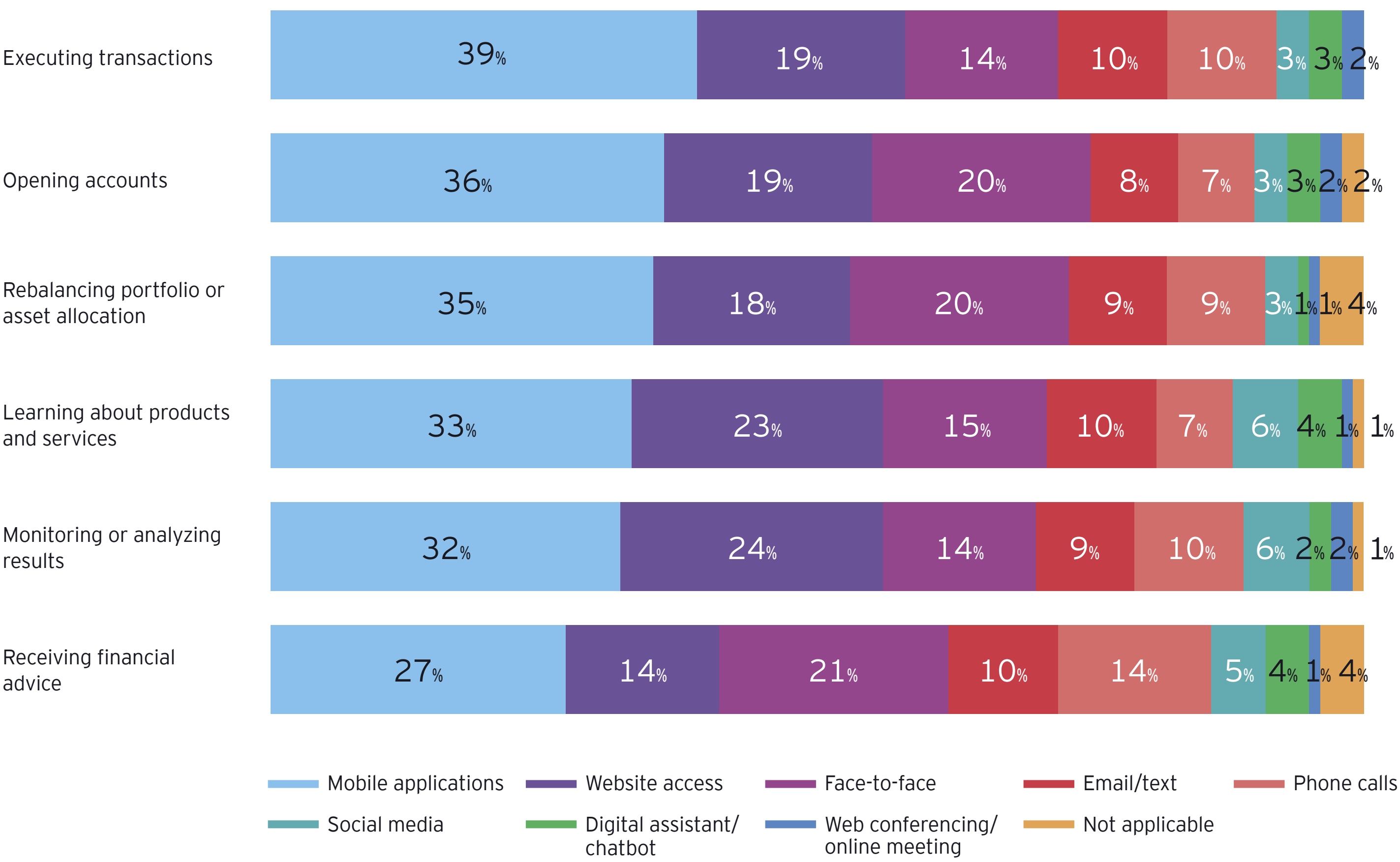
More than one-quarter of German investors will still prefer face-to-face interaction (more than 17%) or phone calls (almost 10%) as their primary method of engagement with their wealth manager (see figure C2). Looking at the various activities, face-to-face conversations still score high for financial advice (almost 21%), with the account opening process and portfolio rebalancing or asset allocation both scoring more than 20% (see figure C3). Direct personal engagement is particularly favored during periods of significant market turmoil, when clients are looking for a trustworthy advisor for guidance and perhaps to soothe nerves.

