

**Top 5 Trends in
Wealth Management
To Maintain Market
Relevance in the
“New Normal”**

White Paper

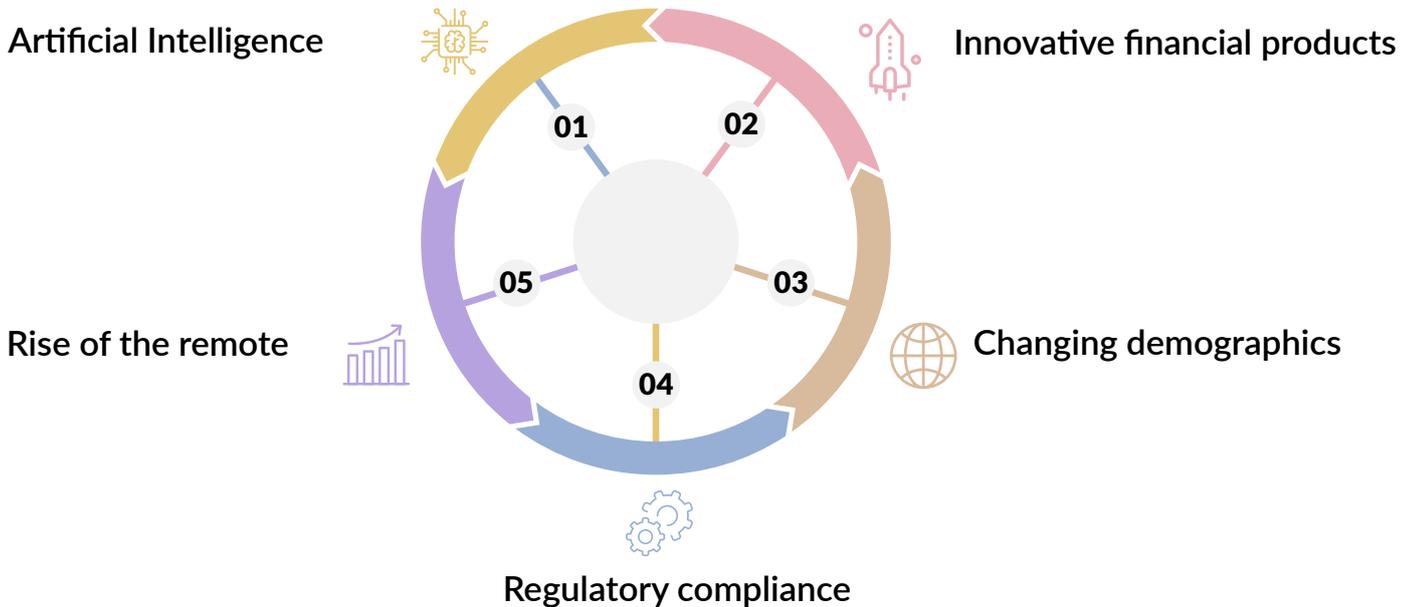
Introduction

The wealth management industry relies on personal human interactions to thrive. Unlike other industries in finance, wealth managers need to understand the needs and aspirations of their high-net-worth clients on a far more human level. To remain relevant in a rapidly changing world, wealth managers must embrace newer technologies and ideas so that the human connection flourishes.

As economies grew and developed over the past few decades, so did this industry. With each financial crisis, wealth managers adapted and

overcame the situation. The COVID 19 pandemic has impacted every institution in the world and has set forth some unique set of challenges; only the fittest and most adaptable will survive.

Artificial intelligence, cloud computing and smart automation models will allow wealth managers to reach wider horizons without compromising on customer experience. Remote working, increasing applications of AI, RegTech, demographic changes and the need to attract new target market segments are factors that will reshape what it means to be a wealth management firm in today's times.

