KPMG

Future of wealth management

KPMG Connected Enterprise for wealth management

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Wealth management remains a sector with enduring growth potential, driven by growing household and entrepreneurial wealth, underfunded retirement savings, over-reliance on non-financial assets, individual responsibility for retirement, and intergenerational wealth transfer. COVID-19 has only served to emphasize the importance of financial resilience as many suffered dramatic falls in income.

Today's wealth management providers play a pivotal role in the financial well-being of an increasingly wide range of customers, across age and income groups, stretching far beyond the global elite.

Rather than focusing entirely on products, the main players now have an opportunity to 'own' financial advice and become a central part of customers' lives. This wider calling should not only open up new business and channels, but also offer a greater sense of purpose to prospective new employees with changing values. At the same time the sector has huge growth potential across markets such as China and India where it is expected that wealth will grow exponentially over the coming years.

Despite the optimistic outlook, the sector's traditionally strong revenues and profitability are under threat from growing competition, including established financial institutions and new entrants prepared to buy market share through M&A, as well as insurers and asset managers who are rapidly expanding their wealth offering. Low-cost, DIY investing, heightened regulatory scrutiny, the need to invest in technology, and a talent shortage all place further pressure on established business models.

Environmental, social and governance (ESG) is also having a rising impact, reflecting increasing social and investor awareness and activism. Wealth management businesses should stay attuned to customers' ethical expectations — which goes beyond merely offering ESG funds and calls for a purpose-driven culture.

Neither can the digital challenge be underestimated, as wealth management seeks to integrate people and automation/AI into their operations, to break new ground for personalized service — while continuing to acknowledge the value of personal relationships. By acquiring a wide range of digital capabilities, wealth managers have the potential to become more customer-centric and grow market share.

This paper looks at the key signals of change for the sector, possible future winning business models, and the connected capabilities to help compete and thrive in what promises to be an exciting few years.

We hope you find this report valuable in illustrating what the future of wealth management holds. If you would like to discuss how KPMG professionals can help you evaluate and make faster progress on your organizations connected journey, please reach out, or contact your local KPMG office.

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Future wealth management business models

The financial well-being provider

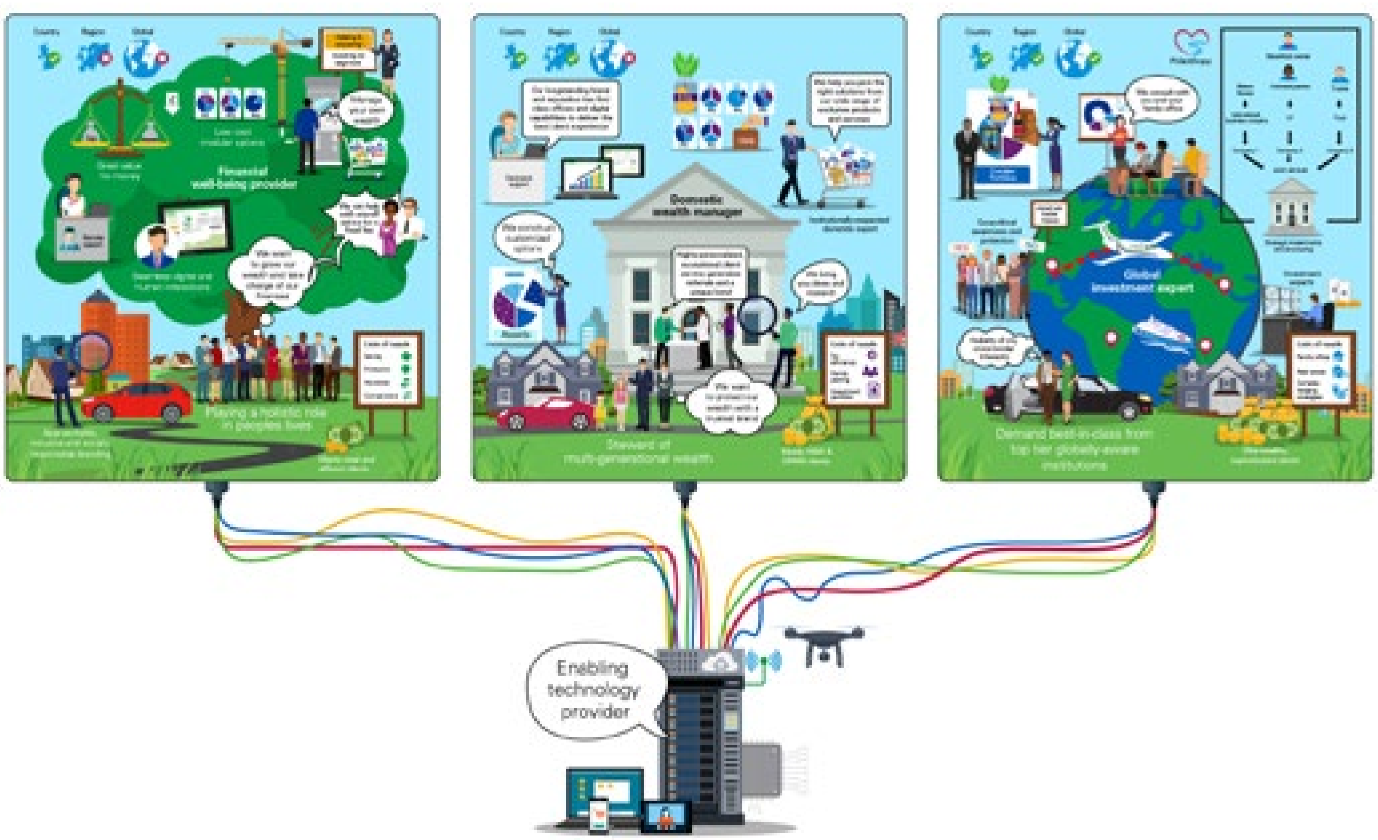
A digital-first, mass-market, wealth management model helping price-conscious clients achieve life goals.

The domestic wealth manager

Targeting relatively sophisticated high- to ultra-high net worth clients, managing multi-generational wealth via personalized relationships supported by digital capabilities.

The global investment expert

A global suite of customized services for the ultra-wealthy, with leading experience from trusted advisors with worldwide reach and reputation.



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Signals of change: A global perspective

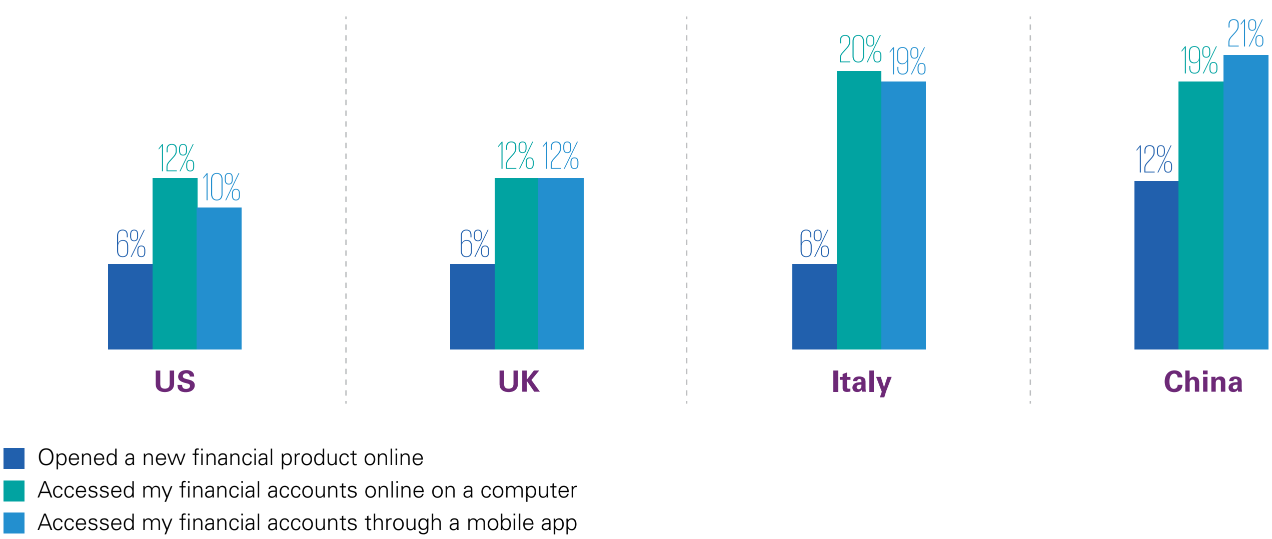
The wealth management competitive landscape is being reshaped by a range of forces including an expanding, diversified customer base with rising expectations, new ways of working powered by technology, fast regulatory change, geopolitical volatility and aggressive new entrants with efficient busines models.

Customer signals

Online business has become the norm since the pandemic, with heightened consumer expectations of a seamless, personalized experience. Customer-centricity is the new mantra, via mobile apps, 'always-on' multichannel advice, and robo-advisors, along with convenient and secure self-service capabilities. Higher-net-worth customers, in particular, want timely updates on the latest investment opportunities.

New segments are emerging, notably ambitious young consumers and entrepreneurs, whose rising affluence is in part fueled by wealth transfer from their aging baby boomer parents. Many are seeking products and investment strategies historically limited to richer clients. Add to this the growing wealth among women, and a customer marketplace that now includes five generations.

Which of the following financial activities have you done for the first time during the COVID-19 pandemic?



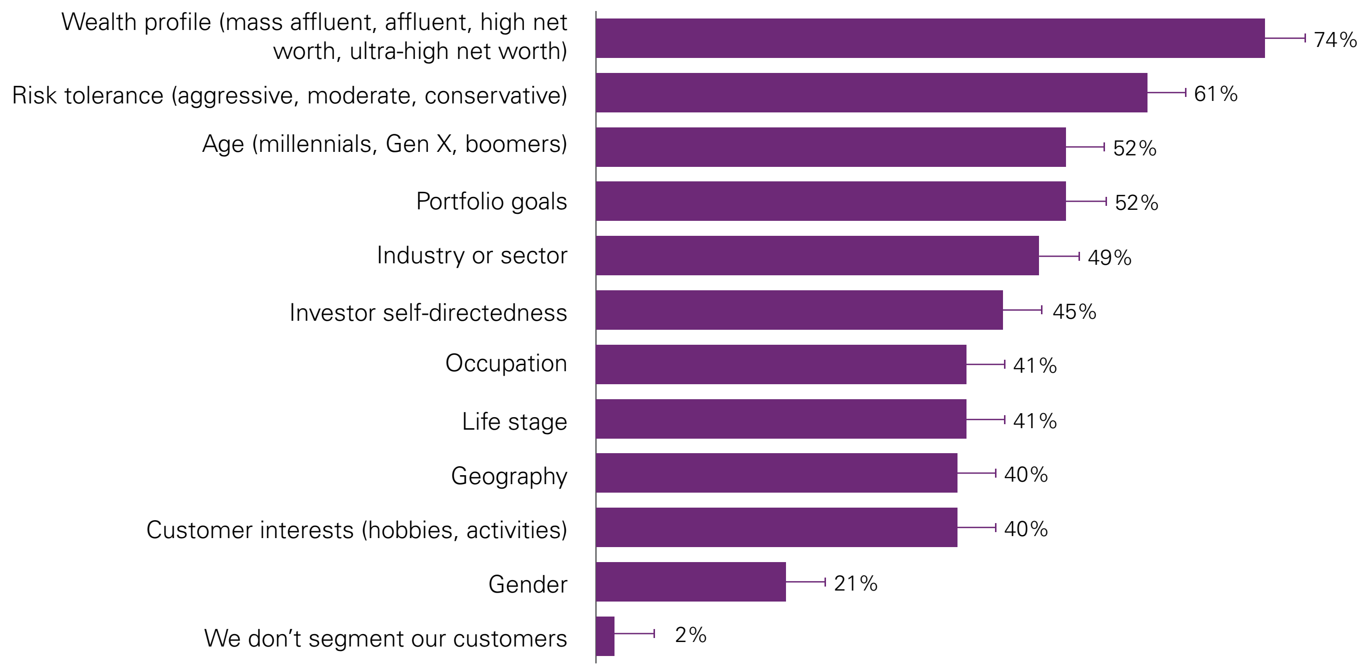
Base: 1,093 US respondents; 1,154 UK respondents; 1,147 Italian respondents; and 1,108 Chinese respondents
Source: Forrester Analytics Consumer Technographics®, COVID-19 Survey (Wave 2)

Evolving social values impact trust and brand loyalty, as (often young) consumers choose to invest in organizations that share their commitment to a fairer, more sustainable world. Businesses should align their mission, values and behavior accordingly.