In summary, wealth managers must harness technology to improve the productivity and quality of client interactions and support their relationship managers. Those wealth managers who can eliminate mundane, repetitive tasks and free up time for their client-facing staff to focus on providing highly personalized client services will have a competitive advantage.

All these trends and developments point to exciting opportunities for wealth managers, allowing organizations to provide innovative services, while reimagining the overall client interaction and relationship.

New technologies, supported, for example, by AI and natural language processing from a client-centric viewpoint, should be at the heart of true omnichannel client interaction, while supporting clients and their advisors.

Clients' preferred channel for key wealth management activities in the future (C3)



Chapter 4

Aligning pricing with value through transparency and simplicity

Explaining and demonstrating value

Although clients are broadly satisfied with the fees they pay, there are clear signs that they're questioning those that they find confusing. Furthermore, they're dissatisfied with *how* they pay, although no one pricing method is predominantly preferred. German clients show a clear desire for more fixed and predictable fee models, which help them lock in costs, avoiding surprises and building confidence in the objectivity of wealth advisors' recommendations.

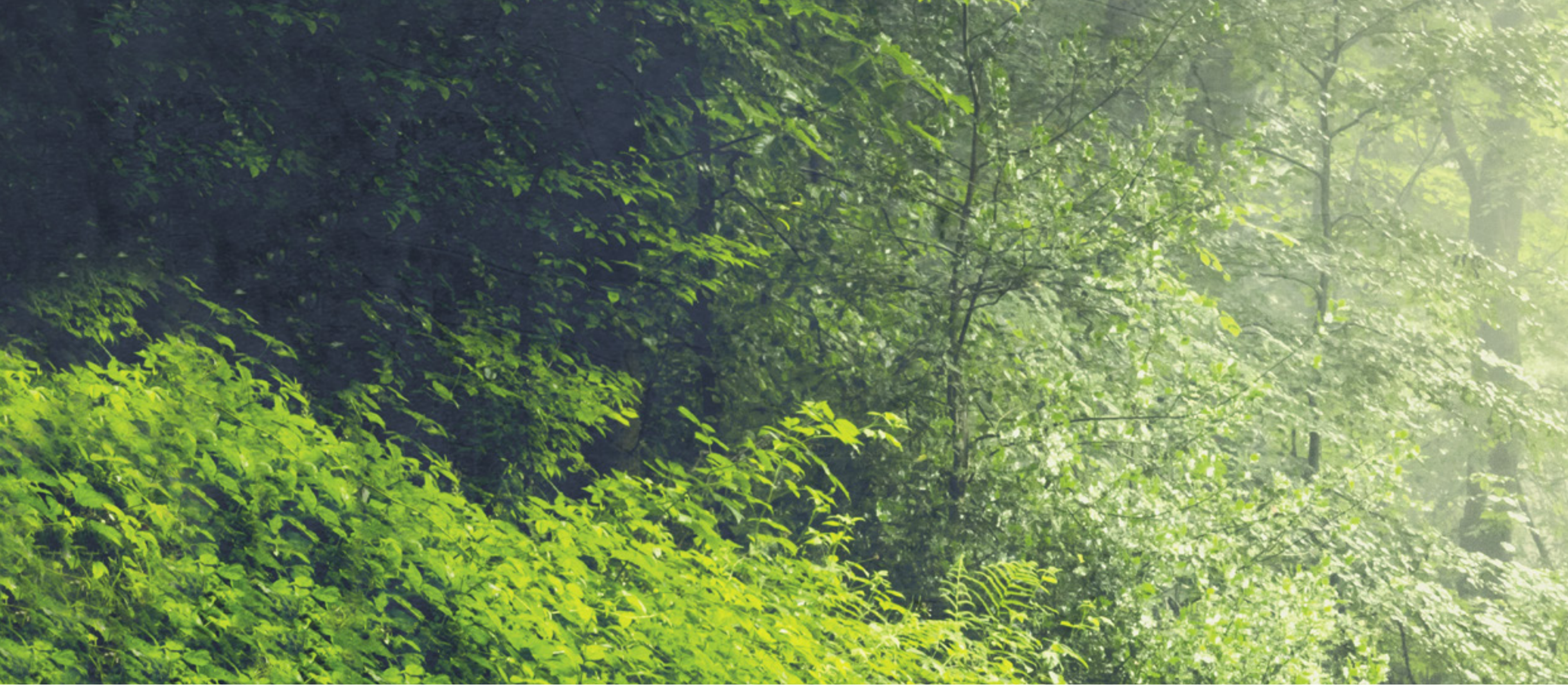
The solution to these concerns will likely need to come from a combination of strategies, including greater transparency, simplified pricing structures and personalized advisory services, as well as an overall improvement by wealth managers in explaining and demonstrating value to their clients.

