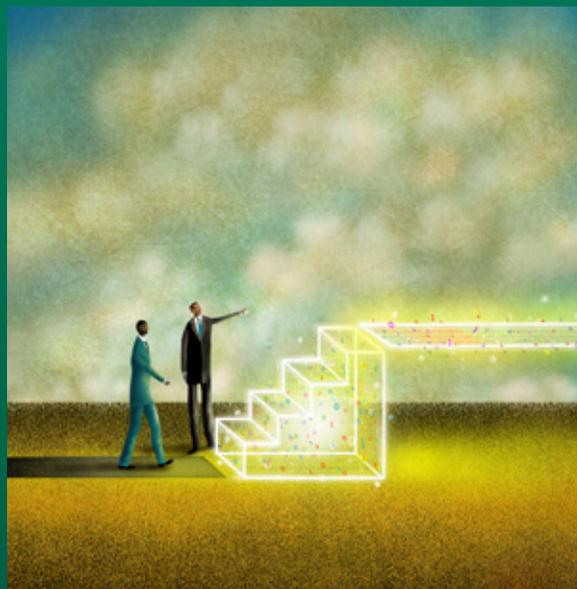


GLOBAL WEALTH 2017

TRANSFORMING THE CLIENT EXPERIENCE



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INTRODUCTION

THE OVERALL GROWTH OF global private wealth picked up momentum in 2016, allowing for a good deal of regional variation. All regions experienced positive growth, with North America, Western Europe, Latin America, and the Middle East and Africa posting stronger expansion than in the previous year, and Asia-Pacific, Eastern Europe, and Japan growing at slower rates. Asia-Pacific was nonetheless the most robust region, achieving an increase that was just shy of double digits. We expect sizable growth to continue.

This report, The Boston Consulting Group's 17th annual analysis of the global wealth management industry, includes two topics that we reexamine every year—the global market-sizing review and the wealth manager benchmarking study—as well as a special chapter about the impact of digital technology on the industry.

The market-sizing chapter outlines the evolution of private wealth from both global and regional perspectives, including viewpoints on different client segments and offshore centers, and takes a fresh look at private-banking revenue pools. The benchmarking analysis stems from a survey of more than 125 wealth managers and involves more than 1,000 performance indicators related to growth, financial performance, operating models, sales excellence, employee efficiency, client segments, products, and trends in different markets.

In our benchmarking, we focused on issues surrounding the decline of what for many years was a highly profitable wealth management business, lightly regulated and with low capital requirements. To be sure, since the financial crisis of 2007–2008, institutions have been dealing with more sophisticated and circumspect investors who demand reduced fees and commissions in order to increase returns in a low-yield world. Wealth managers have tried to reduce costs to ease the squeeze on profit margins, but a more forward-looking approach will be required in the future. On the positive side, we have observed an inflection point over the past year, with more wealth managers beginning to increase strategic investments to transform their businesses.

Our benchmarking chapter also takes a detailed look at the ever-evolving role of the relationship manager and how that critical position is shifting—indeed, how it *must* shift—in the search for competitive advantage. Overall, it is our view that wealth management, despite considerable challenges, will remain a very attractive business as long as institutions take steps to adapt to the changing environment. Determining investment priorities and following through on them will be critical to success.

In our discussion of digital technology, we highlight how digital has become a key accelerator for future change in wealth management. The problem is that most players, so far, have pursued digital innovation primarily as a feature selection exercise, centering on what their existing technology can provide along with what competitors (and, to some extent, fintechs) may intend to offer. Many of their digital launches have been realized opportunistically, stemming from one-off task forces, thus producing basic, largely disconnected, or insufficiently embedded digital capabilities. In order to make a step change in digital advancement and leapfrog the competition—to truly *transform* the client experience—wealth managers need to introduce a new approach to client journeys, upgrading to a next-generation, 2.0 version.