Understanding preferences is, as always, critical, with different segments desiring varying levels of digital versus face-to-face service — something that is explored in the 'Future business models: Three ways to play' section. High-net-worth clients tend to prefer the personal touch, while younger digital natives often favor automated services. As automation replaces manual processes, financial advisors and supporting staff can turn their attention and energies toward personalized customer service.

Capabilities are becoming a higher priority, including relationship management and specialized, global investment skills. And, with many older professionals set to retire, new talent is urgently needed. The good news is that there's a wider, diverse talent pool out there, many of whom may not have previously considered a career in the sector.

Which of the following classifications do you use to segment your customers?



Base: 452 professionals involved with customer-centric strategy decisions at organizations providing wealth management services
Source: A commissioned study conducted by Forrester Consulting on behalf of KPMG, April 2021

Competitive signals

Like other sectors, wealth management has been shaken up by the fintech revolution, with new players prioritizing speed, personalization and lower costs. Some of these online players are even deferring profitability to rapidly achieve scale and cater to a larger, more exclusive customer base. Other non-traditional players are also growing, including social media platforms, and online retailers such as Alibaba and Amazon, the latter with its investment in Indian fintech start-up Smallcase Technologies.[1]

Disruptors offer convenience and instant access to robo-advisers, price-comparison tools, fund distribution, micro-investing, investment-related data, ethical investing, peer-to peer networking and asset marketplaces for investors to buy and sell. Timely and informed investment advice appeals to a mass-market segment and emerging affluent clients, including tech savvy millennials keen on self-service.

New partnerships, alliances and joint ventures, some featuring agile and innovative fintech players, are also emerging. For example, Edelweiss Global Wealth Management, on a mission to be 'the world's most-customer-centric wealth management company,' has partnered with cloud-based sales platform Salesforce to transform its digital capabilities and services and improve customer satisfaction.

Online bank Marcus — owned by investment banking giant Goldman Sachs — has moved into wealth management with automated investment services. Starling Bank has looked to gain a new competitive edge through its partnership with digital wealth-management platform Wealthsimple, in addition to adding robo-advice firm Wealthify to its service offerings.

> Like other sectors, wealth management has been shaken up by the fintech revolution, with new players prioritizing speed, personalization and lower costs.

[1] *Amazon Enters Indian Wealth Management With Bet on Smallcase*, Forbes, 18 August 2021.
https://www.bloomberg.com/news/articles/2021-08-18/amazon-enters-indian-wealth-management-with-bet-on-smallcase

Economic signals

In the wake of COVID-19, recession, weakened consumer confidence, unemployment, rising debt and low growth are likely to impact wealth managers serving the mass market segment, causing a rethink of business and operating models. Some players could retreat to focus on domestic markets.

The 'three Ds' of depopulation, deleveraging and deglobalization are also having an impact. Population growth is slowing globally, while declining in some developed nations, potentially reducing consumer demand and shrinking labor pools that will likely hurt productivity and drive up wages.

The wave of government bailouts and loans is expected to raise business costs and consumer prices, potentially reducing customers' investment pots. Consolidation could be a further consequence, in a bid for greater efficiencies. The pandemic has revealed the importance of having diversified portfolios and contingent investment plans. Likewise, the low interest rate environment over the last few years has prompted investors to search for yield in other asset classes such as alternatives or crypo assets.

Wealth managers should stay attuned to social issues and recognize that customers expect to deal with and invest in organizations that embrace equality, inclusion, sustainability and the circular economy.

"Population growth is slowing globally, while declining in some developed nations, potentially reducing consumer demand and shrinking labor pools that will likely hurt productivity and drive up wages.

Regulatory signals

Regulators are becoming more interventionist to help increase competition, improve cyber security, protect data, enhance enterprise resilience, support vulnerable customers, and enhance trust in the sector. Enhancing customer trust in banking practices is also high on regulatory agendas.

Soaring cybercrime, remains a high priority for regulators, as is enterprise resilience and business-interruption planning to manage incidents. And, with open banking now primed to help wealth management enhance customer experience, the gathering, use and protection of customer data is increasingly in focus amid regulators in many markets.

Additionally, changing securities regulation across the US, Europe and Asia, make it harder to navigate multiple regulatory regimes and carry out the kinds of cross-border transactions that high net worth clients demand.

There's also continued uncertainty over the ultimate impact of Brexit on the UK's regulatory regime and businesses.

In response, some wealth management firms are changing focus and/or operating models in order to meet growth and efficiency plans. In the US, the *Tax Cuts and Jobs Act of 2017* has prompted some to shift their operations to states with more favorable tax laws.

Then there's the challenge of compliance costs and reporting requirements in Europe, in the wake of the EU's *Markets in Financial Instruments Directive II (MiFID II)*. On top of this, EU firms should prepare for new requirements to incorporate sustainability factors into their product governance by early 2022. Similarly we can see other regions focused increasingly on customer education and protection such as China's clamp down on potentially misleading wealth management products and Hong Kong and Singapore's continued emphasis on investor transparency through best execution, pricing and suitability.

Regulators are also casting a sharp eye on 'open finance' — enabling third-party providers to access customer data across a broad range of financial sectors and products, including savings and investments. This makes it easier to compare prices and products, while broadening open banking to include savings, mortgages, pensions, investments and insurance.

Spotlight on ESG investing

Businesses are responding to demands for responsible investing voiced by consumers and activist investors, with ESG climbing boards' agendas.

According to a 2020 report, US assets under management using sustainable investing strategies grew from USD12.0 trillion at the start of 2018 to USD17.1 trillion by early 2020 — an increase of 42 percent. This represents one-third of total US assets under professional management. The top three cited issues for money managers and their institutional investor clients are climate change/carbon emissions, sustainable natural resources/agriculture and board issues.[2]

The US is becoming a more active participant in international ESG initiatives, including the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD), which aims for greater awareness of climate change risks and opportunities, with a global membership of 19 countries and the EU. US participation in the Basel Committee on Banking Supervision's Task Force on Climate-related Financial Risks (TFCR) is also ongoing.

Outside of the US, ESG investing has also gained significant momentum. In a 2021 KPMG report with the Private Wealth Association of Hong Kong, investors expressed that at least 10 percent of their portfolio was desired to be in ESG assets.

With global attention on ESG disclosure, reporting and company practices, regulators are under increasing pressure to:

- incorporate ESG-related risk management into bank and financial regulatory and supervisory frameworks, including systemic financial risk oversight, risk management and disclosure, and investor protection
- clarify the definition of materiality, to meet regulatory expectations to identify, measure, monitor and control material risks as well as public-disclosure requirements
- develop common taxonomies and definitions, risk data and data collection, analytical tools, and financial products for financial and non-financial reporting to achieve standardization, comparability and reliable disclosure.

[2] The US SIF Foundation 2020 Report on US Sustainable and Impact Investing Trends. https://www.ussif.org/blog_home.asp?Display=155

Technological signals

Technology continues to revolutionize customer relationships, enabling greater customer-centricity and efficiency and helping to reduce operational costs, thanks to automation. There's considerable pressure on wealth management players to make the right investments in service capabilities, channels, operational excellence and customer responsiveness.

Data analytics and cloud capabilities can transform service delivery and personalization, through faster and better decision-making and customer responses. Rather than simply bolting on new technology to aging legacy systems, they should start with the customer experience, to create a fully connected, enterprise-wide model, which may involve accessing technology by partnering or forming joint ventures with innovative fintech players.

Many leading firms combine data and service capabilities with new automation solutions like robotic process automation (RPA) and chat bots. Machine learning (ML) and artificial intelligence (AI) enable remarkable wealth-advisory enhancements, customized portfolio offerings, and proactive customer-service features. Combining the power of ML algorithms with predictive analytics, meanwhile, provides valuable market insights and customized investment and product recommendations based on clients' transaction histories, portfolio preferences and financial goals. Natural language processing (NLP) can dramatically accelerate document scanning and help firms offer funds at lower costs.

Further innovations include a new breed of finance apps, such as savings and micro-investing platform 'Acorns' and investment-advice app 'Invstr,' taking customer convenience and smart decision-making to a new level. Augmented reality (AR) and blockchain are also growing in use.

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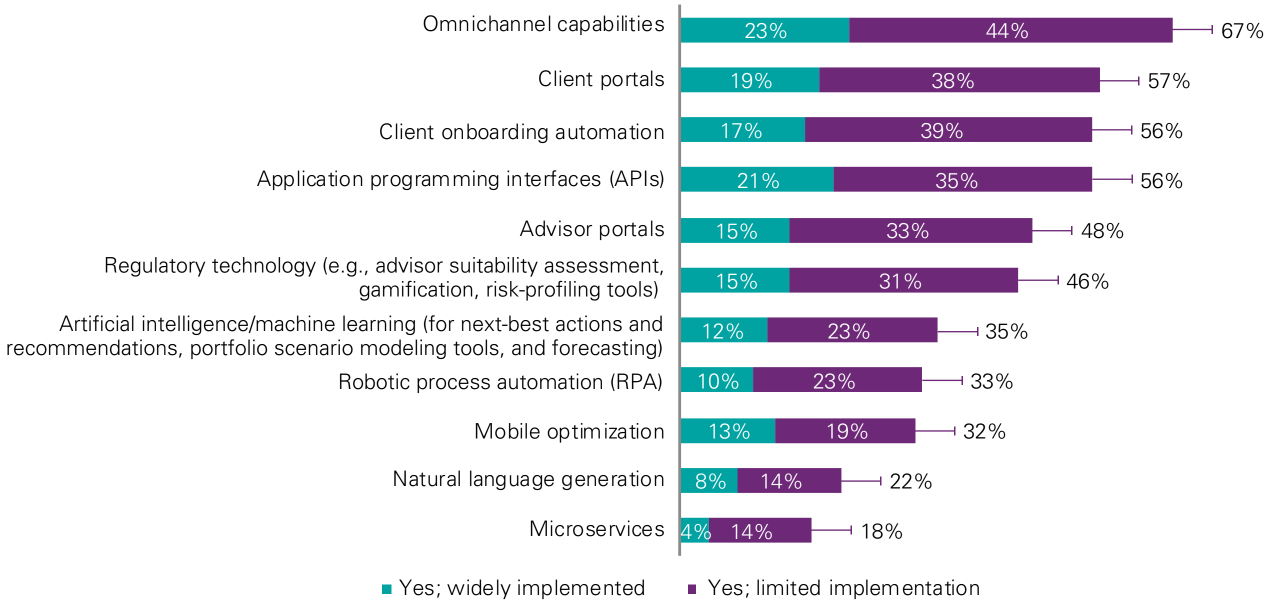
As the wealth management sector goes digital, it faces challenges in data use, privacy and security. Digital engagement with leading wealth managers has significantly increased since the pandemic and, as the trend to digital and cloud continues, modern security tools and programs should be top-of-mind and cutting edge at all times. Emphasizing this point, KPMG's 2021 study of customer experience excellence across all major markets, highlighted that digital is absolutely mandatory and financial services brands cannot succeed without a credible offering. The best performing wealth managers are leading the way in digital.

What technologies has your organization implemented to support its customer-centric enterprise strategies?



Base: 452 professionals involved with customer-centric strategy decisions at organizations providing wealth management services
Source: A commissioned study conducted by Forrester Consulting on behalf of KPMG, April 2021

Spotlight on cryptocurrencies and digital assets

As cryptocurrencies go mainstream, wealth managers should understand the associated risks and opportunities for their clients. Over the past 2 years, digital asset markets have evolved into vehicles for major government and corporate strategies.

However, bottlenecks have hindered consumers and businesses from cashing in such investments. Legislators are showing a growing interest in digital assets, which may pave the way for the development of a central bank digital currency (CBDC) in the US.

Several nations have developed concepts for digital currencies, in part, to help reduce their reliance on the US dollar. A BIS 2020 report highlights risks associated with CBDCs. These include consumer privacy issues, the potential for personal data to be comprised, the possibility that funds could be lost or inaccessible if private keys are lost or stolen, as well as anti-money laundering (AML)/ counter terrorist financing (CFT) concerns.

Establishing effective regulatory frameworks may prove even more challenging. The cryptocurrency regulatory landscape is characterized by diverse requirements among regulators and regions — even between states in the US. With dollars in short supply, new stablecoins have come to market and financial institutions, including asset managers and corporates, are considering issuing their own coins.

Variations are also being explored, such as stablecoins backed by different asset types, all of which seek to limit reliance on traditional banking systems and institutions.

With the potential for digital assets to become part of the mainstream economy, businesses providing related products and services will likely need to enhance governance and control frameworks in order to meet regulatory requirements. Robust compliance and supervisory programs should be established and maintained to protect consumers and mitigate potential reputational risks when incidents occur. Likewise, regulators should implement sufficient supervisory and oversight programs and continue to balance consumer protection with innovation.