Maintaining trust and satisfaction

German wealth managers are starting from a good place when it comes to fees: trust and satisfaction is high, especially compared with European peers (see figure D1). However, German discretionary and advisory clients still fear hidden costs, with almost two-thirds of respondents sharing this concern. More than 60% of clients would shift more assets from their self-directed funds to discretionary accounts if the fees were lower.

Percentage of clients agreeing with each statement on fees (D1)

	"I am concerned about the hidden costs when working with my manager or advisor	"I am willing to pay more for broader wealth management advisory and financial planning services	"I would transfer more of my self-directed investments to wealth managers or advisors to manage on my behalf if their fees were lower	"I trust my wealth manager or advisor to charge me fairly	"I get high value for the fees that I pay to my wealth manager or advisor
Germany	65.9%	63.0%	60.7%	60.4%	57.4%
Europe	51.6%	52.9%	59.4%	52.0%	52.3%
Switzerland	43.1%	56.3%	100%	54.2%	46.9%
Luxembourg	44.7%	46.9%	71.4%	41.3%	34.0%



By drilling deeper into key demographic characteristics of the different client groups, including the youngest, wealthiest and most knowledgeable, it becomes clear that trust and satisfaction levels vary (see figure D2). For example, UHNW clients show the highest levels, with 80.0% and 71.4% respectively, while having fewer concerns about hidden costs (61.9%). Moreover, they would pay more for broader advisory and financial planning services (76.2%), and they're willing to transfer more of their self-directed investments to wealth managers or advisors for discretionary services, if their fees were lower (76.9%).

Furthermore, despite indications that clients are dissatisfied with their existing pricing structures, both

Percentage of German clients for selected categories agreeing with each statement on fees (D2)

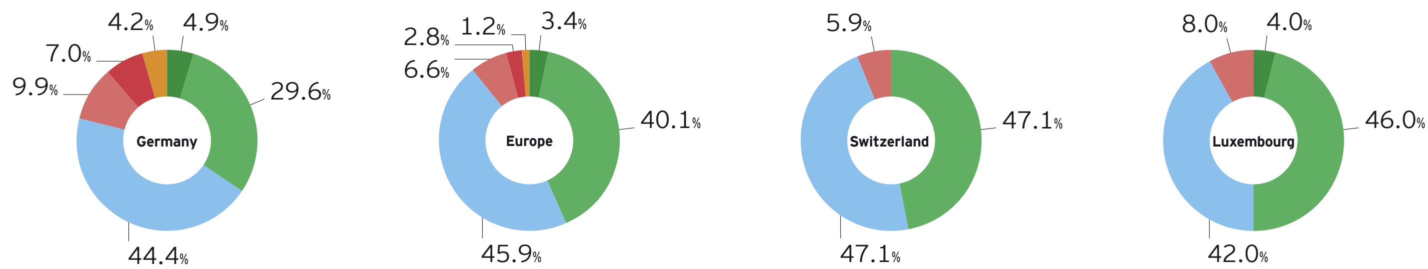
	"I am concerned about the hidden costs when working with my manager or advisor	"I am willing to pay more for broader wealth management advisory and financial planning services	"I would transfer more of my self-directed investments to wealth managers or advisors to manage on my behalf if their fees were lower	"I trust my wealth manager or advisor to charge me fairly	"I get high value for the fees that I pay to my wealth manager or advisor
Investable assets: UHNW	61.9%	76.2%	76.9%	80.0%	71.4%
Age group: millennials	79.2%	62.5%	69.8%	69.4%	69.4%
Investment knowledge: high and very high	66.7%	73.3%	67.3%	74.6%	71.2%
Risk tolerance: high and very high	68.0%	72.0%	74.3%	72.9%	68.8%

discretionary and advisory, as well as execution-only, clients predominantly expect their fees to remain constant. However, quite large numbers of discretionary and advisory clients expect a moderate increase over the next three years, while execution-only clients would rather see a reduction in fees (see figure D3).

