The Digitalisation of Wealth Management: A Focus on Europe

A new industry survey from Forbes Insights commissioned by Thomson Reuters gathers perspectives of wealth managers globally, the impact of digitalisation on the industry and what wealth managers need to know to stay relevant. To better understand how wealth managers are using data and technology to adapt to changing client expectations, 200 wealth managers and executives from North America, Europe and Asia Pacific were interviewed. This report summarises the findings as they relate specifically to Europe.

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Introduction

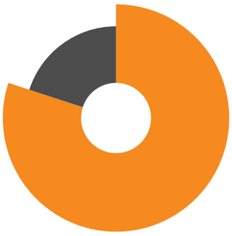
Wealth managers today operate in an era defined by exponentially blossoming digital capabilities and constant disruption. They face a plethora of challenges, including maintaining a competitive advantage, meeting ever-greater customer expectations; responding to changing market conditions with speed and agility; and ensuring that they continue to deliver real value to investors.

Across the globe, wealth managers have expressed a number of related concerns, including keeping up with new technology and staying relevant to the next generation of investors. This same technology also presents an opportunity: the automation of certain tasks will deliver efficiency, allowing wealth managers to concentrate on adding value to their client relationships and as their clients increasingly rely on them for advice beyond the more traditional investment management services.

When it comes to digitalisation in wealth management, what do wealth managers on the ground believe? In Europe, 42% of our survey respondents believe that digital tools for operational efficiency will have the greatest impact on the wealth management industry over the next three years and the majority (66%) see artificial intelligence (AI) as an opportunity, although only 13% believe that it presents a significant opportunity.

A snapshot of survey findings

Headline findings for Europe included:



80% say learning and/or keeping up with new technology is the top challenge they face

71% of respondents are concerned about staying relevant to a younger generation of investors

42% say digital tools for operational efficiency will have the greatest impact on the wealth management industry over the next three years

47% believe that the digital capability that clients value most is the ability to view their portfolio online or via mobile

63%

spend most of their time on risk, compliance and sales practice, followed closely by providing advice and engaging with clients

66%

see AI as an opportunity, only **13%** believe that it is a significant opportunity and no one sees it as a threat

The current state of play

A changing landscape

In the age of digital disruption, financial advisors cannot rely on the rules of the past. Fintechs are burgeoning, banks and insurers are leveraging robo-technology and disruption within the industry is changing the landscape beyond recognition. The relationships that wealth managers enjoy with their clients and the value that they bring to the table are constantly evolving and are expected to change further in the next few years. Client expectations – particularly the expectations of millennials – are increasing: they expect improved channels of engagement, speed, agility and, moreover, lower fees. Many clients may seek to change their advisor if they perceive better value elsewhere, and others may even question whether they need an advisor at all.

In an industry where approximately US$120 trillion[1] of client assets are managed by global wealth managers, EY consultants believe that four out of 10 clients are open to switching wealth managers under the right circumstances.[2]

Key concerns among wealth managers

Wealth managers today are operating in a challenging environment, and they must ensure that they evolve alongside the changing needs and demands of their clients. Our survey delved into the key concerns that wealth managers are experiencing in the current market.

In Europe, the top concern was "staying relevant to a younger generation" with 71% of respondents reporting this concern. Younger generations, millennials in particular are an increasingly targeted demographic. Undoubtedly, staying relevant to younger investors is closely tied to keeping up with the dramatically and quickly evolving technology landscape. Indeed, throughout the survey, technology concerns ranked highly.

There were some regional variations, with the highest number of managers in the APAC region reporting the same concern, but more respondents in North America were concerned about disintermediation by robo-advisors or other technologies available to investors directly.

1 2015 Credit Suisse Global Database
2 2016, EY, Could your clients' needs be your competitive advantage?

Key challenges facing wealth managers

As a backdrop to these concerns, what are the fundamental challenges facing wealth managers in the current climate?

In Europe, the top challenges highlighted by respondents were:

- Learning and/or keeping up with new technology (80% chose this)
- Growing clients and assets (77%)
- Gaining client confidence and trust (63%)

The same three challenges were highlighted in Asia Pacific, but those in North America differed in their opinions, with the highest percentage of respondents (48%) selecting improving productivity as a challenge.

With the top concern among European advisors reported as staying relevant to a younger generation, it is critical that these wealth managers embrace the technology available to help them remain relevant and keep pace with the expectations of digitally native incoming investors.

Insights into client retention

Client retention is key to operating a successful wealth management firm. Tremendous amounts of time, effort, energy and cost are dedicated to developing each client relationship and retaining clients should be a key focus for every wealth manager. Of course, there is a caveat: there are instances where a client will not generate sufficient revenue to justify any additional effort to retain them.

Client retention is essentially impacted by three factors:

- **Trust**

Trust is the foundation of the wealth management industry and must be underscored by transparency around compensation and the reasoning behind all decisions that affect a client portfolio.

- **Value**

Advisors must bring real value to the relationship and present themselves as a trusted source of financial advice or perhaps even as a life coach delivering a holistic range of assistance that takes cognisance of a client's full range of needs. Automation and segmentation can help advisors offer clients what they need, ensuring that they spend their time where they can add the greatest value.