In preparing this report, we used traditional segment nomenclature that will be familiar to most wealth management institutions, dividing the client base into the following categories: affluent, lower high net worth (HNW), upper HNW, and ultra-high net worth (UHNW). These wealth bands tend to vary from player to player. We based segments on the following measures of private wealth:

- Affluent: between \$250,000 and \$1 million
- Lower HNW: between \$1 million and \$20 million
- Upper HNW: between \$20 million and \$100 million
- UHNW: Over \$100 million

Moreover, in order to clearly gauge the evolution of global private wealth, we have updated and fine-tuned our market-sizing methodology, incorporating newly available data for countries where information previously had been difficult to obtain. The report also introduces our revenue pools model, which can be used to estimate banking market sizes and potential total banking revenue. Our revenue pools methodology calculates market-specific results for the largest 18 markets (covering 80% of total global wealth). Results for the remaining markets are based on regional averages. All growth rates are nominal, with fixed exchange rates.

As always with our annual global wealth reports, our goal is to present a clear and complete portrait of the business, as well as to offer thought-provoking analyses of issues that will affect all types of players as they pursue their growth and profitability ambitions in the years to come. We take a holistic view of the entire wealth management ecosystem, emphasizing how the market, institutions, and clients interact and identifying where the best opportunities for wealth managers can be found.

GLOBAL WEALTH MARKETS

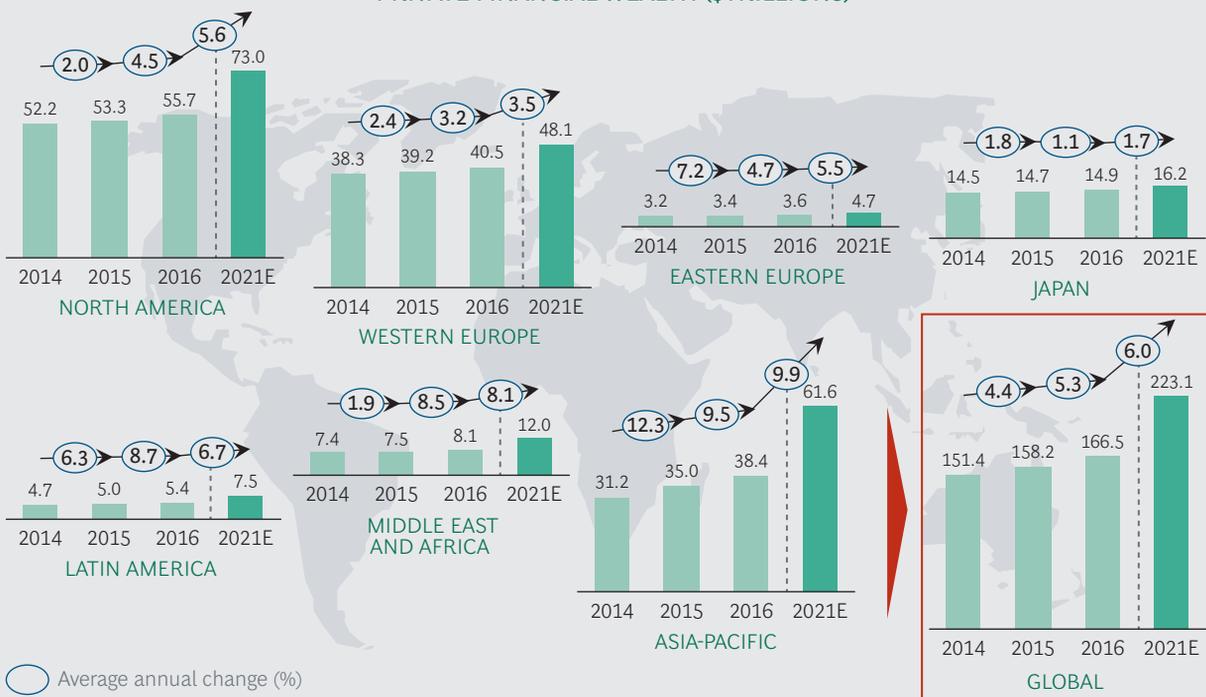
MODEST GROWTH CONTINUES

GLOBAL PRIVATE FINANCIAL WEALTH grew by 5.3% in 2016 to \$166.5 trillion.¹ (See Exhibit 1.) This expansion was driven primarily by accelerating economic growth and the strong performance of equity markets in many

parts of the world. The rise was greater than in the previous year, when global wealth rose by 4.4%. All regions experienced an increase in overall wealth, and Asia-Pacific once again was the fastest-developing region, with nearly

EXHIBIT 1 | Global Wealth Gained Momentum in 2016

PRIVATE FINANCIAL WEALTH (\$TRILLIONS)



Source: BCG Global Wealth Market-Sizing Database, 2017.