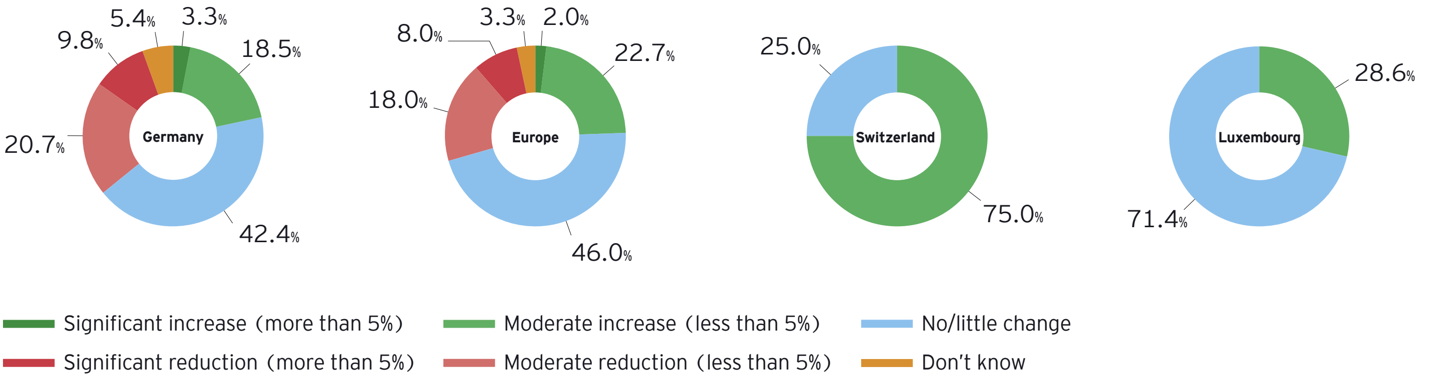
Of those who anticipate lower fees, most expect their wealth manager to decrease their fees, but a significant percentage plan to initiate the negotiation of lower fees themselves or move their assets to cheaper wealth managers.

Client expectations of whether fees will increase or decrease over the next three years (D3)

How do you expect your annual fees to your wealth manager or advisor for assets managed on your behalf to change?



How do you expect the total fees you pay when managing assets yourself to change?