The relationships that wealth managers enjoy with their clients and the value that they bring to the table are constantly evolving and are expected to change further in the next few years.

- **Relevance**

In a changing world, staying relevant – both to evolving individual client needs and to a new digitally native generation – is no small task. Talent shortages are being experienced as current advisors age, and recruiting younger advisors alongside younger clients is also a key focus for wealth managers.

Top factors affecting client retention

Top factors:

- The ability to provide advice beyond the portfolio under management
- Connecting with the next generation in anticipation of a transition of assets
- The use of digital technologies for communication

Respondents were asked about the factors that they believe affect client retention. In Europe, 67% (the highest percentage) believe that the use of digital technologies for communication is key. This was followed by 66%, who selected connecting with the next generation in anticipation of transition of assets as a key area; and 63% selected the ability to provide advice beyond the portfolio under management.

When compared to APAC, the top three factors were the same, but the order was reversed. Respondents in North America did not agree, with over half (56%) saying that the ability to generate personalised outreach on market events relevant specifically to client holdings was a key factor.

European respondents clearly appreciate the power of digital technologies within their industry, but how do their existing technological capabilities score with clients?

Client satisfaction with existing digital capabilities

Respondents were asked to what extent they agreed with the statement, "I believe our customers are satisfied with the level and sophistication of digital capabilities we offer." In Europe, 38% of respondents agreed or strongly agreed, a far lower percentage than those who agreed or strongly agreed in North America (62%), but a higher percentage than in Asia Pacific (32%). While ahead of APAC, European wealth managers have work to do if they are to keep pace with their North American counterparts.

The millennial factor

Millennial investors have different expectations compared to those of previous generations. As wealth passes into their hands, they may change their advisors if those currently managing this wealth do not take steps to remain relevant in the digital age.

Respondents were asked whether they agreed with the statement, "Millennial clients expect a higher level of digital interaction and capability than older clients." In Europe, 53% of respondents agreed or strongly agreed. A much higher percentage agreed or strongly agreed in North America (69%), but a lower percentage were of the same opinion in Asia Pacific (35%).

Wealth management: a typical day

One of the key drivers behind automation is that it enhances efficiency by eliminating or reducing the time spent on certain tasks, but first one must understand exactly how wealth managers spend their time.

The survey asked respondents to select the top activities that take up most of their time on a daily basis.

In Europe, the top three tasks were reported as:

- Risk, compliance and sales practice (63% selected this)
- Providing advice and engaging with clients (62%)
- Client acquisition and onboarding (59%)

Throughout the industry, some tasks have already been automated, but there are other tasks where technology could help further. Respondents were therefore asked for the top activities that they believe could become more efficient with the use of technology.

Respondents in Europe listed their top three as:

- Client acquisition and onboarding (47% chose this)
- Objectives and risk tolerance (39%)
- Risk, compliance and sales practice (37%)

These were similar areas (although not exactly the same) to those that take up most European wealth managers' time on a daily basis.

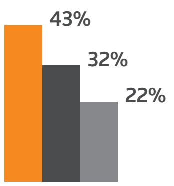
Harnessing technology

Technology-powered capabilities

We asked advisors to rate the current capabilities of their organization and globally the overall grade was "needs improvement." Drilling down, the survey sought to pinpoint which technology-powered capabilities organisations don't have, but feel they need and, further, which capabilities they have and whether these need improvement.

In Europe, 43% of respondents said that they don't yet have a mobile platform, but acknowledged that they need one. On the other hand:

- 76% have real-time access to market information for clients, although 44% said their system needs improvement
- 76% also said they have advanced analytics for asset management, and 53% said this capability needs improvement
- 76% reported that they have a client portal to view investments and performance, and 63% said their portal needs improvement



Wealth managers:

- Don't even have a mobile platform yet, but need one
- Currently have a mobile platform, but it needs improvement
- Have a mobile platform that is continually improving

Mobile capabilities

Mobile capabilities are particularly relevant to the incoming, digitally-savvy generation. Mobile interfaces should be intuitive and intelligent, forming a key part of the value proposition, yet globally only 27% of wealth managers are happy with their mobile platform today.

In Europe:

- As highlighted above, 43% say they don't have a mobile platform yet, but they need one
- A further 32% currently have a mobile platform, but believe that it needs improvement
- Additionally, 22% of wealth managers have a mobile platform that is continually improving

Where do clients perceive value?

Advisors were asked which digital capabilities they believe their clients value most. In Europe 47% believe that this is the ability to view their portfolio online or via mobile. Wealth managers in Asia Pacific agreed, but in North America benchmarking was selected by the highest number of respondents.

Considering that nearly half of European respondents say that the digital capability their clients value most is the ability to view their portfolio online or via mobile, it should be cause for concern that 43% don't yet have a mobile platform. The situation is worse in the APAC region, where 62% reported no mobile platform; on the other hand, Europe lags North America, where this percentage drops to just 5%.

Communication preferences

There were quite marked differences in how wealth managers prefer to communicate with their client, compared to client preferences.