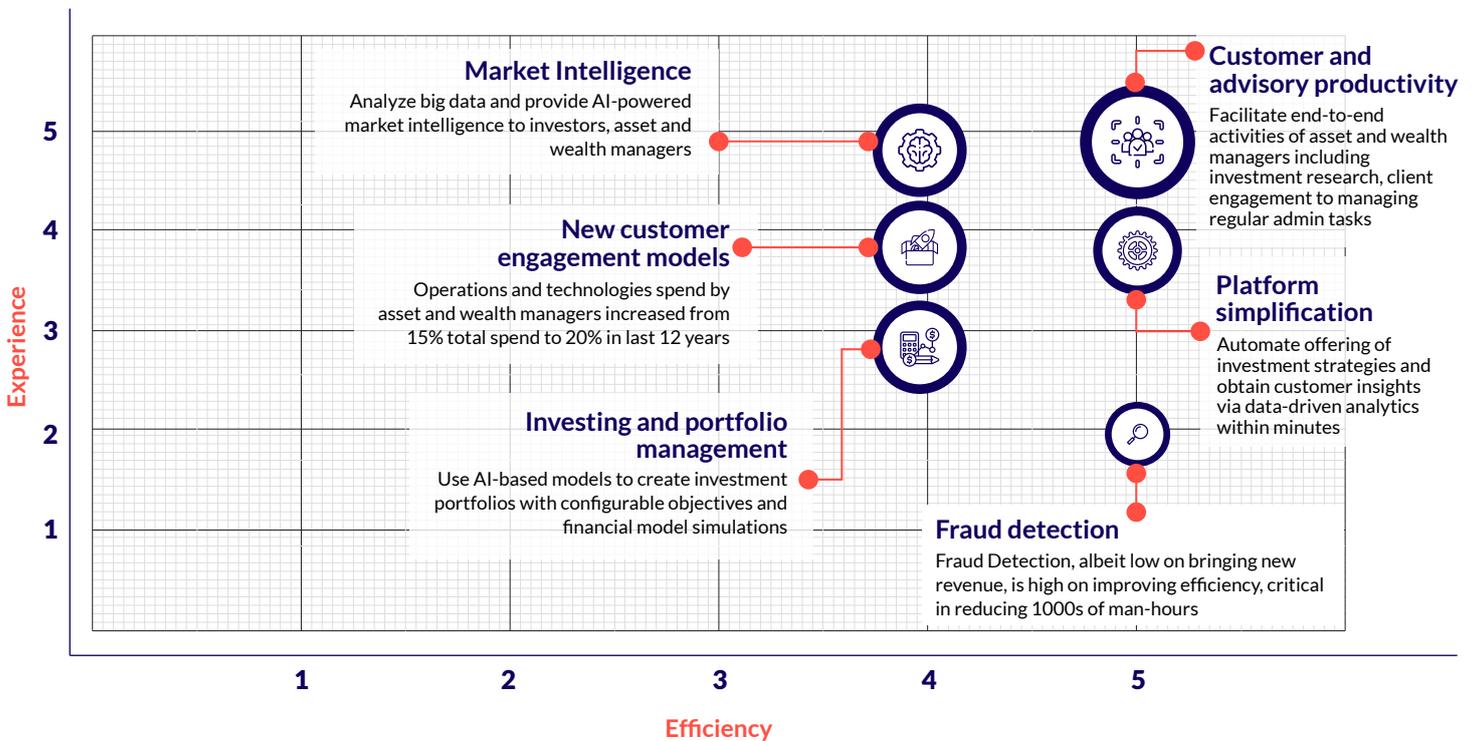


01 Artificial Intelligence: machine-driven results

Over the past few years, we have seen robot advisors and process automation help transform the wealth management functions. However, the time has come where firms are seeking to reap the benefits of true AI. After talking to our clients and observing the direction in which wealth management is headed, we understand that firms are now introducing strategic initiatives that will drive the adoption of AI in their organizations. According to some analyst reports, up to 80% of wealth management firms have decided to partner with service vendors and technology leaders to build AI solutions to add value to the core functioning of the firms.

Firms are using AI to improve advisor productivity, reducing repeatable and learnable tasks while getting

the advisors' attention for complex needs. AI is used to bring focus towards differentiated client experience and contactless operations in all the high touchpoints with clients. Other firms are using AI to define portfolio allocation mix, run simulations for investment scenarios that can truly unlock the alpha. Advisors, who have conventionally relied on building knowledge from multiple market data sources to make their investment decisions, are now presented key insights automatically in real-time. To aid this transformation using AI, firms are also seeking to simplify their platforms through cognitive automation, build cloud-native applications and provide a seamless experience. In the next few years, AI is going to be a strategic differentiator between firms and their performance.



Legend
 ○ Revenue impact
 The size of the circles indicate the revenue impact of the strategic initiative

Our view of the impact of a few strategic initiatives the industry has taken across three dimensions - experience, efficiency and revenue impact

Breaking out of the mold: getting innovative with financial products

A series of market crashes and diminishing returns have led investors to actively seek out alternatives to traditional wealth building mechanisms. In an attempt to boost the economy, the Federal Reserve slashed the interest rate to a level that was nearly 0%. This has prompted individuals and investors to seek investment avenues that will at least yield them returns higher than the inflation rate.