Future business models: Three ways to play

Today's diverse, highly fragmented market is likely to converge into three distinct business models. The B2C and B2B wealth ecosystem is expected to continue to grow while unlocking innovative new services, integrating digital and human capabilities to offer targeted, self-service products and personalized investment advice.

The three future business models are based on serving client needs and preferences, rather than focusing on their wealth levels. Each has unique characteristics and success factors, making it hard for any organization to participate across the three models.

The financial well-being provider

Businesses pursuing this relatively simplistic wealth management model can play a 'front-and-center' role in helping retail banking and affluent customers achieve financial well-being and meet life goals. Digitally enabled wealth-management solutions are important to this price-conscious segment, offering self-service access to innovative products. Customers favor relatively less-complex services, including advice on bill payments, money market rates and tax information. This calls for a highly agile approach combining low costs with valued benefits.

Key success factors

Providers should aim to be a popular customer brand that has high awareness and is trusted by customers to help improve their financial well-being and enhance key life decisions. In this model, retail investment propositions and financial advice are provided as part of a broader suite of services.

This is a high-volume and mass-market/affluent model, calling for convenient, seamless, digital-first customer engagement within a 'low-cost, high-value' set of trusted and secure products and services.

With a low-cost, modular proposition, these businesses can integrate human and digital capabilities, including emerging automation technology that can help accelerate personalized service and advice.

Winning firms should combine the best of digital, analytics and the human touch, while also using a scalable, standardized product and service operating platform. Operational efficiency and agility is paramount, responding to evolving customer expectations while driving down costs to maintain a 'low-cost, high-value' offering.

From a regional perspective, Asia Pacific (ASPAC) customers are digitally savvy, creating high demand for advanced platforms that help them manage their growing wealth within a secure and trusted digital environment. Success factors

in the Americas, meanwhile, include a popular brand and a clear customer-first digital proposition, while firms in Europe, Middle East & Africa (EMEA) need to retain a focus on access to relatively standard services and advice experience. All regions are consistent in their desire to engage with trusted brands that share their environmental and social values.

The domestic wealth manager

These firms target relatively sophisticated high- to ultra-high net worth clients, who value strong relationships featuring personalized, face-to-face, high-touch engagement supported by digital capabilities. Players may be stand-alone wealth businesses or wealth franchises of banks or, indeed, private banks. Products and services are likely to include timely and informed advice on tax efficiency, family-estate planning and investment portfolio insights. Businesses here can provide guidance on, and access to, entrepreneurs in the investment marketplace, and position themselves as trusted 'stewards' of their clients' multi-generational wealth.

Key success factors

Distinct from financial well-being providers, these players lead on 'wealth and investments' and related propositions and cater primarily to more complex and sometimes more bespoke client needs.

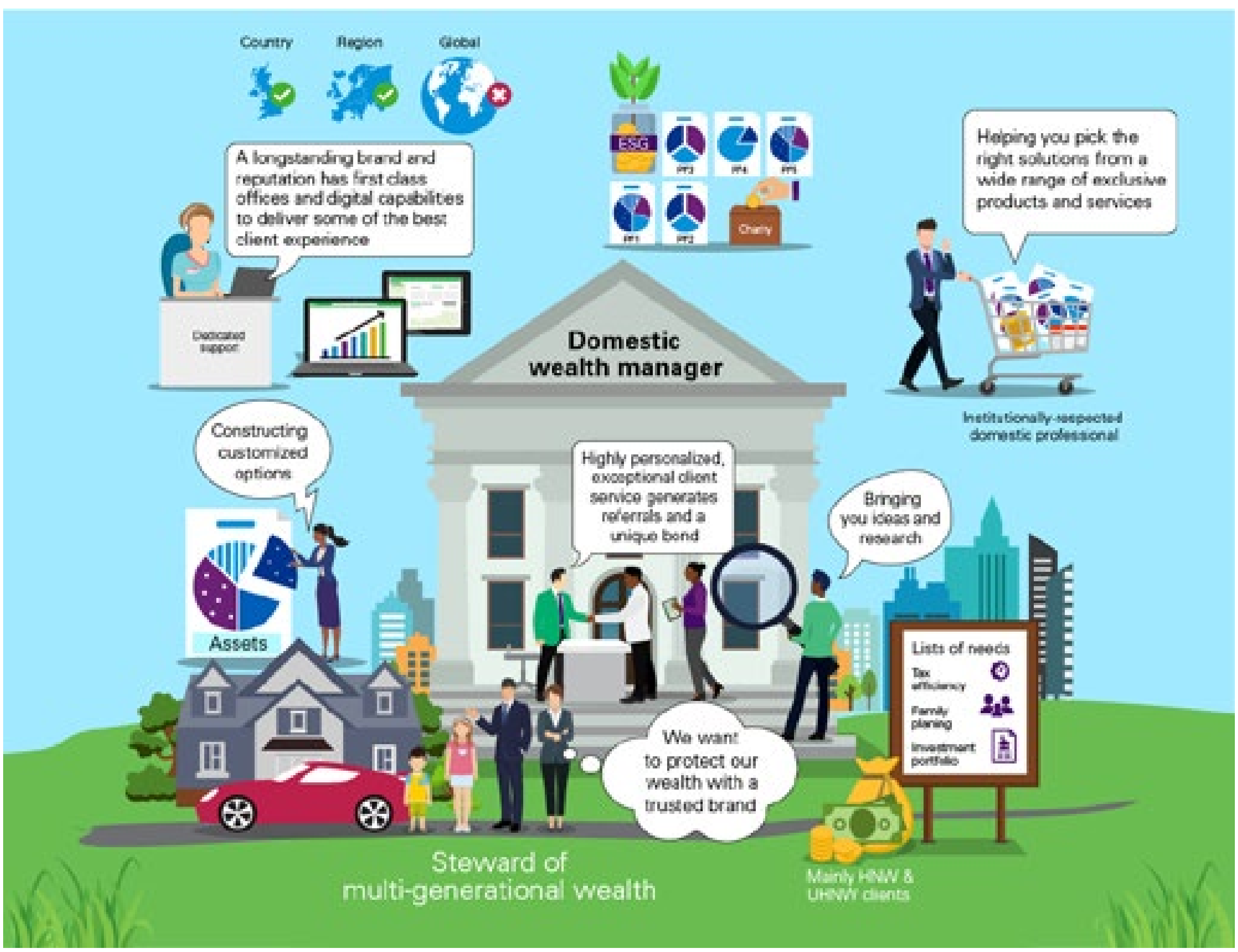
It's important to have a trusted and accessible local/domestic brand at country or regional level, particularly as key clients here are entrepreneurs and multi-generational families. These firms should act as enduring partners who can serve as 'stewards' of individual or multi-generational wealth.

Domestic wealth managers offer access to humans supported by digital capabilities, giving clients the choice to interact as they prefer.

Players should have a trusted standing in the community and the ability to deliver more than just wealth-management services, to foster and reinforce that trust. This could include facilitating networks of clients, being active in the community/region, and connecting clients to a broader suite of offerings for their personal and sometimes professional/business needs.

Highly personalized service remains crucial to client satisfaction to generate customer referrals as a key driver of new business. Brand, communications and profile should blend the best of heritage and contemporary to remain relevant to multiple generations of wealth creators and inheritors.

Regionally, the ASPAC market features 15 million high net worth investors (HNWIs), the second-largest concentration in the world after North America, and emerging younger investors seek higher levels of personalized and digital solutions to manage growing investment and wealth



management needs. Firms in the Americas and EMEA offer a combination of reliable access to self-service capabilities, timely investment advice and connections to domestic entrepreneurs.

The global investment expert

Welcome to the ultra-sophisticated segment of the wealth-management market, where businesses boasting established brands and seamless global reach can cater to an exclusive client base. With leading experience and highly robust operations, clients can benefit from trusted multinational investment advice and visibility into cross-border interests.

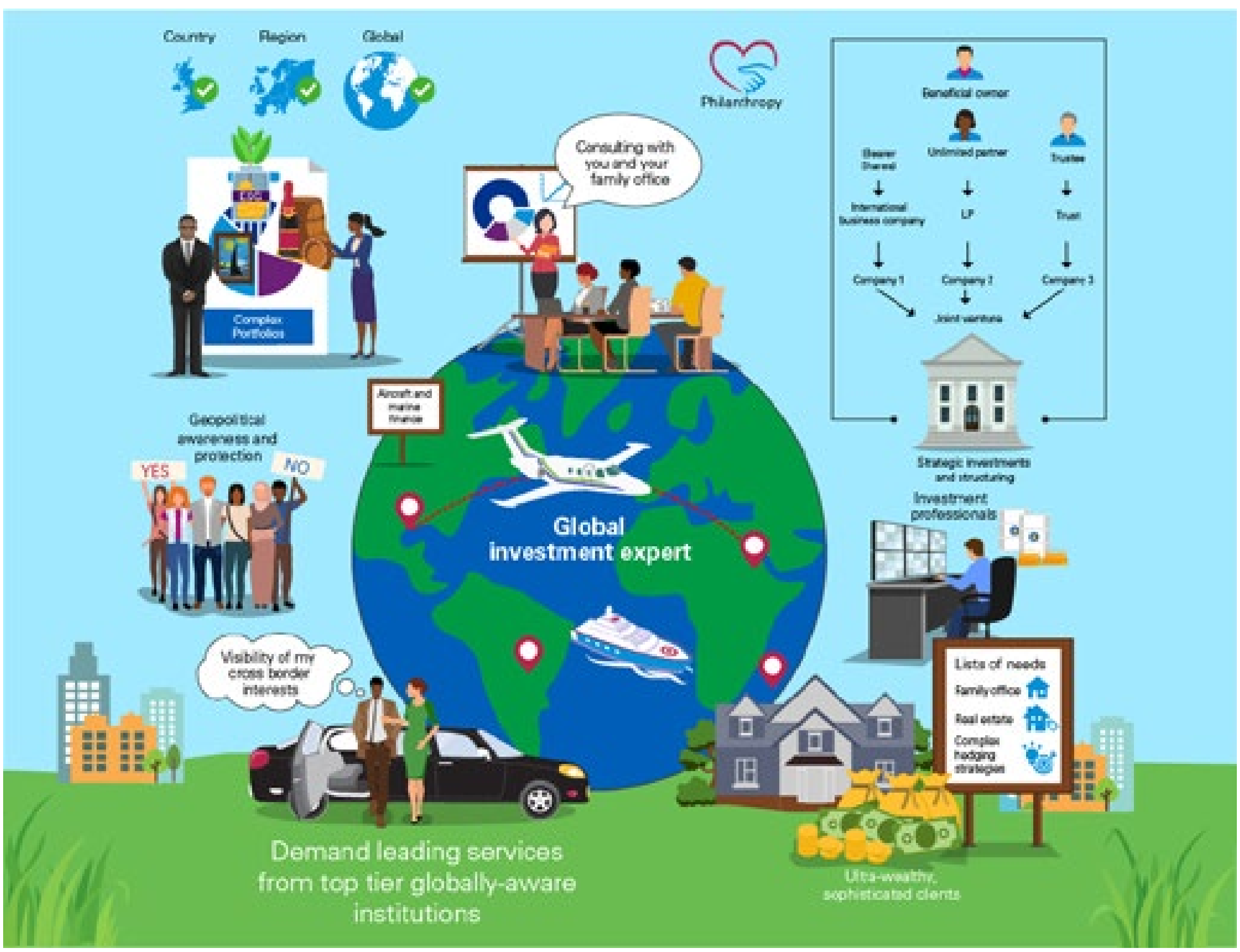
The range of specialized, price competitive offerings include advice on taxation and regulatory changes, real estate, geopolitical issues and money laundering controls. This 'for-the-few, by-the-few' model has a high barrier to entry, given its level and range of services and relatively high overhead.

Key success factors

Firms should have global capabilities and knowledge across asset classes and complex capital market structures, plus connected global operations to serve clients, or representatives such as family offices. This can be reinforced by a highly recognized global brand, underpinned by global thought leadership and timely foresight on leading investment ideas.

Clients have global financial and business interests and demand a seamless experience. Wealth managers should have large-scale operations across financial centers and wealth destinations, along with cross-border capabilities. The costs and complexity associated with managing regulatory risks, controls and cross-border tax compliance present a formidable barrier to entry — making this model the preserve of relatively few global financial institutions.

Success factors for institutions in the Americas — sophisticated global private banks, multi-family offices and global asset managers directly serving high net worth (HNW) clients — can include leading capital markets experience. In ASPAC, constant innovation is needed to adapt to evolving and ever-discriminating customer needs, and satisfy younger, 'digital native' investors who prefer modern capabilities such as ESG and crypto-currency opportunities.



Americas perspectives

Americas: Signals of change

Competitive signals

Several trends have driven change among leading wealth management providers in the Americas over the last 5 years, including M&A activity, converging business models and emerging wealthtech models.

