

# Innovate to Succeed:

**The Client Call to Action for Wealth Management**





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#### Executive Summary:

## Keys To Success

Our research engagement with Aon has sought to identify how wealth management firms can become more effective in serving their existing clientele, as well as identify and develop future opportunities. The report brings together perspectives from 272 investors across the U.S., the U.K., India and Germany with an average net worth of USD1.4 million. Based on their insights and experiences, we see the following as keys to success for wealth management firms:

### **1. Don't wait for the emerging affluent to become HNWIs – engage with them now**

To grow the pipeline, wealth firms must build data-driven customer intelligence before emerging affluent customers become the coveted HNWIs. Our research shows that 56% of wealth management relationships are triggered by a specific life event in their 30s and early 40s. With younger clients twice as likely to switch than the older generation, the industry has a significant acquisition opportunity if it can offer the right products at the right time.

### **2. HNWIs of all ages believe customer service leaders must be digital leaders**

A common perception of the older generation of investors is that they care less about digital. In reality, the majority of investors over the age of 67 want to receive ongoing data analytics and content that is personalized to their interests and goals. 80% believe that data analytics should be at the core of a better customer experience.





### **3. Firms must cater to increasingly diverse product needs and adapt to fast-evolving demands**

A segmented analysis of investors' current product needs reveals an extremely diverse picture across different customer profiles. For example, 40% of HNWLs under the age of 55 look at opportunities for impact investing and real estate when assessing the quality of a firm's offering. Nevertheless, individual investment needs are subject to constant change and may diverge as 80% expect their wealth management priorities to be different in 5 years.

### **4. AI can assist with the profiling of HNWLs, thus enabling scale and more solid relationships**

While human accountability for investment decisions remains sacred for 86% of investors, our research indicates growing acceptance for the use of Artificial Intelligence. For instance, 35% see added value in AI profiling their investment needs, and 43% believe that AI could support their firm's customer service. Wealth managers should start laying the groundwork today – in terms of processes, tools and data points – to make AI work for them tomorrow.

### **5. Be more like a tech company by facilitating product access, contextualizing information and providing a high-touch interface**

Business model innovation is needed to enhance client value – with a tech-enabled, personalized experience that empowers customers and offers choice. Firms that choose to be a generalist (rather than a niche) player should look to Amazon's business model and provide access to the wider marketplace, including services outside traditional investing. Learning from Google, data must become more structured, so that advisors can better contextualize client needs. Taking a leaf out of Apple's book requires seamless, personalized online / offline interactions.





# Customer Loyalty in a Perfect Storm

For at least five years, the wealth management industry has been gripped by one existential question about its future: to what extent should technology play a role in its relationship-driven business model?

Across all industries, new channels and technologies are changing the service demands of the modern customer. These trends are by no means exclusive to wealth management, but they are being felt acutely by the firms that operate here. A sector that has thrived for decades on life-long client loyalty is now caught up in a perfect storm of margin compression and escalating digital expectations.

Most operators now agree that the path to growth requires investment in digital to bring client service into the Information Age. This talk of embracing innovation is not new but most of the industry is functioning within the constraint of declining profitability. Success depends on prioritizing investments that will improve operational effectiveness – rather than just efficiency – and enhance the value delivered to restless end-clients.

The emergence of the “Next Gen” client has been discussed ad nauseam in other studies. It goes without saying that demography presents a medium-term challenge to every wealth operator. More immediately impactful is the fee transparency agenda initiated by regulators, which has cast an unflattering light on the value for money of active management next to cost effective index-tracking funds.

Today’s customer is still learning to scrutinize costs and charges, so may not immediately act on their conclusions. Tomorrow’s customer, likely to be more fee-sensitive, will. To avoid being forced to compete just on price or on investment performance, firms must find other ways to differentiate and unlock new sources of value – at scale.

Innovation is what happens when new combinations of technology and knowledge come together; it is a process driven by entrepreneurs and managers.<sup>1</sup> In this research study, Appway and Aon have collated knowledge from those that stand to benefit from innovation (i.e. high net worth clients and the business leaders responsible for implementing it). Our aim is not to provoke debate but compel action.

## **Profitability conundrum: Clients expect more value at a lower cost**

In the long-run, the traditional business model for wealth management is unsustainable. Scorpio Partnership’s Global Private Banking Benchmark shows that costs have been on the rise for several years: indeed wealth managers’ cost-income ratio fell below 70% last year, for the first time since 2007.<sup>2</sup> Analysis by Deloitte<sup>3</sup> indicates that by 2020, the profitability of European wealth managers will have declined by 40% since 2000, even as market volume is projected to have grown by more than 60%. This divergence indicates that the industry is facing an innovation gap, with firms struggling to serve HNWI effectively even while the client opportunity increases.

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Industry veterans know this only too well. Our conversations with business leaders underline widespread concerns that wealth management has allowed itself to fall behind on technology investment and miss out on efficiency gains. This is in part because it has clung, for too long, to assumptions of how its older client base – who are highly lucrative – likes to interact. The resulting under-focus on innovation is now hurting the sector as customer preferences rapidly evolve.

One Managing Director we interviewed at a US wealth firm discussed her perspective: “Next Gen clients have a totally different expectation [to their parents]. They expect to get the same experience that they have with some of the big-hitters, they expect everything to be done completely electronically, whether that’s having a meeting with their wealth manager, opening the account right there in front of them... We’re going to need much shorter turnaround times for onboarding – 24 hours, eventually – and to go entirely paperless.”

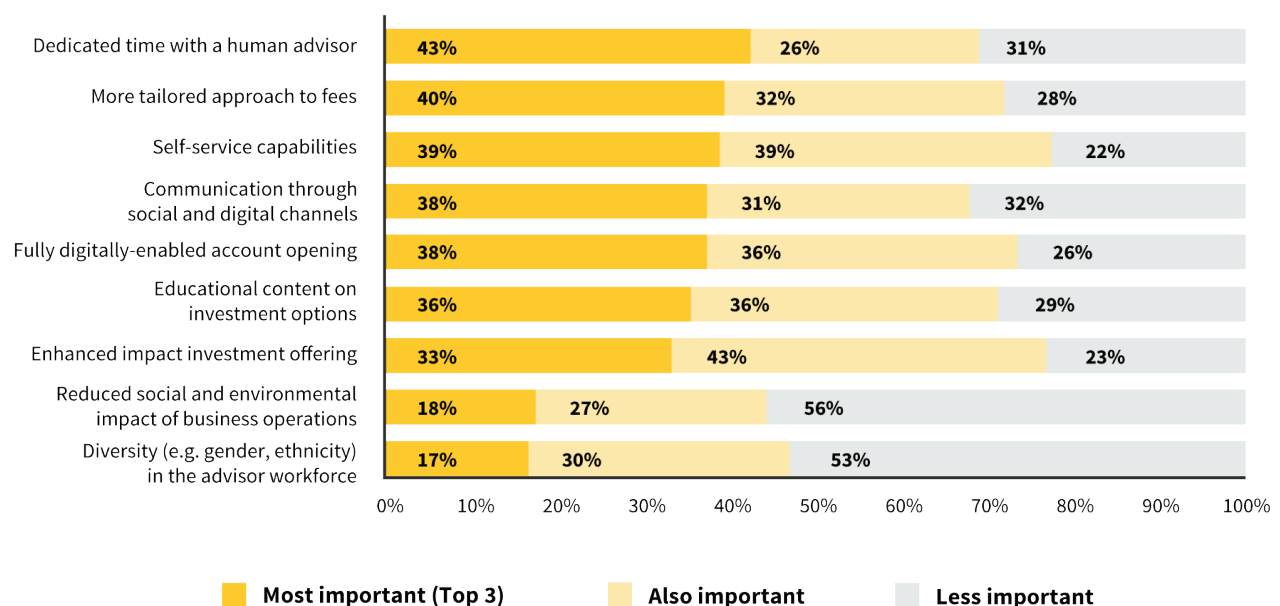
So, how do today’s investors see the needs of Next Gen wealth management customers?