Fall in the interest rates has had a positive effect on the conservative attitudes employed by wealth managers when it comes to looking at alternate avenues such as digital art, virtual currencies, real estate, etc. The acceptance of bitcoin by major institutions such as Microsoft, PayPal and BlackRock is a clear signal that wealth management firms will have to give their clients the options to access, invest and transact in cryptocurrencies to maintain relevance in the long

term. Market leaders like Fidelity have announced their plans on venturing into the digital assets business by launching cryptocurrency ETFs.

NFTs (“Non-Fungible Tokens”) are the latest fad in the investment space which enable the tokenization of digital art, music, virtual real estate and even tweets. A large number of online marketplaces are emerging to facilitate the trading of these NFTs.

The wealth managers will have to revamp their existing modelling techniques and technology platforms to encompass and support these new asset classes in their portfolios. If they do not adapt to these financial innovations to win new clients today, they will be forced to adapt to retain their existing businesses tomorrow.

Millennial minded: changing demographics

Wealth management firms also find themselves in the position of having to 'add offerings' to suit the likes and dislikes of a completely different demographic: the millennials. Millennials' expectations regarding convenience, mode of delivery, and services available are wildly different from the previous generations.

Traditional careers such as banking, law, or medicine are being supplemented by other new-age professions. Independent content creation for social media sites, e-sports and gaming, or even selling digital art through NFTs seem far more interesting to millennials. Increasing competition in the traditional industries and a desire to tackle the problems of the world have led not just to a boom in entrepreneurship amongst this generation but also an inclination to create a social impact by taking cognizance of the ESG factors as an essential parameter while investing.

There is an evident shift in attitude in the millennials towards money which must also be accounted for by wealth managers. Understanding simple, yet subtle differences such as the preference of renting over owning, increased involvement in their personal finances, or investing in highly speculative investments, will enable the wealth managers to cater to a much wider and newer demographic. Wealth transfer from baby boomers to the next generation will soon require advice on how to manage that inheritance. Wealth managers must tailor their practices and services accordingly if they wish to remain sustainable.

Regulatory compliance: leveraging technology to keep up

The deluge of information and the continued usage of older, manual regulatory processes have taken their toll on the industry. Back-to-back market downturns, coupled with increasingly stringent fiduciary and suitability standards translated to regulatory complexity, which in turn has increased expenditure. Some of the biggest wealth managers in the industry are spending up to a billion dollars annually on regulatory compliance and control.

Sustaining such levels of expenditure proved untenable, and firms were on the prowl for more efficient solutions. Fortunately, the problems that were caused by technology could also be rectified by technology; enter RegTech.

Coined first by UK's Financial Conduct Authority (FCA), RegTech is the application of emerging

technologies to enable firms to be compliant with the terms mandated by the regulator cost-effectively and swiftly. RegTech has been getting increasingly popular among wealth managers for the kind of capabilities it provides - across the spectrum of the front, middle and back-office operations like KYC/AML monitoring, quantitative modelling, risk assessment, account reconciliation and regulatory reporting.

RegTechs are a boon as they not only complement a firm's compliance teams in checking and filing reports but also in gauging accuracy through data-driven justification. Collaborating with RegTechs is a seamless way for financial institutions to adhere to the constantly evolving regulatory requirements without overhauling their existing models entirely.

Rise of remote: a shift that is here to stay

Wealth management has historically been an in-person business, and this sentiment has not changed. A recent survey by RedTail revealed that nearly 70% of the surveyed respondents never or rarely worked from home. But this changed with the onset of the COVID pandemic.

Remote initially was largely seen as a safety measure, and enablers such as video-conferencing tools have allowed firms to retain their high-touch models. However, due to the pandemic, financial advisors and investment professionals were left with only one choice of communication - remote. To stay afloat and work with their customers/investors, firms have resorted to providing a seamless experience - tap personalization at scale to compensate for lack of interactions and

most importantly, use AI to synthesize insights in real-time to get alerted on adverse events from around the globe faster than ever before.

The feasibility and necessity of remote work means that firms will have to resort to a hybrid model that can account for varying employee sentiments. To facilitate such models, firms will have to break away from the rigidity of their people-driven approach and start to incorporate process-driven approaches across their respective divisions.

Although the world is reverting to normal slowly with vaccinations, the shift to remote is significant in the new normal and it is here to stay.