M&A consolidation

The US posted a record high 205 wealth management M&A deals in 2020. (See graphic on next page). The industry continues to be attractive to both investors and business owners, offering steady income streams driven by trusted, long-standing client relationships, plus a strong growth potential from impending generational wealth transfer and a proven referral model.

A recent increase in private equity interest has pushed up valuations among independent Registered Investment Advisors (RIAs). It is expected for deal-making to continue over the next few years, particularly since the global pandemic's disruption has highlighted the need for succession planning.

Some firms will likely look to sell or seek a growth partner, as financial advisors — whose average age is 53 — look to retire. Research shows that inorganic growth by partnering with established businesses with captive clients is much less expensive than organic client acquisition methods such as direct advertising and marketing.[3]

Other acquisitions were targeted in the separately managed account (SMA) space, to offer customized investment management strategies. In 2020, BlackRock acquired Aperio, the pioneer in customizing tax optimized SMAs, while Morgan Stanley bought Eaton Vance who owns Parametric. This was followed by the JP Morgan acquisition of OpenInvest and the Vanguard purchase of JustInvest, a highly significant, and first ever corporate acquisition, to be a leader in direct indexing.

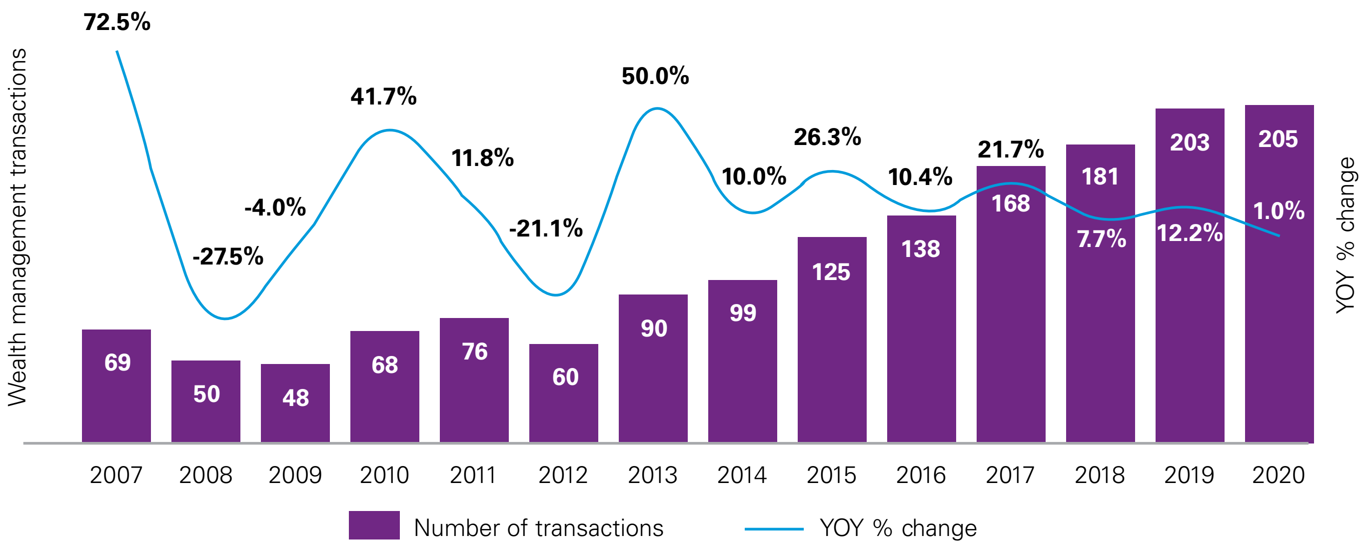
The push to gain SMA market share follows demand for customized portfolios with ESG features, as ESG portfolios hold about USD45 trillion in assets.[4] These larger wealth managers need this technology to scale personalized advice to meet sophisticated clients' demands. Wealth managers that weathered a challenging 2020 could accelerate organic growth through client referrals and similar channels. Discriminating clients will likely show a preference for organizations and advisors that offer a range of modern products, services and digital capabilities aligned to their specific needs.

At the same time, as noted in the KPMG report _Next-generation SMAs are changing the investment landscape_, innovations in SMAs are poised to change the future of the financial services industry. They will likely also be instrumental as financial advisors (FAs), wealth firms and asset managers seek to offer precisely customized portfolios to retail investors.

[3] J.D. Power website, Press Releases section, July 9, 2019: Technology, Social Media Critical to Bridging Financial Advisor Age Gap, J.D. Power finds

[4] Why COVID-19 Could Prove to be a Major Turning Point for ESG Investing, JP Morgan, July 2020

M&A reaches record high for the eighth straight year



Note: Total AUM excludes deals with AUM USD100 MM or lower
Sources: Company reports, SEC IARD, ECHELON partners analysis
Sources: The 2020 Echelon RIA M&A Deal Report, p6.

Today, the ‘fifth generation of SMAs’ can accommodate the dramatic shift toward personalization of products and services. This trend has been propelled, in large part, by the giant strides in technology and intelligent automation the industry has made over the past several years. Thanks to their structure and features, these fifth-generation SMAs should be able to reach — and potentially benefit — new customer segments and also grow wealth management firms and FA assets under management.[5]

Converging and emerging business models

A range of financial players — including private banks, brokers and dealers, RIAs, fintechs, full-service wirehouses, insurers and asset managers — have historically targeted similar client bases. This hyper-competitive environment has prompted wealth managers to differentiate their value propositions amid the proliferation of diverse players, products and services.

Zero-fee trading has become critical for most firms to compete effectively, ultimately driving them to reinvent their business models and offset declining revenue. For example, a 20 percent discount in revenue resulting from this business model shift typically requires a 37 percent reduction in overhead expenses — no small challenge for most firms.

A marquee acquisition demonstrating converging business models is Morgan Stanley’s acquisition of E*Trade, expanding its reach to the discount brokerage business by adding more than 80,000 retail clients. Morgan Stanley’s CEO believes this to be part of a “decade-long transition to a more balance-sheet-light business mix, emphasizing more durable sources of revenue.”[6] This has enabled Morgan Stanley to expand its value proposition to a new set of clients in the face of zero-fee commission trading.

A proliferation of wealthtechs during the pandemic, meanwhile, has created an entirely new layer of competition for larger wealth managers. These modern, high-powered players offer timely and trusted financial advice through AI and big data, micro-investment platforms and trading solutions based on social networks. This sector has posted strong growth in investment since 2017 as investors back new digital services designed to help clients easily manage personal finances, open online bank accounts and invest money with low fees.

This is evident through an influx of direct indexing acquisitions — the aforementioned JP Morgan Chase purchase of OpenInvest and Vanguard capture of JustInvest being two examples.

Wealthtech companies raised USD6.6 billion across 162 deals in Q1 2021 alone, with US fintech start-up Robinhood completing a massive USD3.4 billion funding round. Robinhood’s 2020 revenue soared to USD959 million (from USD278 million in 2019), with users rising to 18 million.[7]

Some investors are expected to shift toward providers that can deliver leading capabilities and highly personalized offerings — in addition to traditional trading services.

[5] KPMG Report: https://advisory.kpmg.us/articles/2021/next-gen-smas.html
[6] CNBC report, 2020: https://www.cnbc.com/2020/02/20/morgan-stanley-reportedly-to-buy-e-trade-for-13-billion.html
[7] Fintech Global, 2021: https://member.fintech.global/2021/05/26/wealthtech-funding-hit-a-record-6-6bn-in-the-first-quarter-boosted-by-robinhoods-huge-fundraise/

Advisor signals

Revolutionary technology and exciting new business models do not preclude innovation and advancement among advisors and workforces who must meet the expectations of today's informed and discriminating customers.

Workforce issues are also coming to the fore in the Americas. Advisors are leaving the industry faster than firms can replace them, with the added challenge of providing workplaces that meet the values of incoming younger generations.

And there's a growing need for specialists with relationship-management skills, ESG-related insights and guidance, and highly personalized service. Female clients also expect providers to offer professional advisors who are women.

Automation, robo-advisors and data and analytics are unlocking efficiencies and insights, especially for mid-market and larger wealth managers. In 2018 Morgan Stanley launched its 'next best action' capability to advisors, an AI-driven recommendation engine that can tailor ideas to clients. During the first 2 months of the COVID-19 pandemic, advisors used the platform more than 11 million times.

Meanwhile, after decades of client planning software that stops at the recommendation stage, Fidelity Managed Account Xchange (FMAX) has for the first time bridged the gap between recommendations and implementation. The planning-to-clearing platform provides consultative services and advances client service for a range of financial advisors, from registered investment advisors (RIA) to broker/dealer firms to family offices.

Efficiency and personalization are key advisor attributes; more than 70 percent of investors want an advisor that takes the time to understand their needs, goals and risk tolerance, while overseeing their portfolio to anticipate both problems and opportunities.[8]

The trend among banks and fintech companies to generate leads and foster customer loyalty via 'referral marketing' should also continue to grow, in the wake of remarkable success by US fintech Robinhood and others in dramatically simplifying stock-trading, via game-changing platforms, apps and tools.

[8] The Cerulli Report 2020: 'US Retail Investor Advice Relationships'

Regulatory signals

As noted in the *Signals of change* section, evolving legal and regulatory frameworks will likely impact businesses significantly, even potentially eliminating wealth advisors that fail to meet new standards. Diverse regimes across geographies are already making it harder to carry out cross-border transactions, particularly for US businesses catering to HNW clients with interests in Europe and Asia. Brexit adds additional complication. The US Tax Cuts and Jobs Act of 2017 has prompted some firms to shift operations to states with more-favorable tax laws.

Consumer protection

It's vital to safeguard investors, by standardizing practices and conducting policies among financial advisors. Enforcement themes raised by the US Securities and Exchange Commission (SEC) reflect a continuing desire by regulators to increase transparency as new players, products, services, platforms and apps proliferate.

The SEC's Regulation Best Interest (Reg BI) rule now requires financial advisors to recommend to clients only those financial products that are in their best interests, and to clearly identify any potential conflicts of interest and financial sales incentives. Previously, advisors were only held to the 'suitability standard,' requiring them to recommend investments that were 'suitable' but not necessarily in the client's best interest.

As part of Reg BI disclosure obligations, US wealth managers must now complete the SEC's 'Form CRS Relationship Summary' to provide retail investors with specific details covering the nature of their relationships with financial institutions and professionals. There has been subsequent changes in both business practices and business models and discounted and disruptive fees are expected, as clients gain new transparency into the pricing and value of financial products and services.

Information security and operational resiliency

During the ongoing global pandemic and its disruption of services and work environments, institutions have had to pivot with remarkable speed towards digital.

As wealth managers seek to offer timely insights, productive guidance and personalized service, they should also safeguard data, strive to ensure business continuity and maintain the efficiency of teams now working from home. An estimated 50 percent of the US workforce is currently working remotely — greater than any other country — with rising risk of cyberattacks.

Regulatory expectations have increased cyber risk management over proprietary data, customer data, core processes and exposure from third parties. In the future, organizations will likely start to mitigate cyber and enterprise risks quantitively using the Factor Analysis of Information Risk (FAIR) methodology.

Spotlight on investor transparency and GameStop

Shares of video-game retailer GameStop experienced a frenzy of investment and controversy in 2021 amid soaring share prices, unorthodox promotion practices and short selling of GameStop stock. Such events have caused huge market volatility among investors — many of them millennials and Gen Z flocking to online platforms and fueling share-price volatility.

Regulators are likely to exert significant new controls to prevent abusive or manipulative trading activity, along with new responsibilities to educate investors. Greater compliance should be coming, raising important regulatory questions around the 'gamification' of investment apps and platforms. The Financial Industry Regulatory Authority (FINRA) has noted that popular, direct-to-consumer platforms and apps are using game-like features and prompts that are "tantamount to stock recommendations."

Greater transparency is also sought over 'payment for order flow' (PFOF). The SEC says it will "seriously consider" increased disclosure requirements for brokers that deal with PFOF. One online Depository Trust Company (DTC) platform was heavily fined for failure to disclose practices that were said to include selling client orders to market makers. In December 2020, a player in this space was fined USD65 million for such activities. Some businesses are adapting their business models in response and as regulatory scrutiny increases.

Future business models: Americas

More than USD68 trillion is expected to move between generations in this region over the next 25 years. The large majority of this wealth sits in full-service models. The average age of a financial advisor is 53 and most studies suggest that 80 percent or more of heirs will look to a new advisor after inheriting their parents' wealth.[9]

The financial well-being provider

Current state

The market has 88 million mass-market households with less than USD100,000 in investible assets, worth a total of USD1.7 billion, plus 24 million mass-affluent households with USD100,000 to USD500,000 in investible assets, worth a total of USD5.7 billion.[10]

Several models compete in the mass and mass-affluent space including digital-only, centralized hybrid (digital/human), bank/branch based, and full-service 1:1 RIA and brokerage models.