Our survey indicates that they look at the availability of a human advisor as a crucial constant in any wealth management relationship. However, a more tailored approach to fees is viewed as almost equally important, identified by 40% as one of the top three factors for wealth managers to focus on. Closely following in importance are a range of digital capabilities, including self-service tools (39%), digital communication channels (38%) and fully digitally-enabled account opening (38%). These top five priorities clearly underscore the continuing pressure on the wealth management industry when it comes to offering value both digitally and physically, through a dedicated advisor [Figure 1].

One Managing Director we interviewed at a US wealth firm discussed: “We’re going to need much shorter turnaround times for onboarding – 24 hours, eventually – and to go entirely paperless.”

**Figure 1: Future challenges for wealth managers to address**

What changes do you anticipate wealth managers will have to make to meet the requirements of a younger clientele?

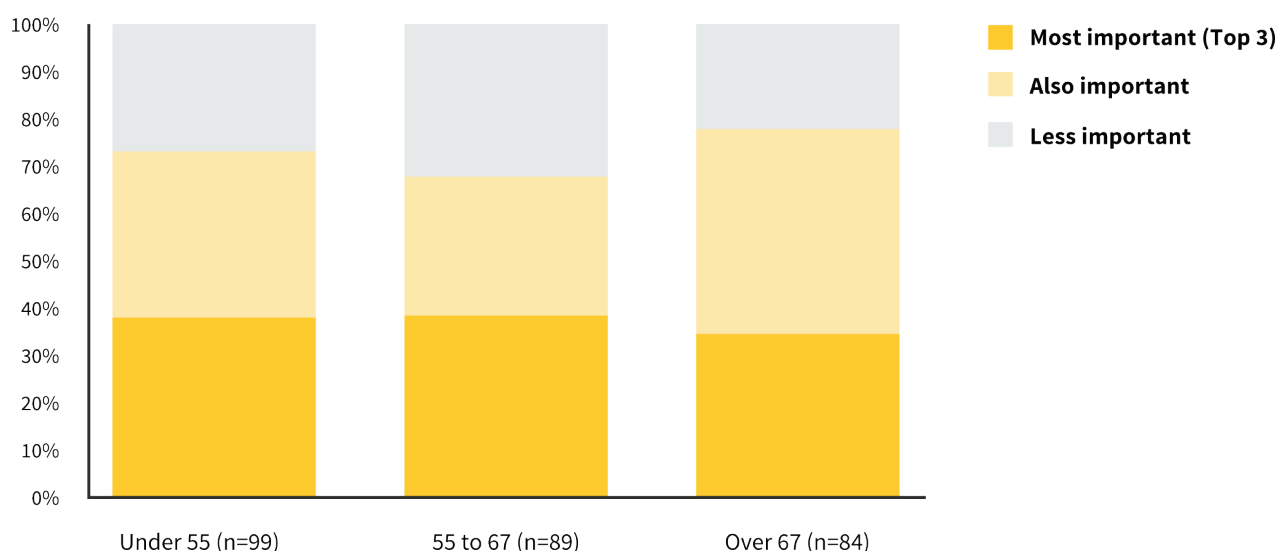




While it is certainly the case that there is strong demand for digital services among younger clients, our survey indicates that the value of these services is recognized by all age groups. For instance, fully digitally-enabled account opening is considered important by more than seven out of ten in every generation [Figure 2].

**Figure 2: Fully digitally-enabled account opening is important to all age groups**

What changes do you anticipate wealth managers will have to make to meet the requirements of this younger clientele? Responses for “Fully digitally-enabled account opening” by age group.



HNWIs are beginning to see their digital footprints as extensions of their face-to-face relationships with wealth firms, to be listened to and acted upon with equivalent focus. This is remarkably tricky to deliver if the data that firms hold doesn't record those interests in a structured manner or integrate preferences into their business strategies.

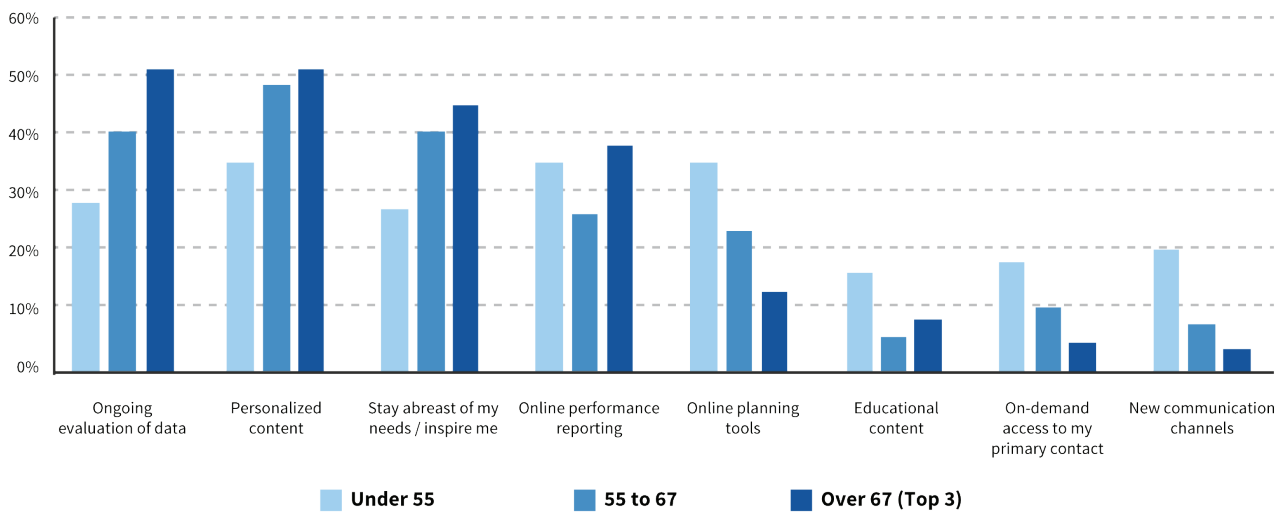
Our interviewee observes: “From a marketing perspective, many times the data can tell us that our clients are going through different life-cycles. [But] we are missing opportunities right now because we have so many different systems.”

Another head of international private clients at a universal bank is attempting to pre-empt shifting preferences, noting: “We are looking at how to increase engagement through the content transmitted, including on LinkedIn and other social media communications. Younger clients seem to have a Spotify mind-set: they want dynamic content, personalized to their interests.”