Note: Private financial wealth, including life insurance and pensions, is measured across all households. All growth rates are nominal. Numbers for all years were converted to US dollars at average 2016 exchange rates to exclude the effect of currency fluctuations. Percentage changes and global totals of private financial wealth are based on complete (not rounded) numbers. Calculations for all years shown are based on our new methodology.

double-digit growth—9.5%. Western Europe posted modest growth (3.2%) in 2016, as uncertainty over Brexit and its impact on the European Union in both the short term and the long term played a role. By the end of 2017, the level of private wealth in Asia-Pacific is projected to surpass that in Western Europe, and by 2019, the combined level of private wealth in Asia-Pacific and Japan is projected to surpass that in North America.

By the end of 2021, the growth rate for global private wealth is projected to be 6.0%, higher than it was in 2016, with markets following Asia-Pacific’s lead.

In North America, Japan, and Eastern Europe, the primary driver will be the performance of existing assets. In Asia-Pacific, which is characterized by strong GDP growth, the key impetus will be new savings. In Latin America, the Middle East and Africa (MEA), and Western Europe, wealth expansion should stem, in relatively equal proportions, from existing assets and higher household savings. (See Exhibit 2.)

In terms of wealth expansion by segment, the upper HNW band posted the highest growth

in 2016 (8%) both globally and in most regions. An exception was Western Europe, where the lower HNW segment showed the strongest rise (7%).

Moreover, the number of millionaire households (those that hold more than \$1 million in private wealth) is increasing at a higher rate than in 2015, driven by the strong growth of equities. Their share of overall wealth also continued to grow in 2016—a trend that shows no signs of stopping. (See Exhibit 3.) Such households are expected to hold slightly more than half of total global wealth by 2021, driven by the expected performance of equity markets. As for the number of millionaire households by country in 2016, Canada moved up from the eighth-ranked position to the fifth, while Germany dropped out of the top five. One reason for Canada’s advance was the rise of Canadian equities in 2016. China and the UK, in particular, saw large increases in the number of millionaire households in 2016, owing to the performance of local markets. There were no significant shifts in terms of millionaire density in 2016, with Bahrain, Liechtenstein, and Switzerland maintaining leadership positions.

EXHIBIT 2 | Drivers of Growth in Wealth Will Be Relatively Balanced from 2016 Through 2021

REGION	GROWTH FROM NEW WEALTH CREATION AND PERFORMANCE OF EXISTING ASSETS		CHANGE IN WEALTH, 2016–2021 (\$TRILLIONS)	CAGR 2016–2021 (%)	TOTAL WEALTH, 2021 (\$TRILLIONS)
Global	49	51	57	6	223
North America	27	73	17	6	73
Asia-Pacific	65	35	23	10	62
Western Europe	52	48	8	4	48
Japan	21	79	1	2	16
Middle East and Africa	52	48	4	8	12
Latin America	55	45	2	7	7
Eastern Europe	40	60	1	6	5

■ Growth from new wealth creation (%)¹
■ Growth from performance of existing assets (%)²