The average age of customers in the mass-affluent segment is 56, with just 4.4 million households under age 40. There is a broad mix of needs, from debt management to wealth accumulation to retirement distribution. Digital sophistication also varies: 65 percent of customers holding up to USD250,000 in assets are comfortable using online-only services, versus only 44 percent of clients holding USD250,000 to USD500,000.[11] However, many of these customers prefer human interaction and a highly personalized service over digital capabilities.

Future state

Two key factors will likely determine success for financial well-being providers in America: the ability to create relevant, personalized client experiences while balancing tight economics, and providing a holistic offering that meets the total financial needs of clients beyond investment management.

As assets move between generations, many digital natives stand to inherit this wealth, and will likely require licensed professional expertise to address complex needs and interactions. And while digital hybrid models exist today, future differentiation calls for a clear value proposition for each client type, and a customer journey that blends digital scalability with a human touch and personalization.

Full-service 1:1 models may struggle to compete due to regulatory pressures on 'best interests,' combined with a limit on how many clients can be well served at this level. You should expect to see the full-service 1:1 models taking on only limited, opportunistic client relationships and serving, for example, young doctors or clients that are expected to inherit wealth.

One of the biggest challenges in the mass-affluent market is customer acquisition cost, which at USD1,000, means a USD200 million investment just to increase assets under management (AUM) by USD10 billion.[12] With low operating margins and small portfolio sizes, the payback period on advertising costs can take up to a decade.

In the future, we see data-driven digital marketing is expected to be a key way to help reduce this expense. Winners will likely harness data from their other businesses serving mass-affluent customers, while also leveraging increasingly sophisticated external data sources. Digital marketing becomes highly tailored and personalized, increasing relevance and capture rates.

Top strategic objectives of wealth managers in the region

Base: 110 professionals in North America involved with customer-centric strategy decisions at organizations providing wealth management services
Source: A commissioned study conducted by Forrester Consulting on behalf of KPMG, April 2021

[9] The Cerulli Report 'US Retail Investor Advice Relationships' 2020
[10] The Cerulli Report 'US Retail Investor Advice Relationships' 2020
[11] The Cerulli Report 'US Retail Investor Advice Relationships' 2020
[12] Morningstar:' Robo-Advisor Upgrade: Installing a Program for Profitability,' 2019

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For example, in June 2021, online financial advisor platform SmartAsset announced it had been selected for the Vendor Affinity Program of LPL Financial LLC, a leading partner to financial advisors. More than 18,000 independent financial advisors affiliated with LPL Financial can now use SmartAsset's industry disrupting platform, which connects consumer prospects with financial advisors across the US.[13]

Additionally, winners are expected to embrace lightweight financial planning and connect client needs to a set of integrated offerings, including through partnerships, to deepen wallet share beyond investment management.

The domestic wealth manager

Current state

These customers are primarily served through a dedicated financial advisor or financial advisor team with a high-touch, human-first model. There are 15 million affluent households holding USD500,000 to USD10 million in investible assets, for a total value of USD26 billion.[14] This space is dominated by the four large wirehouses, national and regional bank wealth managers, captive and independent registered investment advisors (RIAs), brokers/dealers, and various hybrid and direct-provider businesses.

The average age of customers — and indeed of their financial advisor — is the lower 60s. There is a broad mix of needs — from lower-end and less-complex clients needing accumulation or distribution advice, to upper-end clients requiring personalized advice, wealth preservation and estate planning. There is an opportunity to provide more sophisticated investment products that range from separate accounts and basic alternatives to direct hedge fund investments, private equity and complex alternatives.

Future state

Three key factors will likely drive significant change:

1. The advisor value proposition shifting to holistic, planning-centric advice to better meet financial goals
2. Smart data to enable growth and personalized experiences
3. Digital capabilities to achieve a more seamless client and advisor experience.

One of the most-important shifts already underway in the industry is the transformation from investment management (product oriented, seeking alpha), to holistic advice (planning centric, meeting financial goals). Successful advisors will likely be those that prioritize helping their clients to achieve desired outcomes, over merely beating financial benchmarks.

You may continue to see more outsourcing of investment management to experts or asset managers in larger shops, enabling advisors to focus on client needs. The best advisors will likely become the center of financial advice for clients across investment management, banking, insurance, tax preparation, estate planning and trusts.

Data is perhaps the most underutilized asset in wealth management. In a KPMG survey of 4,000 CIOs and technology leaders in 83 countries, 22 percent say they lack advanced analytics skills. Current adoption of AI is low, at under 15 percent for most organizations,[15] but the growth potential is huge, especially to enhance the customer experience.

Some wealth managers are already deploying 'next best action' capabilities to shift from a product-centric to a customer-centric focus — and this is just the start. The treasure trove of data available to wealth managers is unparalleled, with huge potential to drive future growth, free up employee time for higher-value tasks, create personalized experiences and enhance risk management. Data and digitization do not just automate repetitive tasks; they also empower businesses to provide data-informed advice to clients.

For the affluent customers, expect to see a continuation of the advisor-led model featuring highly trusted relationships. Digital capabilities will likely help to personalize and meet every client's specific needs. Whether prospecting, onboarding, planning and advising, servicing, or reporting, clients can receive convenient self-service and seamless digital experiences. For interactions best performed face-to-face, such as planning, regular checkups and life-event conversations, digital capabilities help the advisor and client to collect data and identify timely insights and opportunities.

[13] Business Wire June 3, 2021 report: 'LPL Financial Selects SmartAsset for Vendor Affinity Program'
[14] The Cerulli Report 'US Retail Investor Advice Relationships,' 2020
[15] 2020 Harvey Nash/KPMG CIO Survey: https://advisory.kpmg.us/articles/2020/cio-survey-harvey-nash-2020.html

The global investment expert

In the Americas, these are sophisticated private banks, multi-family offices, private wealth managers and asset managers directly serving the wealthiest and most-discriminating of financial-services clients.

Current state

There are 600,000 HNW/UHNW households possessing USD10 million to more than USD20 million in investible assets, for a total value of USD12 billion.[16]

Customers in this segment are on average 65 years old. Key service characteristics are family office services at the high end, highly customized advice, and products such as direct hedge fund investments, private equity and sophisticated alternatives. Differentiators include bespoke services like advice on wine or art investing, identifying exclusive investment opportunities, specialized banking products, institutional services for owned business interests, and global experience.

Future state

While most of the insights on the 'domestic wealth manager' apply to this customer as well, players will likely have to offer a more customized and personal client experience, featuring holistic services to individuals and institutions, exclusive investment opportunities, and the ability to satisfy international clients with interests beyond the US.

Wealth managers in this space need a strong value proposition and a deep understanding of how to best meet the needs of unique clients including wealthy CEOs, doctors, hedge-fund managers, Silicon Valley entrepreneurs and business owners. Personalized banking, investment management, tax, trust, philanthropy and estate management services are critical capabilities.

Since many of these clients' own businesses, it is increasingly important to offer institutional services like investment banking solutions, stock planning, employee financial wellness programs or benefits-related consulting. Witness Morgan Stanley's acquisition of Solium to expand its offerings and drive growth via stock plan administration. This acquisition positions it as an industry leader in workplace wealth solutions, with Solium possessing more than 3,000 stock plan clients and one million participants, including Instacart, Shopify and Stripe.

Clients in this segment expect exclusive opportunities, such as access to pre-IPO deals, sophisticated alternatives and private equity options, plus exclusive experiences for households. Another Morgan Stanley investment, the Next-Gen Wealth Management practice, targets young executives and individuals inheriting multi-generational wealth, providing an array of offerings including business planning, retirement planning and advice on alternative and sustainable investments. Morgan Stanley's Next-Gen

[16] The Cerulli Report U.S. Retail Investor Advice Relationships, 2020

practice hosts events for 21- to 29-year-old clients, featuring themes such as sustainable investing, and encouraging peer-to-peer interaction.

Global investment experts should also be able to aggregate clients' international interests to provide seamless, global financial services — something that few, if any, have yet to achieve.

This is an exclusive, highly sophisticated and demanding market, requiring exceptional experience at a regional and national level. Competitors will likely be private banks, multi-family offices and asset managers catering directly to UHNW clients.

Goldman Sachs has partnered with sports associations to target athletes, hiring a former National Football League (NFL) player to be at the forefront of deal-making with prospective clients. And the NFL Players' Association has turned to Goldman to manage players' money and plan against potential loss of earnings in anticipation of work stoppages. Such innovative partnerships help to build brand awareness for private banks and grow their business.

Morgan Stanley has built a team focused on providing financial advice to Big Four Partners. Advisors have a strong understanding of the packages and retirement/pension plans offered by each firm, as well as constraints and challenges such as independence and risk-management requirements. There are numerous other examples of large private banks and private wealth managers providing customized events and targeted offerings.

UBS Private Wealth hosts networking events for clients to meet like-minded philanthropists and peers, including 'passion' events that bring together wine and art enthusiasts. Citi Private Client has built an art advisory and finance team to provide tailored loan structures for alternative and illiquid assets. Goldman Sachs has specialized offerings through pre-IPO private placements and includes alternative investing funds in real estate and private equity.

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Asia Pacific: Signals of change

Customer experience, centricity and products

Today's Asia Pacific (ASPAC) wealth management businesses operate in an unprecedented marketplace featuring five generations. Many younger people in markets like China, Hong Kong (SAR), and Singapore are getting wealthier, either through their own endeavors or by inheriting 'next gen' wealth, which is changing both the profile and the expectations of HNW customers. With assets held within their home country and globally, and faced with low interest rates, they are looking for better ways to generate income and protect their families in a volatile world.

Digital adoption is ubiquitous across age groups, as consumers use mobile devices and and messaging platforms such as WeChat to access financial services. Millennials in particular have a preference for exceptional personalization, with modern self-service digital capabilities, enabling them to personally manage their investments and play the stock market. At the same time, these younger consumers are also less investment savvy and need guidance and education. Retail investors, including a growing segment of professional and increasingly affluent women, want access to the same investment strategies as HNW investors.

Young HNW investors seek tech-driven interfaces, peer-to-peer interaction, low-cost/high-value offerings, portfolio transparency and trusted investment research. In an optimistic marketplace, there is growing demand for advice for a wide range of products across global markets, including alternative assets and more sustainable, ethical investments. In a recent survey, more than two-thirds of investors say they want at least 10 percent of their portfolio to be ESG focused. Customers are also opening up to cryptocurrencies and virtual digital assets.

As wealth management in the ASPAC region becomes increasingly commoditized to appeal to a wider mass-market, providers should adopt automation and algorithms to efficiently enhance the customer experience. At the same time, Asian customers continue to favor high-touch relationships with their wealth managers, calling for a hybrid human/digital proposition.

Competitive signals

Markets like Hong Kong (SAR), China and Singapore have become offshore centers to service wealth. More than 40 percent of assets under management in Hong Kong (SAR), China are from customers in mainland China, similarly non-resident Indians are a significant segment in Singapore. This fast growth and market attractiveness is generating strong competition from wealth managers, insurers and other players, who are building a presence across the region, expanding into Thailand and Japan and building out their platforms. With competition intensifying, players must try to stand out with a superior and differentiated offering.

Big tech firms are also moving into financial services in ASPAC, and should continue to outperform incumbents in areas like innovative platforms and low-cost, value-added services and products.

The huge global talent shortage is felt in ASPAC as much, if not more, than other regions. Wealth managers should hire thousands of relationship managers, as well as other specialists skills across technology, data and compliance, and it's often unclear where these candidates will come from. Across the region, markets are aiming to retain workers in digital, customer and financial skills.

Regulatory signals

In the wake of disruptive regulatory change, many ASPAC wealth management firms are re-evaluating their operating models.

Evolving and non-harmonized securities regulations across the region make it harder to navigate multiple regulatory regimes — particularly for wealth managers serving the ultra-wealthy, who need insights into international opportunities and risks. In Hong Kong (SAR), China and Singapore, for example, wealth management regulations are largely tailored to the retail market, which presents a challenge for the more high net worth segment with more experienced Professional Investors looking for less regulatory burden in their wealth execution.

Meanwhile, strict data security laws in countries like China and Indonesia prohibit the transfer of data cross-border, restricting wealth managers from sharing data on clients' global investments and significantly influences technology architecture and operating model design.

Expect further, major changes to legal and regulatory frameworks, generating opportunities for some, while eliminating less-relevant players that fail to meet new regulatory standards. Managing the rising cost of compliance has now become a key competitive factor.