While younger clients are certainly forcing firms to change their approach, our insights suggest that focusing exclusively on “Next Gen” is a false panacea. Customer service preferences have evolved faster than anticipated across all generations, underlining the urgency of innovation. Clients over the age of 67 often exhibit just as voracious an appetite for digital as their younger counterparts [Figure 3]. In particular, firms are expected to up their game when it comes to data and analytics to match HNWIs' advancing preferences.

**Figure 3: Older generations also place digital at the heart of customer service**

From your perspective, how should your wealth management firm best demonstrate its commitment to client-centricity?



The threat to profitability for the industry is that clients' demands don't stop there, and they don't all run in the same direction. The trend is towards more self-service capabilities and more communication through digital channels, yet not at the expense of dedicated access to a human advisor which remains a priority [Figure 1]. Moreover, HNWIs want to see "tailored" (read: lower) fees, reflecting rising price-sensitivity.

Our interviewee asserts: "[Clients] are looking for more self-service capabilities; and of course, they will expect a lower price for that."

None of these client expectations can be delivered upon profitably without new thinking. Wealth firms must transform their approach to drive growth and acquire new customers, starting by reviewing their pipeline of prospective HNWIs.

Clients over the age of 67 often exhibit just as voracious an appetite for digital as their younger counterparts.





# Seize the Opportunity of Disloyalty and Build the Pipeline

Wealth management relationships are often described as “sticky” – once initiated, they tend to last a lifetime. Our study indicates that 62% of HNWIs have never been tempted to switch their wealth manager at any point in the past [Figure 4].

Compounding that effect is that the remaining 38% who are disgruntled will often keep working with firms that have failed to live up to their service expectations, simply because it is too much effort to move their assets.

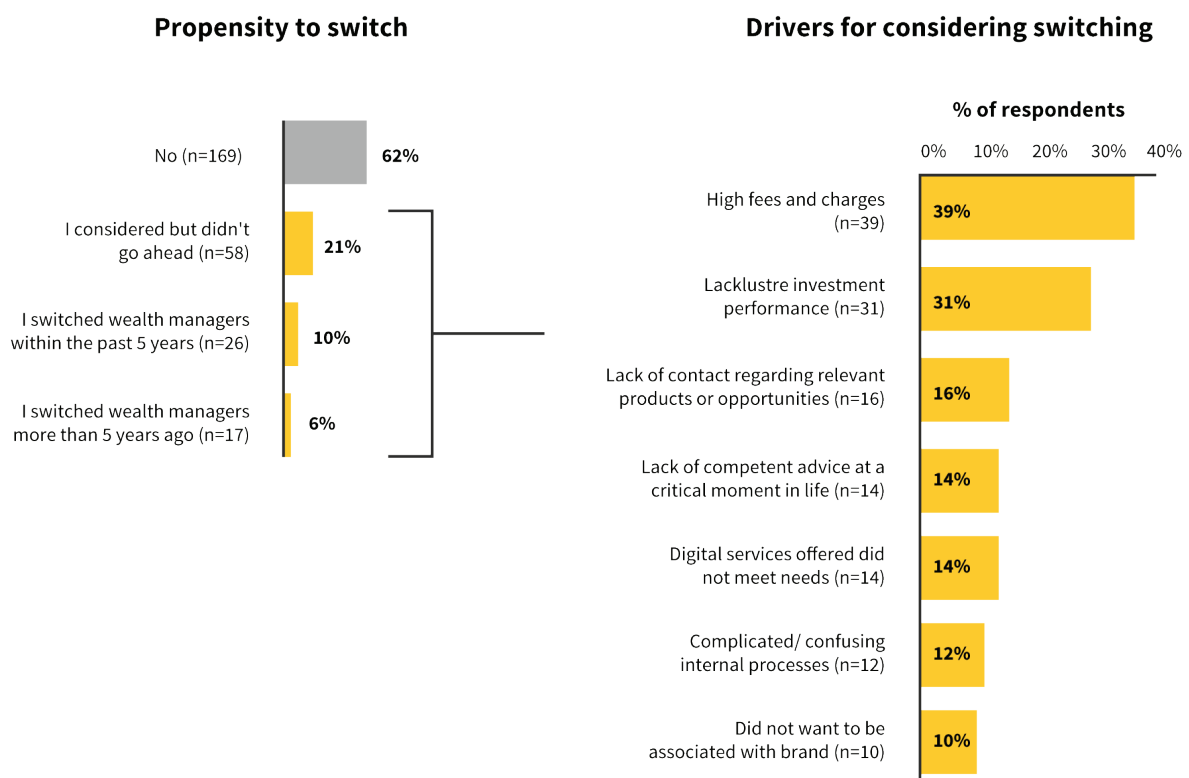
Yet, depending on age and risk profile, the propensity to switch is very pronounced. In fact, 49% of clients under the age of 55 have considered switching, or already switched, wealth managers in the past. This is more than twice the equivalent figure for those over the age of 67 (23%). Similarly, risk-seekers (45%) are more likely to switch.

Looking at who has already switched wealth managers, Indian HNWIs lead (30%) ahead of German (18%), British (12%) and US-based investors (11%).

49% of clients under the age of 55 have considered switching, or already switched, wealth managers in the past.

**Figure 4: Switching is mainly spurred by investors' perceptions of fees and performance**

In 5 years, I will be more focused on...





With fully digitally-enabled account opening increasingly available, the burden of effort will reduce over time, making it easier to take advantage of these loosening loyalties. As it stands, the main drivers of switching are high fees and weak investment performance and few firms will be willing to compete exclusively in these areas.

To seize the opportunity of disloyalty, firms will need to think about why customers need to work with them in the first place. As one of our business leader interviewees remarks: “When I look at client satisfaction, the pain-points are usually costs and performance. These are chronic issues. [Yet however much] HNWIs may say that they want their lower-priced service model, eventually they will still want to speak to someone.”

Financial relationships are driven by life events and 63% of HNWIs can identify one specific milestone that triggered the need for professional guidance [Figure 5]. For just over a quarter (26%), it was starting to plan for their future, typically in their early forties that meant they sought a wealth management relationship for the first time; for almost a fifth, it was a personal or professional milestone – such as getting married, receiving a bonus or windfall – that happened in their thirties.