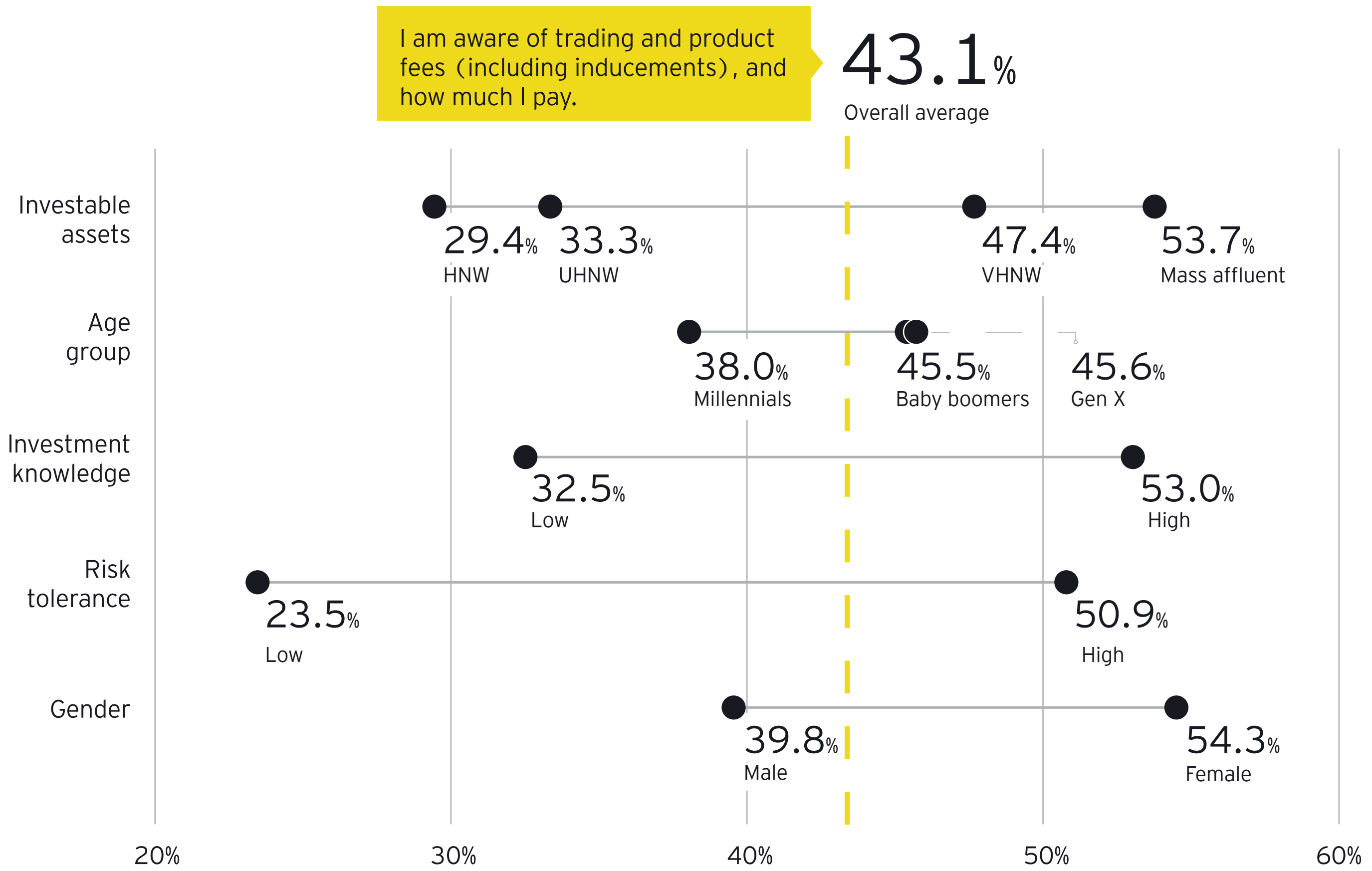
Satisfying a desire for clarity and simplicity

Despite the introduction of MiFID II, several demographic groups in Germany struggle to understand how much they're paying, and are concerned about hidden costs. Our research shows that clients' fee awareness is lowest where there are lower levels of risk tolerance and investment knowledge, and that it decreases with age (see figure D4).

What can firms do to help the clients who struggle most with understanding fees? Simplifying pricing and clearly communicating the rationale for fees is critical to addressing client concerns. In addition to making disclosures as clear as possible, firms can try to educate clients about fee structures, advisor compensation and incentives. Furthermore, a proactive explanation of services and products can reinforce perceptions of the benefits and value offered, and thereby mitigate fee pressures.

More importantly, wealth managers must find ways to demonstrate that fees are aligned with their clients' interests. With increasing variety and competition to serve specific planning and advisory needs, wealth managers must clearly explain the value delivered to their clients and how it helps them achieve their goals, whether through performance or as a measure of expertise to provide specific services.

Percentage of German clients who are aware of how much they pay by demographic group (D4)



Demanding alternative pricing models

While greater disclosure, communication and simplification are important, for most investors, this may not be enough. Our research reveals that the majority of wealth management clients want to pay their wealth managers using a different pricing structure – often one that offers more transparency, objectivity and certainty.