Conclusion

The wealth management industry is at the forefront of immense action with fast-changing market dynamics, a growing number of millennial HNWIs and an era of complex wealth management solutions.

There is a massive shift owing to change in global regulations, changing client behavior, the rapid advancement of technology and pandemic is forcing players in the space to prepare for tomorrow's world.

It is imperative that integrating technology and advanced data, coupled with client-centric digital transformation, transparency and personalization, will likely emerge as the winning approach. As rightly said by Bill Gates, "I believe that if you show people the problems and you show them the solutions they will be moved to act", this holds true for the wealth management industry as well.

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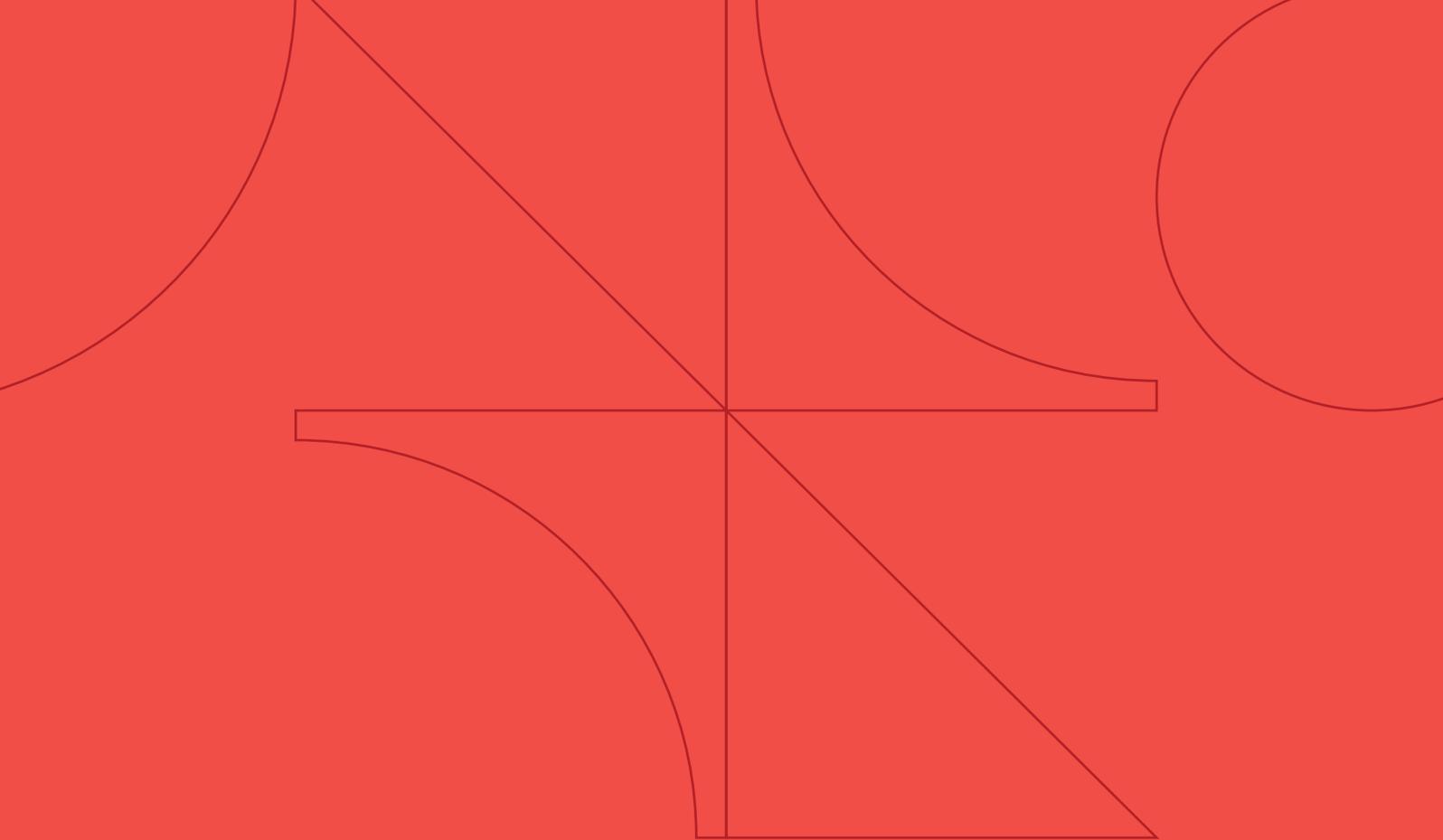
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