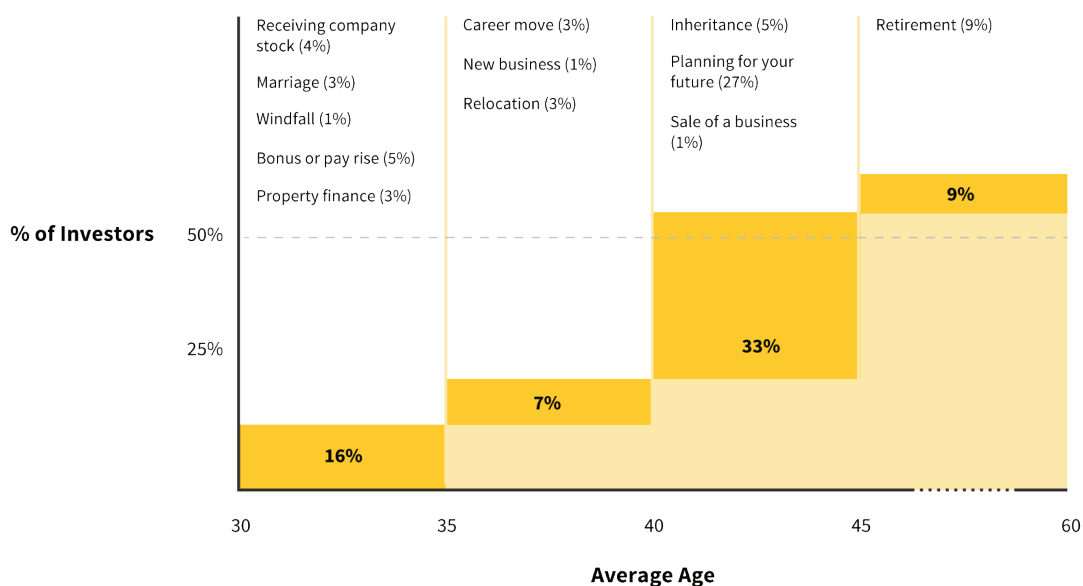
While very diverse and emotionally-charged, most of these life events are usually foreseeable for the wealth management industry. Indeed, they are the moments when emerging segments convert into prospective clients. Wealth firms can build the pipeline by aligning their propositions and client lifecycle management (CLM) to the needs of individuals going through these milestones.

Supporting them in practice means building an active relationship with a different kind of clientele. Overall, more than half (56%) of these trigger-events happen before the age of 45, so wealth managers must be prepared to offer these younger investors the product and service mix they will be looking for, for an affordable fee.

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**Figure 5: 56% of newly wealthy customers emerge before the age of 45**

Was your relationship with your primary wealth management firm prompted by any of these events? At what age did this life event take place?



## Broadening the proposition of investment products

Leaving aside investment performance, there are several capabilities that signal a high-quality proposition. Overall, 61% prioritize tax efficient products – a feature that is particularly important in the U.K. and U.S. where this rises to nearly seven in ten [Figure 6]. Most client segments also want opportunities for diversification, which moves to the forefront as they grow older and focus on wealth preservation.

Overall, 61% prioritize tax efficient products – a feature that is particularly important in the U.K. and U.S.

Yet there are also some striking differences by generation. 55% of Indian investors and 40% of younger clients (i.e. those under the age of 55) would scrutinize the impact investment products available from their advisors; the latter are four times more likely than older generations to say that the available real estate offering is important to them. This presents an opportunity for the industry to broaden its capabilities beyond the priorities of its older clients, many of whom are more concerned with liquidity considerations than they are with specific asset classes.

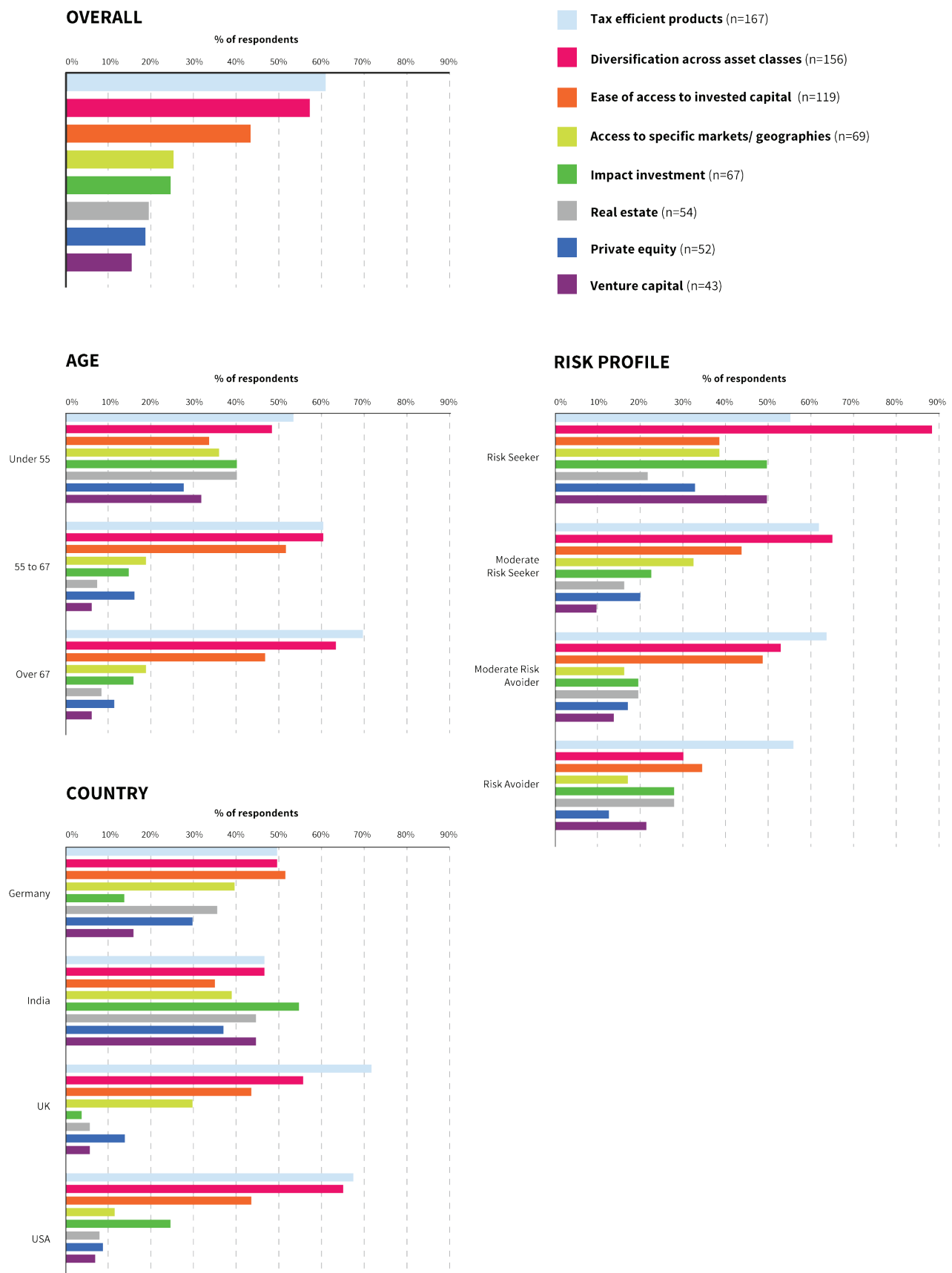
There are significant implications to broadening the proposition. As another business leader from a top WM firm interviewee notes: “We want to make impact investing our USP. We know that the next generation is likely to make Environmental, Social, and Governance (ESG) central to their investment strategy. And this will have an impact on reporting too, as they will want to see how and where they’re investing.”

Firms with a differentiated offering will be able to attract emerging segments and disgruntled HNWIs working with other firms. However, advisors will also need to enhance the experience they deliver to these new clients once they have acquired them.



**Figure 6: Diverse customer profiles require diverse product offerings**

Aside from investment performance, which (if any) of the following features are important to you when assessing the quality of a wealth management firm's product offering?