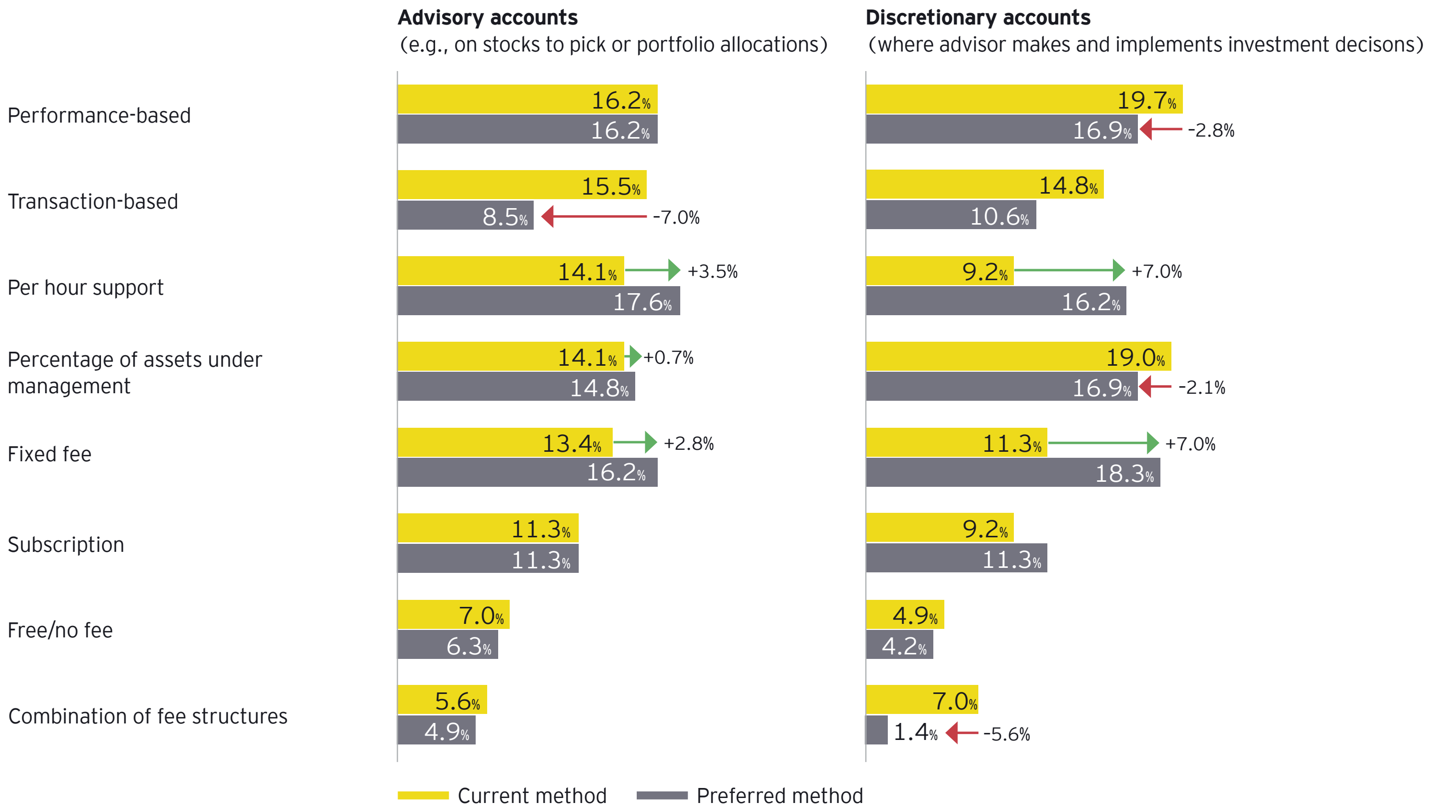
Based on our research, we have analyzed clients' preferences in more detail, focusing on advisory and discretionary fee structures (see figure D5).

The most preferred fee structure for advisory accounts is a model that charges per hour of investment advice received (17.6%), whereas a fixed fee is the preferred model for discretionary accounts (18.3%). Understandably, for discretionary accounts, a non-transparent fee structure with a combination of different fee models is depicted as the least favored payment method, with only 1.4% of clients supporting it. In addition, performance- and asset-based fee models for discretionary accounts have lost their current top spot to the fixed fee model.

When looking at the general wealth management advisory side, transaction-based fee models have lost attractiveness, with a drop of seven percentage points to only 8.5%. Although the hourly fee offers greater flexibility to use wealth services during major life transitions or events, or even for one-off needs, fixed fee models and performance-based fee structures are almost as popular.