Data and technology signals

The race is on for the region's wealth management businesses to deliver personalized mobile apps, 'always-on' multichannel service and advice, robo advisors and other exciting new automation capabilities. Also on the agenda are peer-to-peer networking, asset 'marketplaces' allowing investors to buy and sell assets to one another, and in some markets Islamic financial services.

New technology is starting to shake up online fund distribution, real-time digital advice, new online comparison tools and micro-investing. Such low-cost, customer-centric services are becoming steadily accessible to an expanding customer base including the less wealthy — but up-and-coming — segment of the ASPAC market.

Fintech is starting to play a more prominent role in wealth management, with the bigger players in particular integrating new technology solutions — something that their smaller counterparts are struggling to achieve. Hong Kong (SAR), China was the first to issue virtual bank licenses, followed by Singapore and Malaysia. Although fintech growth to date has been limited by small product portfolios, wealth managers are seeing some impressive improvements in customer experience.

For example Hong Kong (SAR), China based Privé Technologies, is now expanding to Europe, is a SaaS provider offering modular, digital platforms for use by wealth managers and insurers, for acquisition, marketing/customer relationship management (CRM), onboarding and portfolio management. Chinese wealthtech company Fano Labs specializes in speech and natural language processing (NLP) technologies for customer service and compliance. Its technology can translate from voice to text and is able to recognize a variety of languages including hybrids such as Singapore/English and Cantonese/Mandarin.

Most ASPAC banks, larger wealth managers and brokers now offer online investment platforms, while some smaller players are also getting in on the act — albeit often for only one asset type. Over time, expect some consolidation of these platforms into a broader ecosystem. Another development is automated investment and 'round-up' services that help clients consolidate their portfolios across different banks and other financial providers, using open architecture solutions.

With more and more Asian investors looking at crypto currencies, Hong Kong (SAR), China has become a hub for virtual assets, with the region's first licensed crypto exchange. Singapore is aiming for a similar approach, once it can set up suitable regulatory conditions. Other alternative assets being provided by wealth managers include wine and fine art.

Low code automation solutions, the likes of Appian and Flowable are expanding their presence in ASPAC, offering open-source automation to connect front, middle and back offices of wealth managers.

On the regtech side, firms like LeapXpert — also based in Hong Kong (SAR), China — can track all customer interactions across a wide range of media, to present a complete, auditable view, to help ensure regulatory compliance. Other innovations in this space include solutions that inform wealth managers what they can and can't sell to specific clients, as well as automated disclosures. There's a lot of encouragement from regulators in Australia, Singapore and Hong Kong (SAR), China to push the regtech agenda and foster startups for banks and other wealth managers.

In a recent ASPAC fintech survey, AI adoption was found to be in its infancy, with many players still experimenting with proof of concepts. Consequently, much of the automation is relatively low tech, although it's expected to rapidly accelerate in the next two to three years as the business case improves.

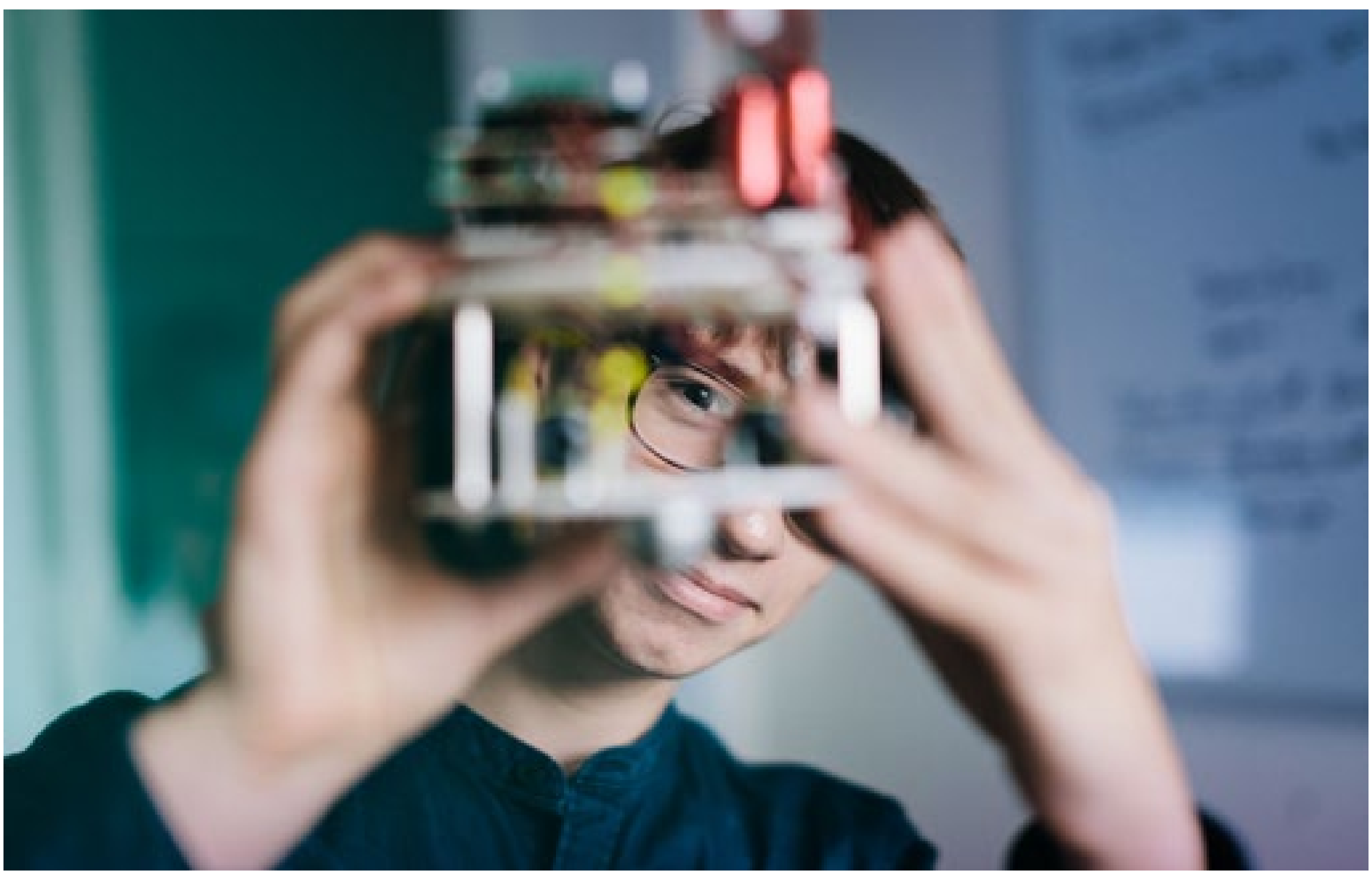
Ultimately, AI/automation/machine learning will likely revolutionize the sector, enabling wealth managers to customize portfolios, predict economic trends, report on investment performance, and digitize customer service.

Wealth managers should invest in infrastructure and platforms and, critically, compliance, given the many different data security/privacy regulations in the region and beyond. A recent survey found regulatory to be the second ranked technology investment priority for wealth managers.

Big tech is also entering the sector, redefining customer expectations and generating significant investment returns. Fast-emerging micro-investment apps and platforms such as Futu and Aqumon are gaining in popularity, putting pressure on traditional players.

Transformation may inevitably require a shift in workforce capabilities — a trend that's already unfolding. Workers should learn to collaborate with the revolutionary capabilities of robo advisors, chatbots, data analytics, AI and predictive systems.

Since the pandemic, client traffic on wealth managers' platforms has soared by an estimated factor of 10. With businesses so dependent upon technology, workforces should have the skills to maintain digital processes, while mitigating any disruptions. Not surprisingly, boards are urgently trying to address concerns over legacy systems, cybersecurity threats, data breaches and overall risk management.



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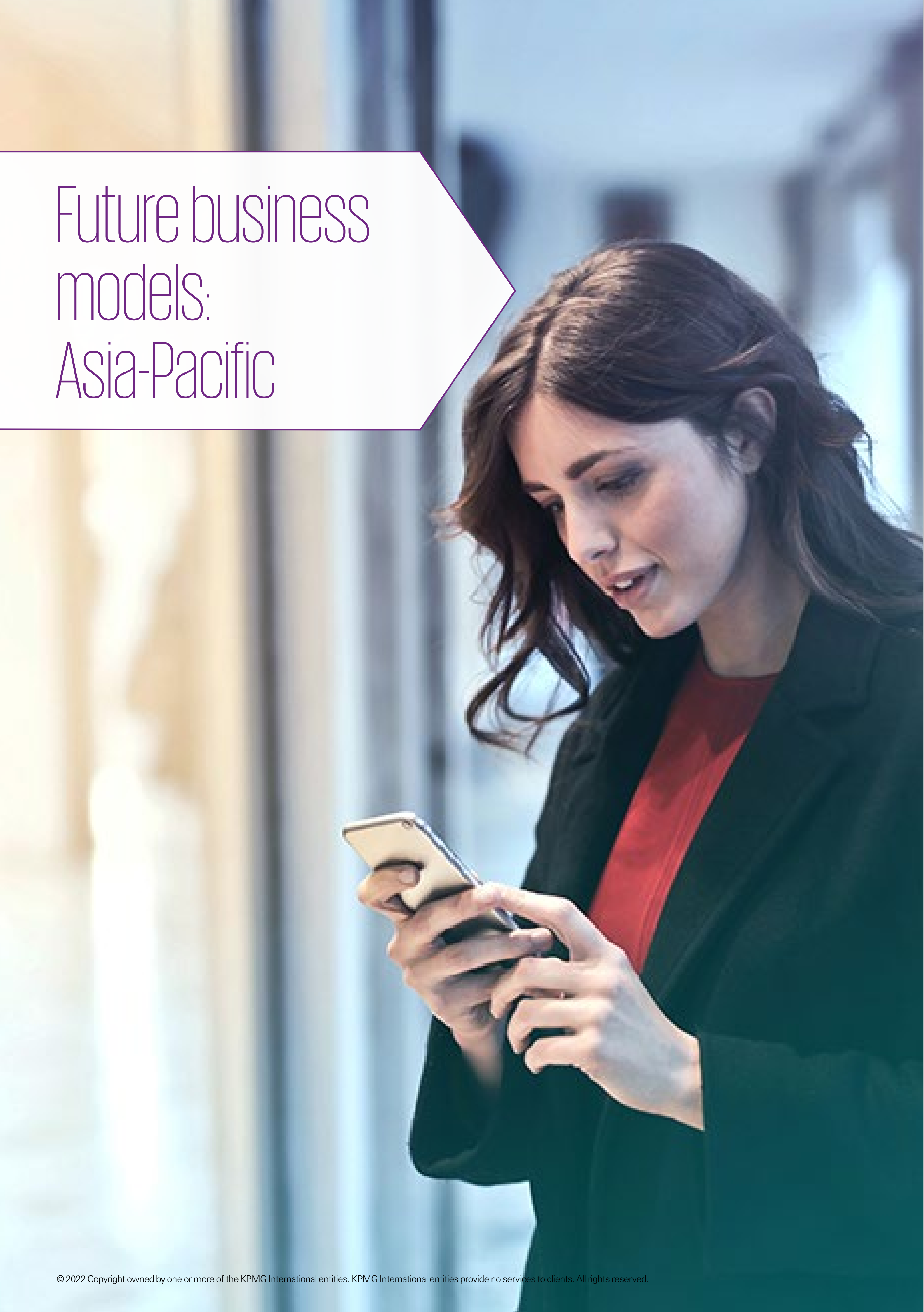

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The connected wealth manager

The financial well-being provider

ASPAC's changing business environment and regulatory landscape have helped to foster productivity and growth in the region's mass-affluent population — a significant trend expected to continue.

Cost competitiveness is also on the rise, driving consolidation across ASPAC's wealth management industry, with many mid-tier financial institutions exiting the sector. As the market evolves, there is a blurring of traditional boundaries between domestic wealth managers, global-investment experts and financial well-being providers, with the latter expanding their product scope to meet sophisticated investment demands historically the domain of more-upscale players.

ASPAC customers expect highly personalized, digital-first engagement from their financial service providers — something accelerated by COVID-19 and the rapid proliferation of innovative wealth and investment apps and platforms. This includes secure, seamless connections, self-service capabilities complemented by advisor support, and high levels of transparency across digital channels.

Customers, many of them young digital natives, are looking for products and services that cater to their growing investment needs and preferences, including financial planning, savings, pensions and simple investment products. In a low-interest environment, there's a demand for higher yields. The pandemic has increased the focus on health and well-being, beyond pure financial returns. Wealth managers, pension and insurance companies, and even virtual/digital banks are all branching into lifestyle products, in some cases giving premiums to clients with healthier lives. Confidence and trust are becoming key factors, as customers seek businesses aligned with their values and committed to ESG investment.