# Plan for the next stage in the advisor evolution

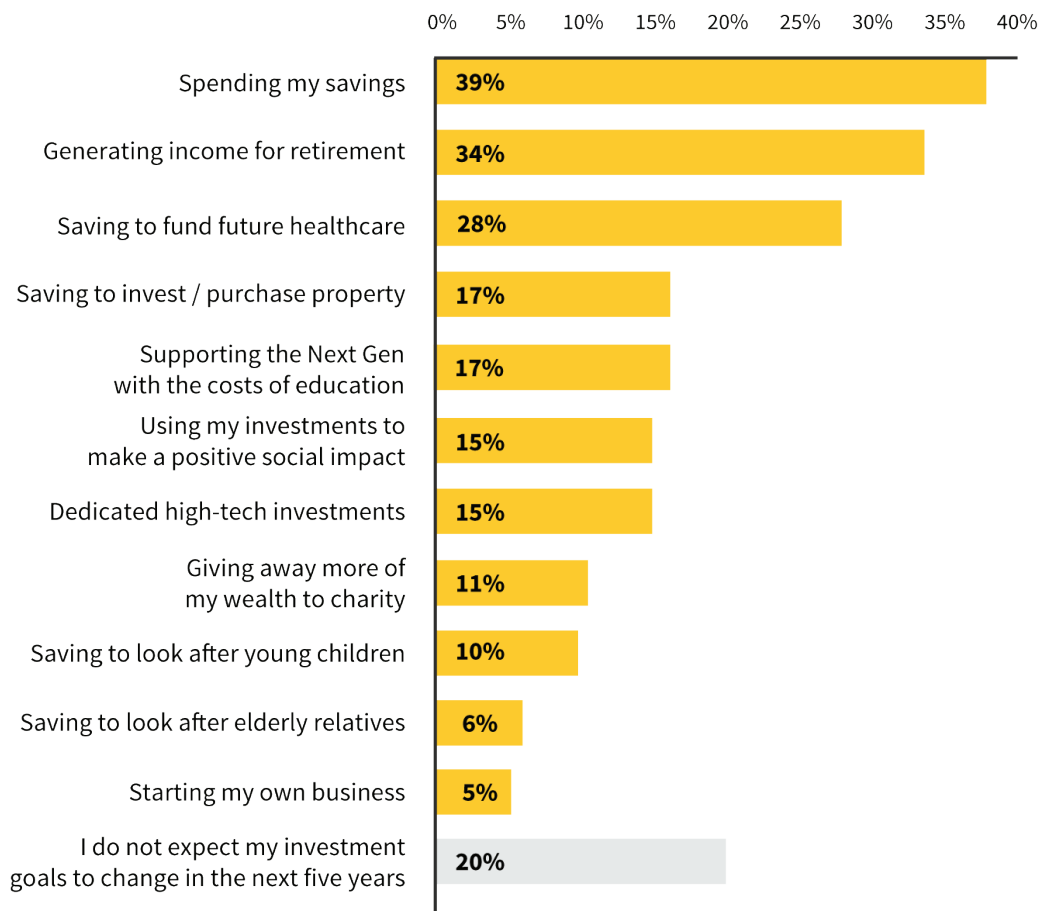
As we have seen, specialist advice at critical life moments is often why HNWIs choose to initiate a relationship with wealth management firms in the first place.

This is unlikely to change. Indeed, access to advisor expertise is only going to become more important to clients, with most HNWIs anticipating a fundamental shift in their shorter term wealth goals [Figure 7].

By 2024, 80% of clients expect their financial goals to have changed compared to their lives now: from generating income for retirement and financing healthcare costs, to focusing more on social impact

**Figure 7: 80% of investors foresee different wealth management priorities**

To what extent would you expect your wealth management priorities to be different in five years' time?





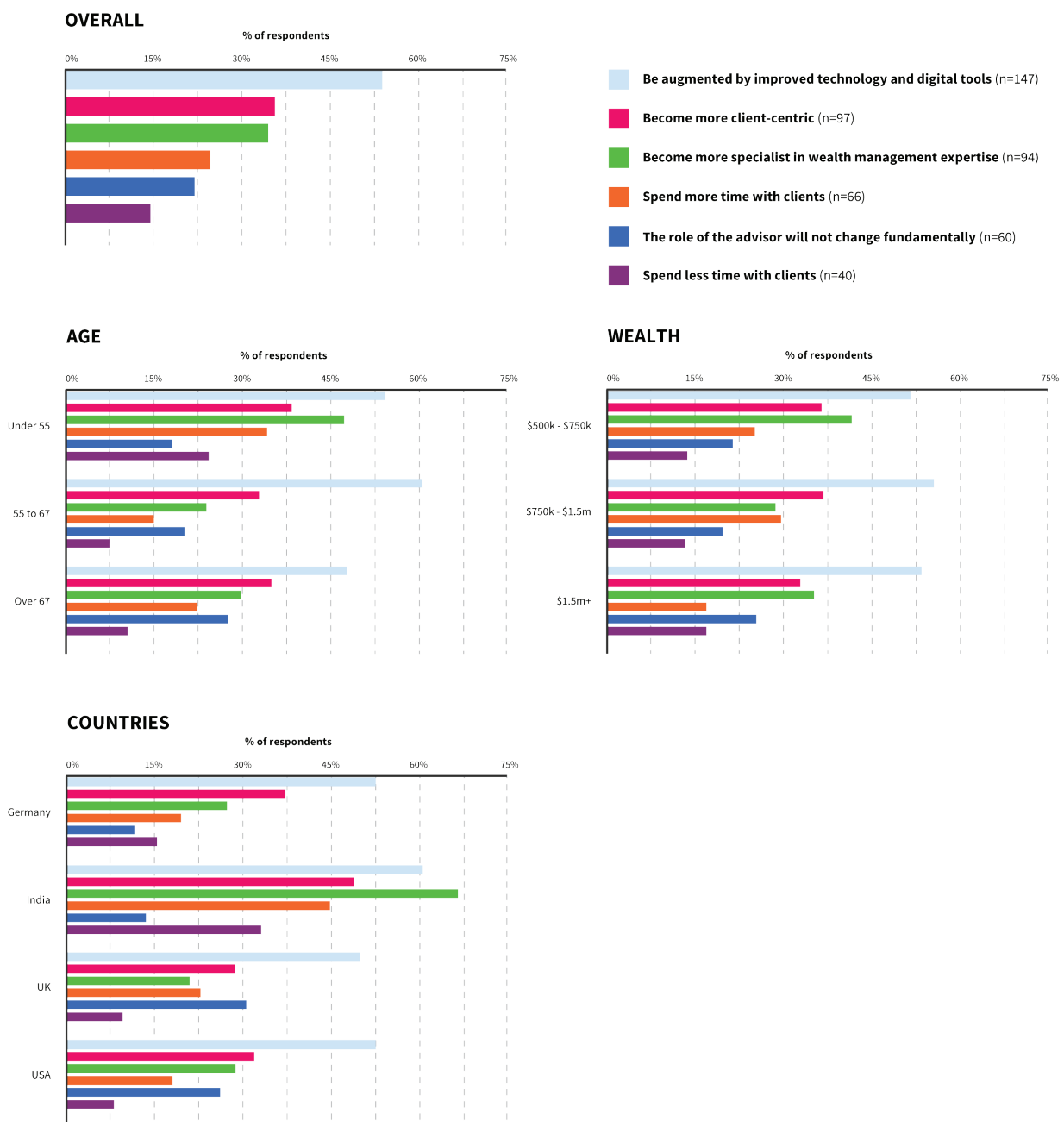
activities and philanthropy. Many are preparing to move into the so-called “Sandwich Generation”, which grapples with the daunting task of simultaneously providing financial support to elderly parents and adult children.