Forward-looking wealth managers are already working on fee structures that offer clients more options and certainty. In addition to fixed and hourly fees, these include pay-as-you-go and fee-for-service models, where clients only pay for what they receive, or bundling specific services for a stated fee.

Fee models that German clients currently use vs. preferred methods for advisory and discretionary accounts (D5)



The greatest challenge for firms will be balancing the economics of allocating resources to the right roles in these varied offerings, while maintaining margins to make the services profitable. Firms are experimenting with more pooled resource models to increase flexibility in providing such services at reduced fees.

So, despite fee schedule changes, how can wealth managers provide these highly personalized services effectively, while balancing the costs associated with addressing unique client needs across the wealth spectrum?

Leading global wealth management firms are actively exploring multiple solutions. Some are working with technology companies to segment clients on the basis of existing profile and transaction data, with the goal of improving the end-client experience and satisfaction by more accurately targeting segment-specific services that provide the greatest value.

Meanwhile, other firms are going a step further. Rather than trying to place existing clients in the right segments, they're creating new technologies that aim to anticipate and respond to individualized client needs through interaction with digital and voice-enabled assistants, driven by AI-enabled analysis — making each client a segment of one.

Overall, despite the loyalty of German wealth management clients, a significant level of development and change is predicted, not only through shifts in their preferences but also through the evolution of technologies that affect all aspects of financial advice. It's therefore crucial that wealth management clients truly understand what they pay for and have a clear understanding of the added value of their wealth manager.