Next steps/future success

To thrive amid intense regional competition, many businesses are consolidating or entering into new alliances or joint ventures, to enhance digital capabilities, low-cost/high-value offerings and cost efficiency. Potential partners include fintechs and other third-party providers that can rapidly deliver modern digital products and services at a competitive price.

At the same time, as consumers demand personalized self-service capabilities combined with advisor experience, wealth managers will likely explore innovative ways to promote financial acumen and inclusion, educating clients on how to make well-informed decisions.

Top strategic objectives of wealth managers in the region

Base: 143 professionals in ASPAC involved with customer-centric strategy decisions at organizations providing wealth management services
Source: A commissioned study conducted by Forrester Consulting on behalf of KPMG, April 2021

Domestic wealth manager

ASPAC's open business environment and regulatory landscape have sparked a rise in the number of HNWIs — the second-largest concentration in the world after North America.

Younger HNWIs are a significant and growing presence, and expect personalized solutions from trusted and digitally savvy advisors who can support their growing investment and wealth-management needs. Again, sustainable and ESG-focused products and investment choices remain a priority.

In a crowded market, against a backdrop of demanding regulations on expertise, governance and controls, smaller domestic wealth managers, including banks, are finding it hard to compete. It's especially hard to attract the right talent. Consequently, they're focusing on specific client segments where they have expertise. Others, like Singapore bank DBS, are growing fast, leveraging a strong domestic brand to expand, into China's Guangdong-Hong Kong-Macao Greater Bay Area(the GBA) hub, attracted by the huge opportunities from emerging wealth. DBS is partnering with the Postal Savings Bank of China (PSBC),[17] under China's new Wealth Management Connect Scheme,[18] to give customers access to diversified investment products and solutions, and digital-banking capabilities.

Competition has led some mid-tiered players to exit, while many domestic wealth managers in the region are moving up the value chain by buying out mid-tier firms, building on their strong retail foundations, and partnering or forming joint ventures, notably in mainland China, to better service clients. China's huge domestic banks, with their advanced digital offerings, are well-positioned to succeed, although currently have set their sights domestically and in Hong Kong (SAR), China — but not yet further afield.

As ASPAC domestic wealth managers move upmarket, they may challenge the global investment professional segment, although there is a need to balance costs versus personal services, products and potential benefits.

Next steps/future success

The region's strong and growing economic prosperity will likely continue to increase the number of HNWIs, particularly the younger generation, who insist on technologically advanced and highly customized banking and wealth management solutions.

The size of the ASPAC HNW market has grown by nearly eight percent annually in recent years to 15 million and projected to reach 21 million by 2024. The global pandemic, meanwhile, has increased succession planning, with increased demand for personalized service and professional advisory support.

Businesses should revisit their target operating models to help ensure they possess the agility, experience and digital capabilities to adapt to fast-changing customer needs and expectations.

Global investment expert

Institutions in this exclusive 'carriage trade' segment focus on best-in-class investment advice, solutions and capital-markets expertise. The main players are sophisticated global private banks, multi-family offices and global asset managers directly serving the wealthiest global clients. Regions within ASPAC that have high political stability, a solid financial sector, favorable tax regimes and a highly skilled workforce have shown to be attractive for family offices and trusts for wealth transfer.

There are high barriers to entry, however, given the cost of delivering exceptional expertise combined with personalized service, digital support and global investment advice. Consequently, some are consolidating, such as Citibank, who are closing retail businesses in 13 locations in order to focus more on commercial and investment banking and targeted wealth management services.

Hong Kong (SAR), China and Singapore are the two major markets for global investment experts, while there are emerging opportunities in mainland China and India. One challenge facing these wealth managers is lack of agility; many decisions are made in London or Zurich, which slows their decision-making down compared to local companies. Those with more decentralized structures tend to perform better, using fintech partners to speed up business processes. On the other hand, banks like UBS have impressive pockets of expertise as well as strong ESG credentials — and, of course, also have the potential benefit of globally trusted brands and robust processes and controls, all of which appeal to clients.

Global investment experts are also experiencing competition from businesses historically catering to the less-wealthy — notably domestic wealth managers' private banking arms, who offer innovative and cost-effective new digital products and services and are quickly moving up the value chain.

Next steps/future success

Only through constant innovation can these businesses meet evolving and ever-discriminating customer needs. They will likely require exceptional expertise and customized service related to inter-generational wealth transfer, to satisfy younger, 'digital native' investors who prefer modern capabilities, platforms, and crypto-currency opportunities.

Amid growing competition, global investment experts should innovate, while keeping costs in check and navigating the shifting global regulatory landscape. Universal private banks should balance the trading demands of their investment banking/trading arms with the need to offer unique products, seamless cross-border interactions and pricing advantages to their own banks. Pure-play private banks, on the other hand, will likely have to cultivate extensive trading relationships with product providers or absorb high setup costs for their own trading teams. And clients with global interests expect timely insights and guidance to cope with geopolitical volatility.

[17] The Straits Times: DBS, OCBC tap China's Wealth Management Connect scheme to expand in Greater Bay Area, October 2021.
[18] The Straits Times: HSBC, Citigroup rush to catch China cross border wealth, October 2021.

Europe, Middle East & Africa perspectives

EMEA: Signals of change and future business models

From a customer perspective, the pandemic has raised consumer expectations and shifted business priorities amid the mass migration to online services, shopping and work. Businesses are looking to deliver personalized experiences supported by smart data use and informed decision-making.

Competitive signals come in the proliferation of non-traditional players and neo banks operating exclusively online. These new competitors, including fintech firms and tech giants, are rapidly rewriting the rules. Profit margins are suffering as COVID-19 creates a perfect storm fueled by recession, weakened consumer confidence, unemployment, rising debt and low growth. The so-called 'three Ds' of depopulation, deleveraging and deglobalization demand a strategic response.

Meanwhile, technology continues to revolutionize traditional customer relationships, as wealth managers go beyond basic online services and branch-based interactions to invest in customer centricity, personalization and organizational agility. Regulators worldwide are becoming increasingly interventionist to enhance competition, improve cybersecurity, protect data and ensure enterprise resilience.

These trends are causing a convergence of today's fragmented market, with three distinct business models emerging.

In the price-conscious, value-seeking customer segment market, the financial well-being provider offers secure and reliable digital services, including self-service capabilities that provide fast access to relatively standard services and advice.

The domestic wealth manager offers personalized, high-touch relationships that foster client confidence and trust –combining face-to-face and digital engagement. Clients will likely expect a wide range of products and services, plus expertise and timely guidance on smart investment choices.

Global investment experts provide unique, sophisticated services, products and expertise at regional, national and global levels. Clients expect leading, cross-border services, advice and capabilities.

Top strategic objectives for wealth managers in the region

Base: 199 professionals in EMEA involved with customer-centric strategy decisions at organizations providing wealth management services
Source: A commissioned study conducted by Forrester Consulting on behalf of KPMG, April 2021

In Europe, a greater focus on mass-market customers

How are these models manifesting themselves in nations across the EMEA region?

In the UK and continental Europe — with the exception of Switzerland — domestic players are increasingly mass-market financial well-being providers or domestic wealth managers, and sometimes a combination of the two. M&A activity in the UK is producing record valuations and underscoring the structural attractiveness and future prospects of the wealth management industry, particularly for domestic wealth managers.

It is also expected for greater integration between investment and banking, as banks control the greatest wealth management market share and now face a low-interest environment combined with excess cash that has accumulated during the pandemic.

Within the financial well-being and domestic wealth management space, there is a move towards hybrid services to offer remote, global investment advice to the mass-market. This calls for a combination of human and digital capabilities, including more women advisors, plus increased automation and self-serve portals. Credit-Suisse, for instance, is pivoting toward a single, globally integrated investment bank.

Asset managers are pursuing varied relationships with investors — some more direct, others via intermediaries. Some wealth-management organizations are forming innovative cross-industry ecosystems and partnerships, particularly in the financial well-being market. The growth of open data and open finance is increasing regulatory requirements, while in markets like the UK, regulators are also focusing on operational resilience and governance.

Forces of change continue in the Middle East

In the Middle East, there is a shifting mindset — locally and internationally — among customers and wealth management players in a post-pandemic world. The sector has traditionally been dominated by international wealth managers, forging deep, face-to-face customer relationships.

In recent years, however, there has been a noticeable influx of locally based wealth managers, combined with digital engagement with customers, many of whom are well-informed and looking for differentiated products that improve their portfolios. While clients still seek investments that generate significant returns via tech stocks, SPACs and private equity, they are also embracing ETFs and funds, particularly in Islamic finance. Indeed, the Islamic wealth-management sector is set to capture market share among younger investors who are more inclined towards digital services.

In response to growing economic volatility, clients are increasingly turning to professional asset managers to improve returns and manage risk more effectively. They are combining regional portfolios with international assets for greater safety, while also focusing on succession planning to transfer wealth to the next generation.

The Middle East wealth management industry should embrace these changes to cope with intensifying competition, adopt modern digital capabilities, and satisfy increasingly informed customers in this growing sector.

Innovative alliances emerging in Africa

As in other geographies, wealth managers across the African continent are pursuing digital capabilities that can enhance customer service, help improve cost-efficiency and competitiveness, while delivering new products and services to the region's underserved markets. Fee models are also under scrutiny.

In South Africa, firms are pursuing innovative partnerships and alliances with digital innovators, to enhance distribution channels and rapidly broaden reach.

In 2021, a leading insurance and wealth management group has joined forces with a mobile telephone company to launch a digital insurance and investment business, to market a comprehensive range of financial products to the telephone company's customers across Africa.

In another recent initiative, a large South African bank and a major retailer have announced plans to open bank branches within the retailer's stores, increasing convenience for the bank's customers while offering an array of products and services to retail customers.

The connected wealth manager

Approaching change means adapting to a connected operating model

KPMG Connected Enterprise is a customer-centric and enterprise-wide approach to digital transformation. It focuses every business process, function and relationship on a single purpose, harnessing the power of technology to fuel profitable and sustainable growth. A winning operating model for future wealth management will likely require maturity across eight connected capabilities, featuring a customer-centric approach to digital transformation that connects front, middle and back offices — consistently meeting customer expectations while creating true business value.

With the need for more connected and seamless digital offerings, what does good look like?

— Investing in the **right capabilities** across the organization beyond just customer interfaces to help drive effective digital first ways of working operating models. Greater application of digital technologies in middle and back office contributes to an optimal customer and service experience

— Investing in **data and insight driven strategies** to become the fabric of the organization. Effecting the use of data and analytics in business and executive decision making creates a closer harmony with the customer-centered strategy

— Making the most of **technology with a platform mindset** — the combination of new core platforms and rising fintechs means the optimal integrated technology landscape is critical. A connected technology view helps ensure return on current investment as well as investing in the new and emerging.

The eight capabilities of KPMG Connected Enterprise:

Base: 1,299 professionals involved with customer-centric strategy decisions
Source: A commissioned study conducted by Forrester Consulting on behalf of KPMG, September 2018

Connected capabilities can enable a winning operating model

The winning operating model is expected to require maturity in eight connected capabilities. These are cross-functional and apply across the operating model. Wealth management companies who are investing in these are twice as likely to see overall success.

	I. Financial well-being provider	II. Domestic wealth manager	III. Global investment expert
Insight-driven strategies and actions	Use **datasets from IoT devices** to predict customer purchase behavior and incorporate **VoC feedback and analytics** for continuous improvement.	**Personalize customer journey** using insights across the value chain. Transform behavioral data into **advisor recommendations.**	Create **360 holistic views** of customers consolidating data on location, assets, tax position etc for **scenario based visualizations.**
Innovative products and services	Explore new, sustainable revenue streams and **limit the product management overheads**. Use new services to **securely manage personal data.**	Use product and service innovation to **become an attractive partner to new customer segments**. Evolve products to **incorporate ESG requirements and preferences.**	Work with industry bodies and regulators to **optimize cross border distribution of products**. Collaborate with global ecosystem owners to refine scaled services.
Experience-centricity by design	**Deliver simple, personalized experiences** that are consistent, responsive and **informative with real time updates.**	Deliver a **digital experience supported seamlessly by human interactions** along the customer journey	A successful experience is defined by **frictionless activity by customers**, unaware of the location and background wealth services.
Seamless interactions and commerce	Ensure every **customer interaction** across touchpoints is **simple, engaging and transparent**, adding value.	Ensure **frictionless integration into multiple ecosystems** in order to support advisor and client interactions and speed of servicing.	**Connect to customer data globally** via the ecosystems to drive all underlying processes and decisions.
Responsive operations and supply chain	Use of partners to **drive efficiency through automation** and manage complex operations.	Deliver **immediate fulfilment following a decision** (asset allocation changes, change in preferences, asset transfer)	**Highly efficient and reliable operational processes** so that fulfilment occurs without the customer being cognizant of the organizational divisions.
Aligned and empowered workforce	Ensure support model for digital first models are **effectively skilled and aligned to customer outcomes and impacts.**	Digitize administrative processes and identify opportunities to **repurpose, retrain and redirect resource.**	Transition to a **multi-locational model and digital solutions to** optimize size of workforce and enable global connectivity
Digitally-enabled technology architecture	Shift from siloed product-based legacy systems. Deploy wrapper solutions to **build new experiences integrated with core platforms.**	Plug into ecosystems and optimize **technology architecture to handle operational volumes and scale.**	**Invest in technology to store, manipulate, and analyze** complex and connected data sets captured via diverse IOT products.
Integrated partner and alliance ecosystem	Maximize value from existing relationships. **Forge future alliances** with fintech and technology leaders.	**Identify suitable ecosystems** to drive business volume and help ensure the **range of wealth services are integrated** into a consistent experience.	Ensure the **global services** are **seamlessly integrated** into the broader firm´s organization and business units such that **divisions are invisible to the customer**

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High maturity asset management organizations continue to outpace their less mature peers

Compared with their less-mature peers, high-maturity wealth management organizations who are investing in a greater number of capabilities are more likely to be successful. Maturity is most highly correlated with successful execution in the areas of innovative products and services, responsive operations and supply chain and experience centricity by design.