To cement relationships, firms must demonstrate their expertise to clients during these diverse, emotive, often challenging, milestones. Critically, this is a HNW expectation: nearly four out of five believe that their own wealth management advisors should find new ways to deliver value to them in future [Figure 8]. Yet the commercial context of declining profitability means the advisor role will need to evolve to successfully provide the required high-touch support.

HNW expectation: nearly four out of five believe that their own wealth management advisors should find new ways to deliver value to them in future.

**Figure 8: 78% of clients expect the advisor role to change**

How do you think the role of your wealth management advisor will need to change in future?



The transformation that clients are most likely to desire is that their advisors should have better access to improved technology and tools – no doubt, to fulfill some of their mounting expectations around using their data to make more personalized product suggestions. For advisors to succeed here, investment is required at the board level.

Other client expectations – such as more specialist advice and face time – point to a service model where there is more contact time. In these scenarios, meetings are far more focused on financial goals and planning as families grapple with changing priorities.

Enhanced advisory expertise would be particularly valued by the age group under 55 and those at the mass affluent level of wealth (defined as having USD500-750,000 in investable assets) who tend to comprise the “Sandwich Generation”.

Artificial Intelligence (AI) is often discussed in the context of the evolving advisor role. Our research tests AI’s current acceptance by end customers for a range of different tasks [Figure 9].

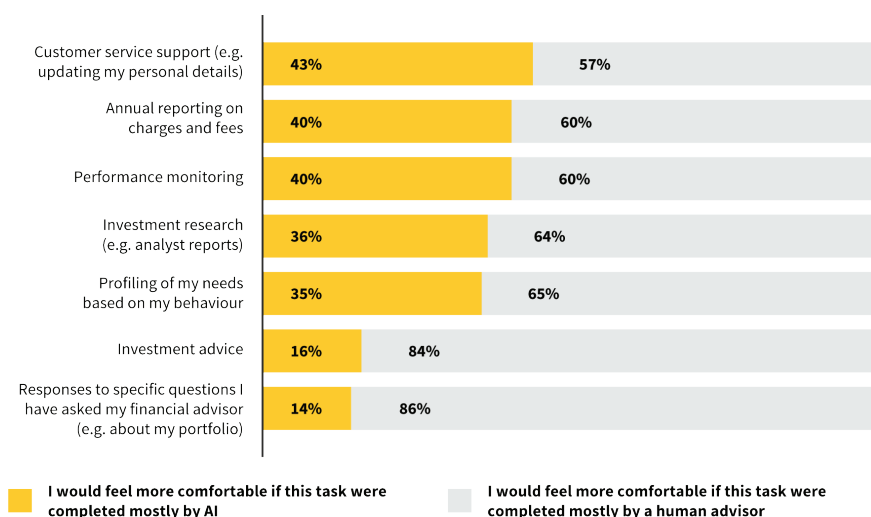
### Distinguishing specific patterns for AI use cases

- 1) Tasks that require human judgement (e.g. investment advice, responses to specific questions). Here, the accountability of the advisor is indispensable;
- 2) Tasks that do not influence investment outcomes (e.g. customer service support, performance monitoring and annual reporting). Here, AI is seen as a valuable support to the advisor by more than 40% of clients, enabling efficiency gains;
- 3) The recognition of patterns in investors’ past and current behavior. Here, 35% of investors believe that AI could support customer profiling and thus a more personalized offering.

For all items listed, the majority of HNWIs feel more comfortable if the activity is completed by a human advisor.

**Figure 9: AI has a role to play but human accountability is a must**

What would be your reaction if you were to discover that some of your daily interactions with your primary wealth manager are facilitated by artificial intelligence (AI)?



In summary, AI meets with investors' increasing acceptance not only when it introduces efficiency gains but also when it augments the effectiveness of the advisor. In fact, it can be argued that advisors' knowledge and intuition about customers' investment preferences are essentially based on pattern recognition – a task that can increasingly be taken over by AI, facilitating predictive analytics.

We are not quite there yet but the tipping-point for AI to enable the client experience may well be reached in the next few years. Keeping in mind both the growing market for wealth management services and counter-vailing pressure on profitability, AI can enable growth-oriented firms to provide advisory services to more customers – namely, to scale their services successfully.

In this scenario, advisors would spend more of their time on those complex cognitive tasks that truly require human intervention. For example, understanding clients' interests and requirements by supplementing what advisors already know about the client's physical assets and digital footprints with emotional intelligence, tact and sensitivity. They would find, research and match them to suitable products from across the marketplace; and they would be by their sides supporting them as they make transitions into new stages of life, through planning and introductions to tax and pension specialists.

Advisors' knowledge and intuition about customers' investment preferences are essentially based on pattern recognition.





# Learn the Right Innovation Lessons from Big Tech

For wealth management firms to move beyond competing primarily on investment performance and fees, they must find other areas in which to differentiate themselves in the minds of clients. It is through unlocking these new sources of value that they will be able to strengthen loyalty and improve satisfaction.

Fortunately, plenty of examples of business model innovation exist to inspire. The technology sector offers a helpful starting-point: the GAFA (Google, Apple, Facebook, Amazon) brands are both admired and feared for their disruptive potential. Identifying what to learn from them requires us to be more specific and consider how their business models could be applied to wealth management.

Clients are quick to pin-point what kind of tech-inspired innovation would most enhance the value delivered to them by advisors [Figure 10]. Like Amazon, they want to work with a one-stop shop, a wealth firm that brings together a range of products and services from across the marketplace; they want information at their fingertips and the context within which to interpret this information as they do with Google; and a sleek and seamless interface via which to manage their wealth, akin to the Apple ecosystem.

In 2011, Aon proprietary research with HNWIs indicated that Apple was consistently the most favored example of an inspirational brand.

**Figure 10: Asked which tech business model should inspire wealth firms, HNWIs point to Amazon**

Thinking about your own wealth management relationships, which of these innovations do you feel would be most beneficial to you?



In contrast, enabling connections with a broader community of like-minded individuals (i.e. trying to be Facebook) would bring less substantive value.

The last five years has seen an evolution in client expectations around the brands they feel wealth management should be looking to emulate. In 2011, Aon proprietary research with HNWIs indicated that Apple was consistently the most favored example of an inspirational brand.<sup>4</sup> Five years later, in 2016, it was overtaken by Google<sup>5</sup>; and now, in 2019, Amazon's capabilities have risen to the top of the wish-list.

If being like Amazon means offering access to a wider suite of products and services from across the marketplace, then there is already low-hanging fruit. For instance, 55% of HNWIs would consider receiving pension planning services from their wealth manager [Figure 11] – an important service to offer considering that one in four will initiate a firm relationship because they are planning for their future. 38% would value gaining access to financial education programs – which rises to 43% among those over 67. For younger clients under 55, life insurance and real estate advisory also looks attractive.

Providing wider access to new product lines and services would enhance client outcomes. Individual firms can and should develop partnerships to provide these services rather than attempting to deliver capabilities in-house. Working with an individual wealth manager would then bring advantages of access to an ecosystem of relevant adjacent services.