In Europe, 71% said that their clients' preferred communication channel is email. This was also selected by the highest number of respondents in APAC, but in North America, social media was the preferred choice and was chosen by the largest percentage of respondents from this region.

The survey then went on to ask respondents about their preferred channels for communicating with clients, and the results were somewhat different. In Europe 68% of wealth managers said they favor in-person meetings. This was also the preferred means of communication in APAC (selected by 73% of respondents), but in North America 100% selected text or messaging services such as WhatsApp.

Automating communication

In an era of automation, to what extent are wealth managers embracing tools for automation? The survey asked respondents how much of their communication with clients is automated. In Europe, 42% confirmed that 50%-74% is automated, but a very low 3% were able to claim that 75% or more is automated. This compares to North America and APAC, where 26% and 7% respectively reported that 75% or more is automated.

The personal touch

Personal relationships in the digital era are a crucial tool for differentiating wealth management services, but are managers making the most of advanced analytics and machine learning to personalise their offerings?

When asked how they go about gaining an understanding of their clients' needs so that they can personalize their investment advice to those needs, 71% of respondents in Europe said they prefer face-to-face meetings.

Respondents were further asked about the level of personal service they offer clients, and in Europe 70% of those surveyed selected collaboration with third-party experts.

Moving on to how advisors tailor their services to build relationships with clients and provide value, the survey asked which of their services make use of digital tools. The highest percentage of European wealth managers selected personalized attention (64%). This was also selected by the largest number of respondents in North America, but the greatest percentage of APAC respondents (73%) selected specialisation in client investing style or needs.

While the majority of European managers say that they embrace the use of digital tools to provide clients with personalised attention, a greater percentage still say that they prefer face-to-face meetings with clients. Considering that their clients prefer email, there is room for further improvement.

Relationship building

Wealth management firms in Europe that report more than half of their communication with clients is automated.

44%

Wealth managers who are using cognitive capibilities to segment clients and create personas based on their needs.

Asia 72%

Europe 63%

North America 30%

Where are we headed?

Expected impact

What will have the greatest impact on the wealth management industry over the next three years? The survey sought to answer this by gauging respondents' opinions.

In Europe, 42% selected digital tools for operational efficiency (this was also the most-selected option among North American respondents), but there were regional variations, with 57% of respondents in Asia Pacific believing that advanced analytics/cognitive technologies will have the greatest impact.

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Wealth managers see Artificial Intelligence as an opportunity

AI

Globally, seven out of 10 wealth managers see AI as an opportunity, while 14% see it as a significant opportunity. When asked whether AI is a threat or an opportunity, 66% of those surveyed in Europe reported that they see AI as an opportunity, while only 13% believe that it is a significant opportunity and no one sees it as a threat. A higher percentage (89%) in North America view AI as an opportunity, but a slightly lower percentage of respondents in Asia Pacific (63%) are of the same opinion.

Perceived impediments

Respondents were asked what they see as the greatest impediments to expanding their organisation's capabilities around data, analytics and AI.

In Europe, respondents selected:

Regulations (63%)

No clear path to ROI (62%)

Security (57%)

Legacy systems (57%)

According to European survey respondents, the ever-changing regulatory environment, allied to a lack of clarity on achieving a meaningful ROI, security concerns and often cumbersome legacy systems must all be addressed if they are to effectively harness the power of the digital capabilities expected by their clients.

Conclusion

Technology offerings in the wealth management industry need to tick a number of boxes if they are to solve the challenges highlighted by wealth managers and deliver the right tools for advisors to stay relevant in a changing environment.

Solutions in this space must include communication tools that meet the expectations of a digitally native incoming generation of investors. They must enhance decision-making capabilities for advisors and their clients; and offer access to client information on one screen, prioritised for current events. They must further enable advisors to generate personalized advice and automate routine tasks. For example, nearly two-thirds (63%) of European advisors reported that they spend most of their time on risk, compliance and sales practice; 37% believe that they could become more efficient in this area with the use of technology.

Nearly half of European respondents (47%) believe that the digital capability their clients value most is the ability to view their portfolio online or via mobile, but a significant 43% revealed that they don't yet have a mobile platform. This technology gap presents a clear opportunity for European advisors to optimize the client experience through enhancing the digital capabilities on offer.

In an industry defined by digital disruption, forward-thinking wealth managers would be well-placed to embrace the digital capabilities on offer, freeing them to concentrate on adding true value to their client relationships and remaining relevant against a changing backdrop.

About the survey

- The data in this report is based on a survey of 200 wealth managers conducted between September and November 2017 by Forbes Insights.
- Respondents surveyed are directly involved in wealth management and work for a broad range of firms including asset-management firms, investment banks, private banks, family offices, online-only firms and independent wealth management firms.
- Three regions – North America, Europe and Asia Pacific – are represented in the survey in nearly equal proportions.
- Respondents work at firms that manage assets of at least $1 billion, but the majority work at firms with assets under management of at least $10 billion, with nearly 44% coming from firms that manage more than $100 billion.
- Please note that the standard convention of rounding has been applied and consequently some totals do not add up to 100%.

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