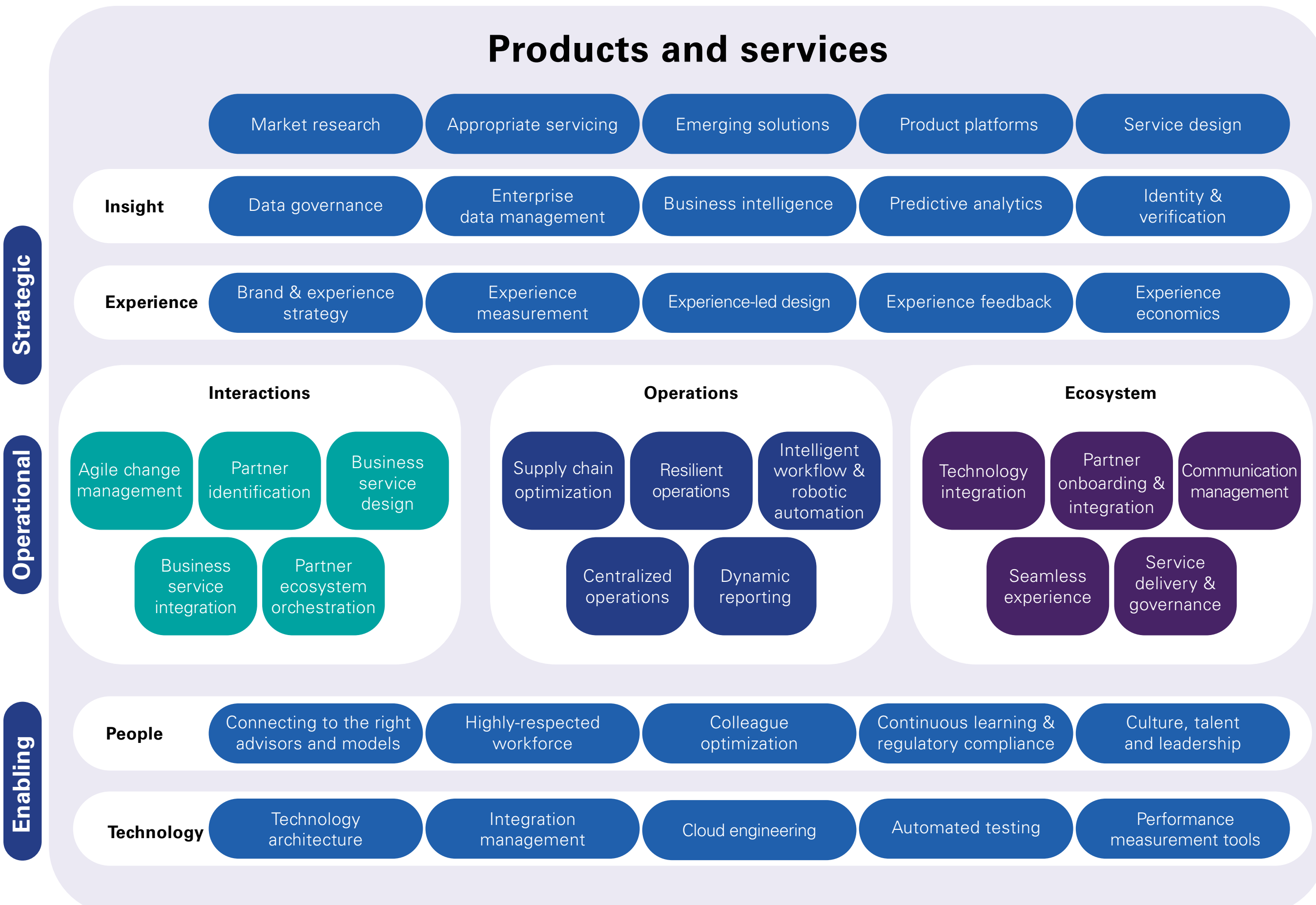
As illustrated in the chart, respondents who said their organization has good/excellent execution (high maturity) is x times more successful in delivering on that capability than their peers.

4.9X	Harness data, advanced analytics and actionable insights with a real-time understanding of the customer and the business to shape integrated business decisions.
4.5X	Develop compelling customer value propositions on price, products, and services to engage the most attractive customers and drive profitable growth.
3.7X	Engage, integrate, and manage third parties to increase speed to market, reduce costs, mitigate risk, and close capability gaps to deliver the customer promise.
3.7X	Create intelligent and agile services, technologies, and platforms, enabling the customer agenda with solutions that are secure, scalable, and cost-effective.
3.4X	Interact and transact with customers and prospects across marketing, sales and services, and achieve measurable results.
2.5X	Design seamless, intentional experiences for customers, employees and partners, supporting the customer value propositions and delivering business objectives.
2.3X	Operate the business with efficiency and agility to fulfill the customer promise in a consistent and profitable way.
1.9X	Build a customer-centric organization and culture that inspires people to deliver on the customer promise and drive up business performance.

Base: 226 professionals involved with customer-centric strategy decisions at organizations providing wealth management services
Source: A commissioned study conducted by Forrester Consulting on behalf of KPMG, April 2021

Evaluating your capability maturity

Each of the eight enabling capabilities are underpinned by a set of five sub-capabilities. The first step in defining a winning model is understanding your relative maturity in each sub-capability against the required maturity to deliver your winning business model. KPMG firms offer three levels of maturity diagnostic depending on the needs of your business.

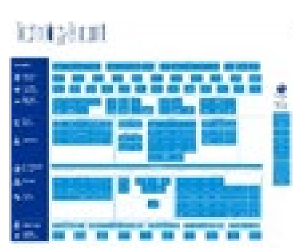


KPMG professionals work with clients to shape and define their digital transformation vision, using the eight capabilities to inform and evaluate their plans, prioritize the roadmap, and align investment with value creating activity that enables the desired future operating model.

Capabilities and maturity assessment

Business blueprint

Technology blueprint



Value model and future roadmap

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KPMG Connected Enterprise for wealth management

An insight-led, customer-centric approach to digital transformation

In KPMG professionals' experience, there are a number of key considerations that can help wealth management organizations make faster progress on the connected journey:

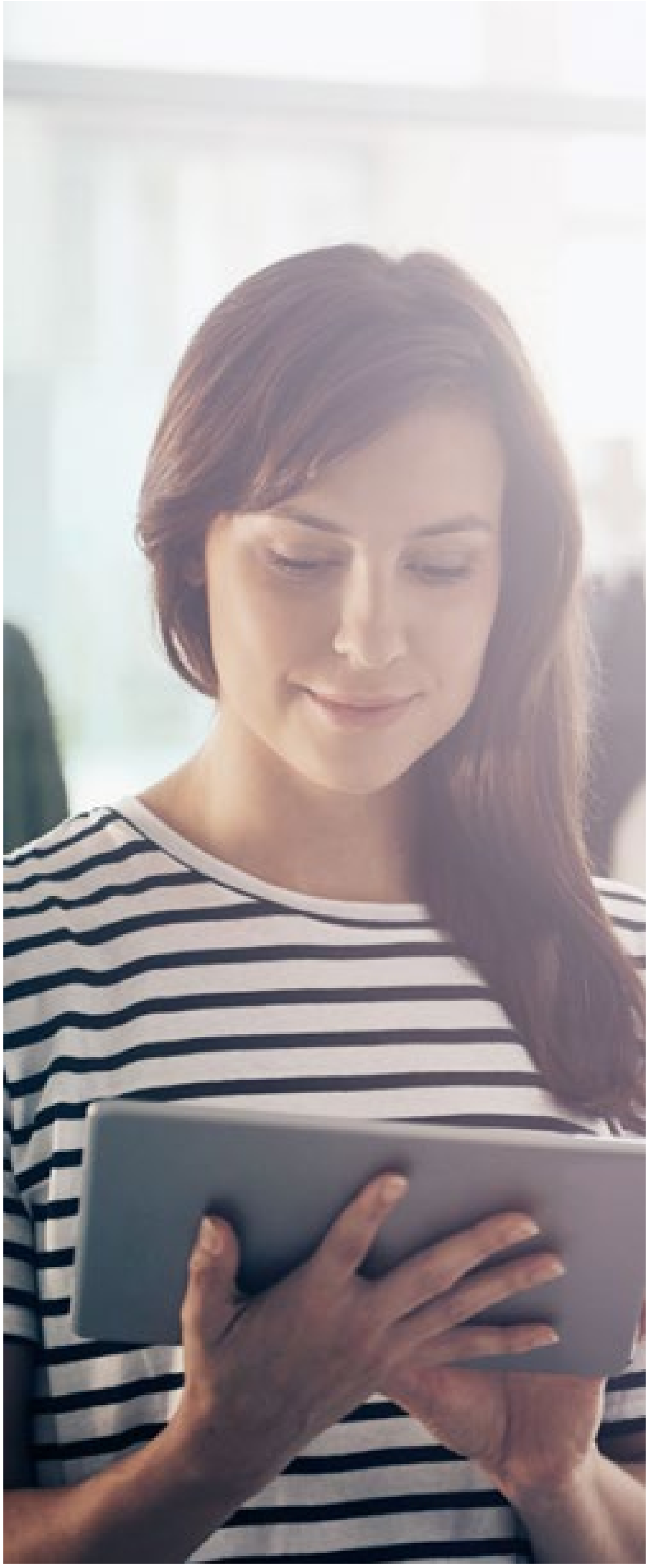
1. **Keep close to what your consumers want.** The ability to think 'outside in' is key in building a customer-centric business. Understand and act on exactly what your customers want, need and value. Continually look beyond the organization and industry to help ensure alignment with the best in customer experiences.

2. **Be agile.** Break changes down into specific steps, sequence them and implement. Keep standing back to assess whether the change has been successful in a 'test and learn' approach. It's about a series of small changes that together add up to a significant and impactful transformation.

3. **Build in resilience.** Take on today's challenges with resilience and determination and be prepared to expect the unexpected, fail fast and learn along the way. By developing a connected enterprise architecture, you can find your ability to change course at speed is significantly enhanced.

4. **Keep it human.** While embedding new technologies such as AI and automation will likely be critical to seamless interactions for customers, remember that you also need to keep the experience 'real.' Great organizations remain defined by the quality and passion of their people and sense of purpose.

5. **Make use of new technologies.** Continually look at how new technologies can help you serve customers seamlessly. Experiment with opportunities available through cloud, machine learning and advances in data science.



KPMG firms' approach is centered on helping to improve all the eight connected capabilities across the enterprise to the level which provides the greatest value. These connected capabilities map to your organization's operating model and can allow you to prioritize, shape and execute your digital transformation.

KPMG firms help wealth management firms evaluate their maturity across these connected capabilities, and to then shape their transformation agenda and plans, and deploy improvements in the capabilities across the enterprise with the aim of providing the greatest value. KPMG professionals' experience of working in digital transformation has informed a set of accelerators, including a range of configurable SaaS solutions from leading technology providers, which enable them to deliver a faster option to delivering transformational outcomes.

With customers at the core, wealth managers should be asking themselves five critical questions today:

1. Are you connecting customers with compelling value propositions, opportunities and interactions?
2. Are you connecting and empowering your employees to deliver on the customer promise?
3. Are you connecting your front, middle and back offices to execute the customer growth agenda?
4. Are you connecting your ecosystem of business partners to jointly deliver on commitments to customers?
5. Are you connecting to market dynamics and digital signals?

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