They do not necessarily need to be the ones creating market-leading products but can instead pre-select such products from across the marketplace to meet the requirements of their customers.

To deliver differentiated value, HNWIs believe wealth advisors must also look to Google for inspiration. Here the value is derived from being able to contextualize information via advanced analytics and AI as discussed in the previous chapter. It is not a huge step to apply this principle to wealth management by taking a more structured approach to data [Figure 12].

Clients are able to point the way forward: 79% believe the priority is to analyze client data better so that products are more tailored to their interests; 76% would like advice to be more pre-emptive, again by leveraging advanced data analytics.

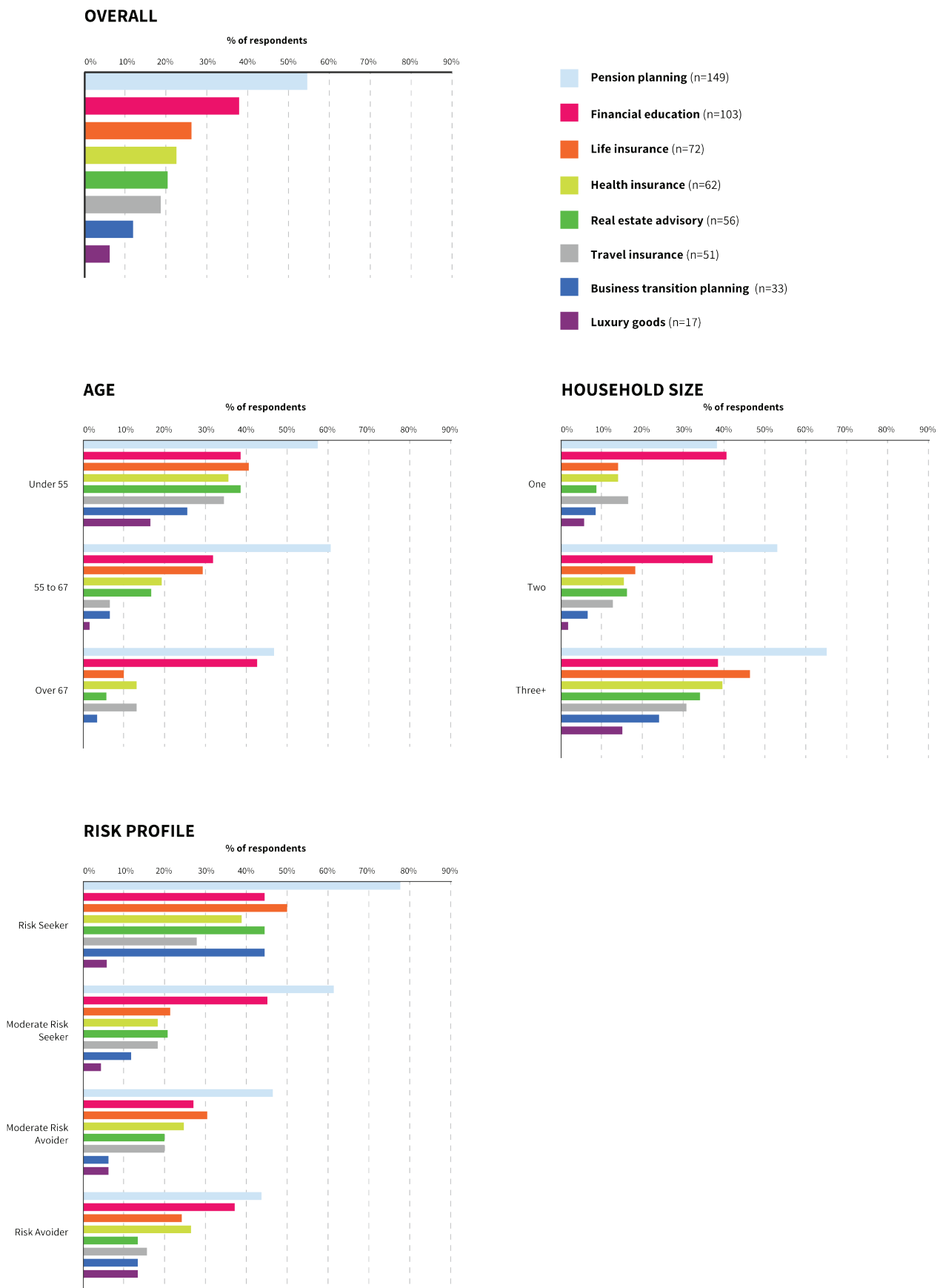
These examples straight from the Big Tech playbook show just some of the different ways operators can upgrade the wealth management proposition for the digital age. It is for each firm to decide which route will most enhance value to their own client base.

Clients are able to point the way forward: 79% believe the priority is to analyze client data better so that products are more tailored to their interests.



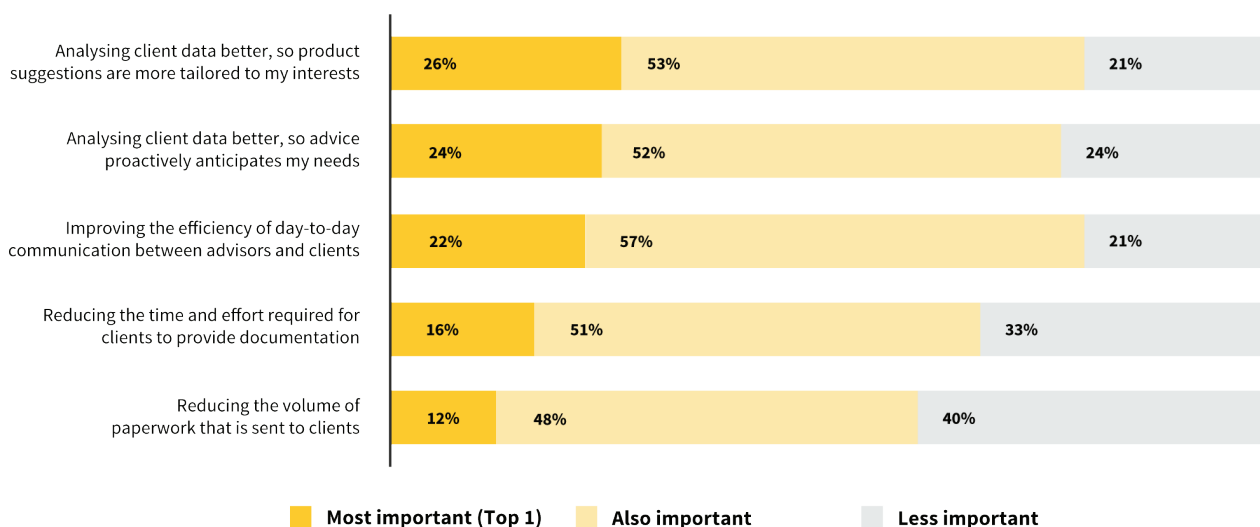
**Figure 11: Offering pension planning and financial education would be product innovation**

Beyond a traditional wealth management offering, which of the following products would you consider receiving from your primary financial advisor?



**Figure 12: Firms will need to invest in better client data analytics**

If you were CEO of a wealth management firm, in which areas of the day-to-day relationship would you invest to deliver a better experience to clients?