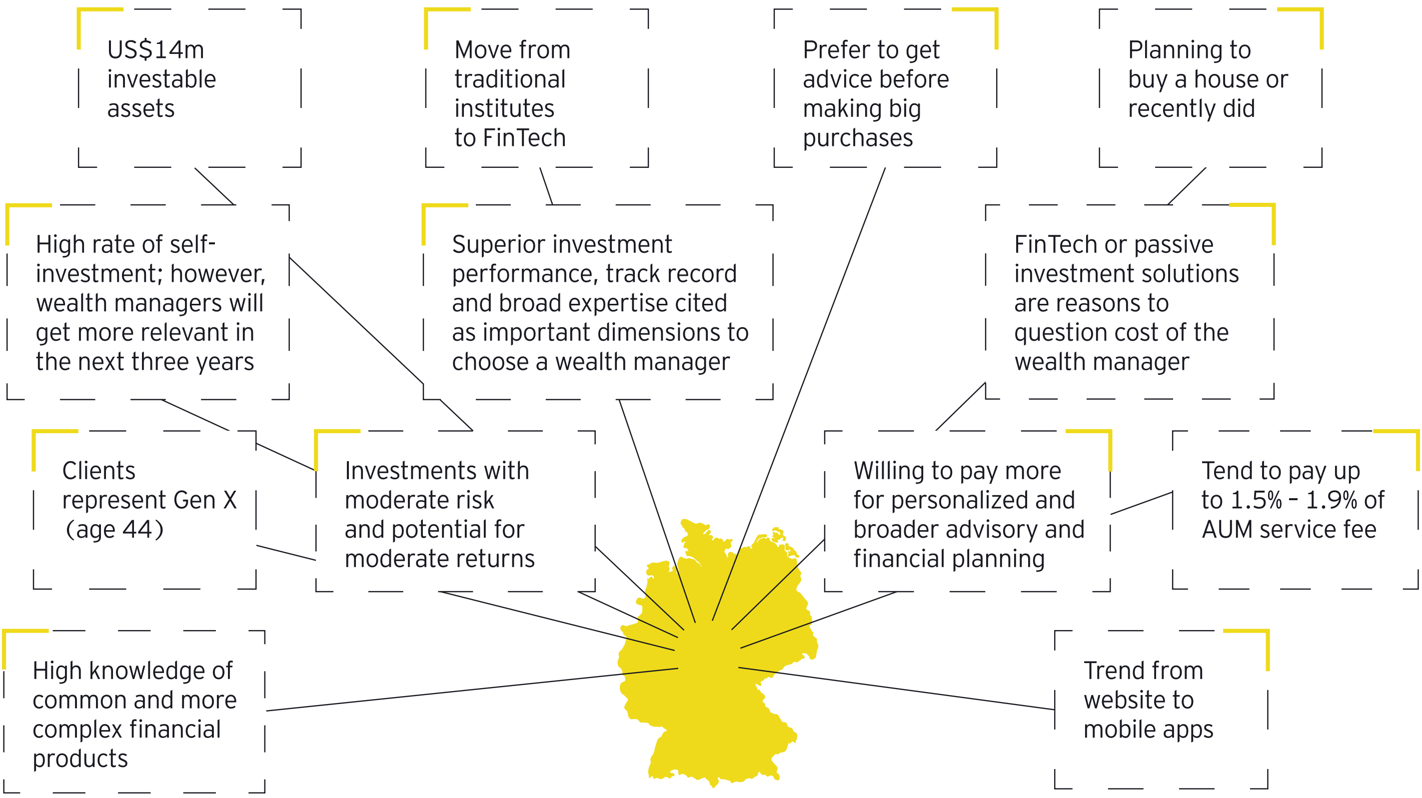
Methodology

In the third quarter of 2018, we worked with ESI ThoughtLab on a comprehensive, in-depth survey of over 2,000 investors in 26 countries to understand their changing investment needs, behaviors and value perceptions. In this research report, we examine the German market, comparing German clients with the European average and with clients from Switzerland and Luxembourg. European figures are based on responses from more than 500 wealth management clients, while the German focus is on more than 150 clients.

To gain greater insights, we profiled investors not just by traditional segments, such as age, gender, wealth and location, but also by level of investment knowledge, risk appetite and psychographic profile. We also conducted interviews with executives at leading wealth management firms around the world to understand how they were rethinking their value propositions and business strategies. For this specific piece of research, we asked respondents whether they had switched or moved money from a wealth management firm over the past three years or plan to do so over the next three years.

Overall, the average German wealth management persona interviewed can be described as follows:

The average German wealth management client interviewed



Survey respondents

German clients	153
Mass affluent	41
HNW	34
VHNW	57
UHNW	21
Millennials	50
Gen X	68
Baby boomers	33
Age not disclosed	2
(Very low) + low knowledge	(8) + 32
Average knowledge	47
(Very high) + high knowledge	(15) + 51
Conservative risk tolerance	17
Moderate risk tolerance	83
Aggressive risk tolerance	53
Male	118
Female	35

Levels of investable assets

Less wealthy defined as:
Mass affluent: US$250,000 to US$999,999
HNW: US$1.0m to US$4.9m

More wealthy defined as:
VHNW: US$5.0m to US$29.9m
UHNW: US$30m to US$100m

Age categories

Millennial: born 1981-97 (age 21-37)
Gen X: born 1965-80 (age 38-53)
Baby boomer: born 1946-64 (age 54-72)

We also asked respondents to rate their knowledge in managing their finances depending on their knowledge of common and complex financial products.

Details of the global wealth distribution and survey coverage

Region	Survey sample (% of total)	Total wealth (sum total)[1]	Total wealth (% of total)
North America	32%	US$19.8tr	28%
Latin America	11%	US$8.7tr	12%
Europe	25%	US$15.9tr	23%
Germany*	7%	US$5.2tr	7%
Middle East and Africa[2]	4%	US$4.2tr	6%
Asia-Pacific	28%	US$21.6tr	31%
Total	100%	US$70.2tr	100%

* Germany is a sub-selection of the Europe survey sample
[1] Source: 2018 Capgemini's World Wealth Report, wealth of investors with US$1.0m or more
[2] Africa refers to South Africa data only

Contacts

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Sebastian Schaefer, Director
FSO Advisory Wealth Management Leader Germany
sebastian.schaefer@de.ey.com
+49 6196 996 15117

Patrick Stöß, Partner
FSO Advisory Wealth & Asset Management Leader Germany
patrick.stoess@de.ey.com
+49 6196 996 25387

Robert Melnyk, Partner
FSO Advisory Leader Germany
EY EMEIA Performance Improvement Leader
robert.melnyk@de.ey.com
+49 89 14331 24931

Oliver Heist, Partner
FSO Wealth & Asset Management Leader Germany
oliver.heist@de.ey.com
+49 6196 996 27505

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