## Conclusion

This report has highlighted the significant opportunity available to wealth management firms to escape declining margins and competition purely on fees and investment performance. Broadening their capabilities to adjacent areas will help to attract emerging segments of wealth and keep pace with their changing investment priorities across the client lifecycle, all leading to optimized client lifetime value. Handling these diverse needs will not work without intelligent digital support, so learning the right lessons from Big Tech will be important. With investors across all age groups already heightening their expectations, there is no time to lose.

## Endnotes

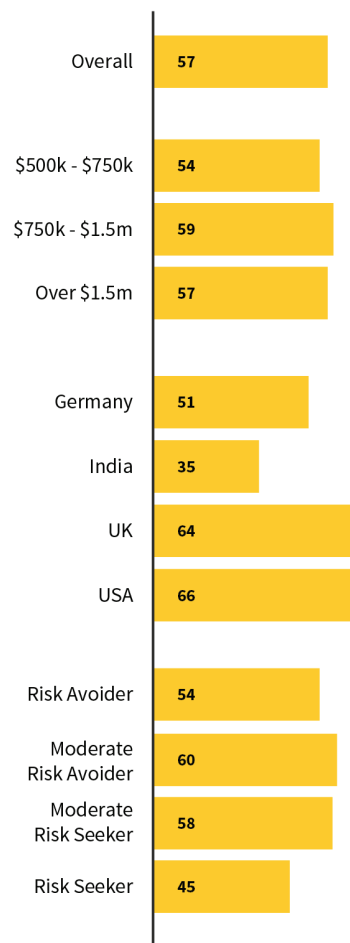
1. See Joseph Schumpeter's Theory of Innovation
2. Scorpio Partnership, *Global Private Banking Benchmark*, 2018
3. Deloitte, *Innovation in Private Banking & Wealth Management*, 2017
4. Standard Chartered Private Bank, SEI Global Wealth Services and Scorpio Partnership, *The Future Wealth Report: The Essence of Success*, 2011
5. FactSet and Scorpio Partnership, *The Culture Challenge: HNWI's Vision for the Wealth Management Industry in the Information Age*, 2016

# Methodology

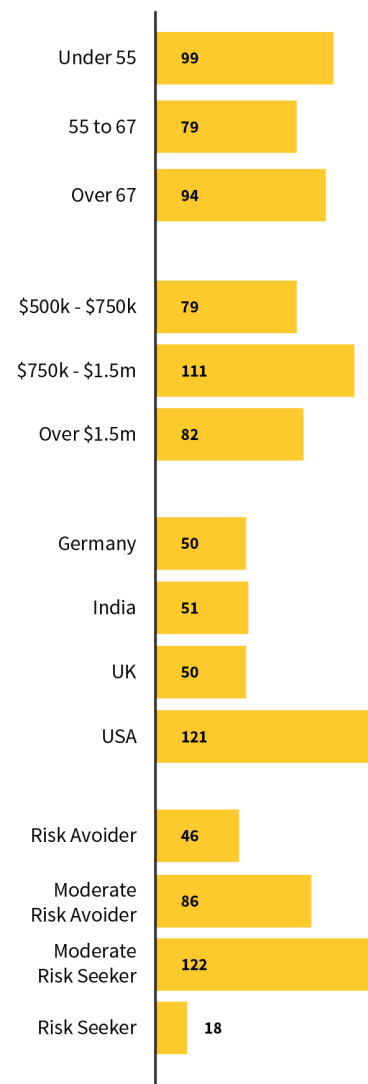
The research and the content for this study were provided by Aon. They conducted an online survey with 272 investors in May 2019. The participants were independently-sourced residents of the U.S., the U.K., India and Germany. Average net worth was USD1.4 million.

Aon gained the industry perspective through discussions with three business leaders at wealth management firms based in EMEA and the U.S.

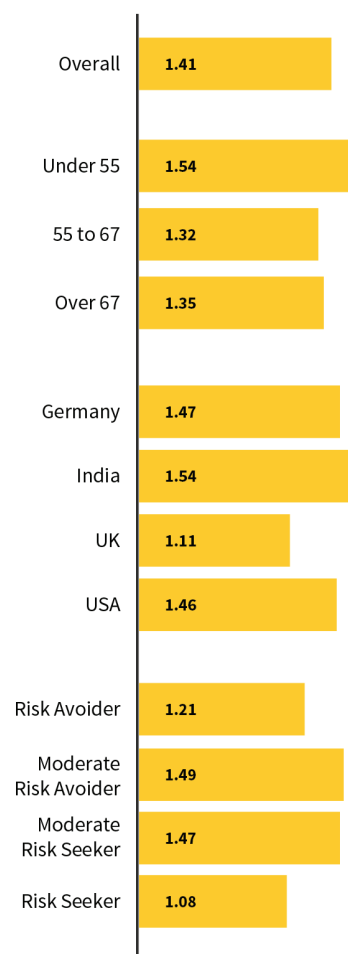
Average Age (Years)



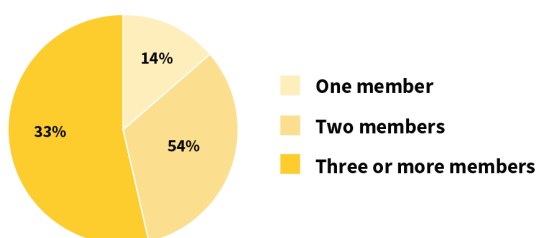
Sample Size (Respondents)



Net Worth (USD Million)



Household Structure



Wealth Management Relationship







## About Scorpio Partnership - An Aon Company

Scorpio Partnership is an Aon company. It is a leading insight and strategy consultancy to the financial sector with a focus on the global wealth industry.

Using quantitative and qualitative research methodologies, we specialize in understanding ultra/high net worth individuals (U/HNW) and the financial institutions with which they interact, sharing our expertise with business leaders to enable them to drive business growth and performance.

We work with our clients across four key disciplines - Client Engagement, Thought Leadership, Strategic Research, Brand Tracking.

[www.scorpiopartnership.com](http://www.scorpiopartnership.com)

## About Appway

With over 15 years of industry experience, Appway enables financial institutions to reach their goal of becoming truly client-centric and operating efficiently, while remaining compliant across jurisdictions.

Our scalable software solutions cover the entire client lifecycle: prospecting, onboarding, KYC and customer due diligence, client update and maintenance, and regulatory and periodic reviews. Via intelligent orchestration, we connect systems, data, and people across organizational boundaries, thereby allowing them to collaborate at peak effectiveness for optimal value.

Appway's award-winning software is trusted by 10 of the top 25 wealth managers, and serves over 510,000 users worldwide. Headquartered in Switzerland with offices around the globe, we have several hubs at the intersection of finance and technology, and an international presence reinforced by a strong partner ecosystem.

[www.appway.com](http://www.appway.com)

## Contact Us

### North America:

Purti Mehra  
[na@appway.com](mailto:na@appway.com)

### Europe, Middle East, Africa & Asia-Pacific:

Madli Lillemägi  
[emea@appway.com](mailto:emea@appway.com)  
[apac@appway.com](mailto:apac@appway.com)

### Study design & methodology:

Arndt Mielisch  
[info@appway.com](mailto:info@appway.com)