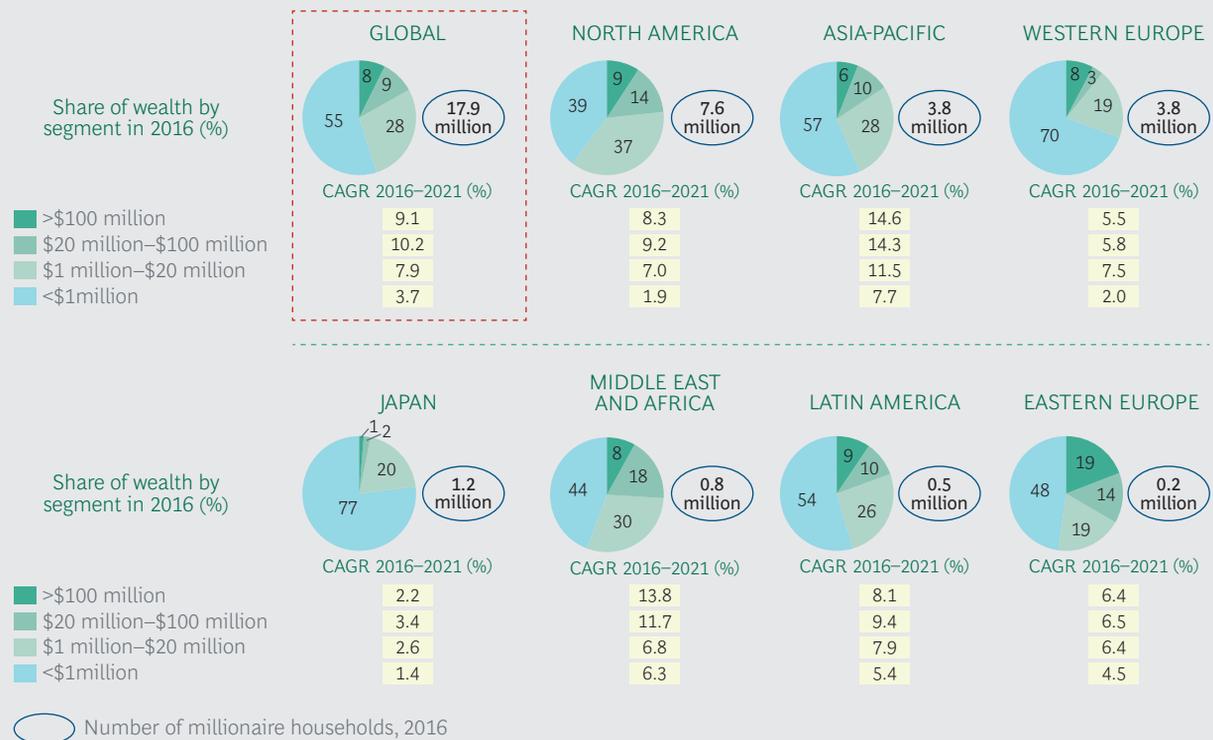
Source: BCG Global Wealth Market-Sizing Database, 2017.

Note: Private financial wealth, including life insurance and pensions, is measured across all households. New wealth reflects GDP growth and savings rates. All growth rates are nominal. Amounts for all years were converted to US dollars at average 2016 exchange rates in order to exclude the effect of currency fluctuations. Percentage changes and global totals are based on complete (not rounded) numbers. Calculations for all years reflect updates to our methodology. CAGR = compound annual growth rate.

¹The drivers of new wealth creation are savings rate and GDP growth.

²The drivers of the performance of existing assets are the performances of equities, bonds, and cash and deposits.

EXHIBIT 3 | The Share of Wealth Held by Millionaire Households Will Continue to Increase



Source: BCG Global Wealth Market-Sizing Database, 2017.

Note: Private financial wealth, including life insurance and pensions, is measured across all households. Millionaire households are those with financial wealth of at least \$1 million. All growth rates are nominal. Amounts for all years were converted to US dollars at average 2016 exchange rates in order to exclude the effect of currency fluctuations. Percentage changes and global totals are based on complete (not rounded) numbers. Because of rounding, not all percentages add up to 100. Calculations for all years reflect updates to our methodology. CAGR = compound annual growth rate.

Globally, the greatest share of private financial wealth remained invested in equities in 2016, with significant differences by region. These differences can roughly be grouped into three types: equity heavy, balanced, and cash heavy. (See Exhibit 4.) North America, for example, leaned heavily toward equities. Western Europe showed a more balanced allocation, with just a slight tendency toward equities. The remaining regions, including Japan and Asia-Pacific, leaned toward cash and deposits. In terms of asset classes, bonds posted lower allocation growth than either equities or cash and deposits in 2016. Nonetheless, by the end of 2021, equities are expected to gain share.

Highlights by Region

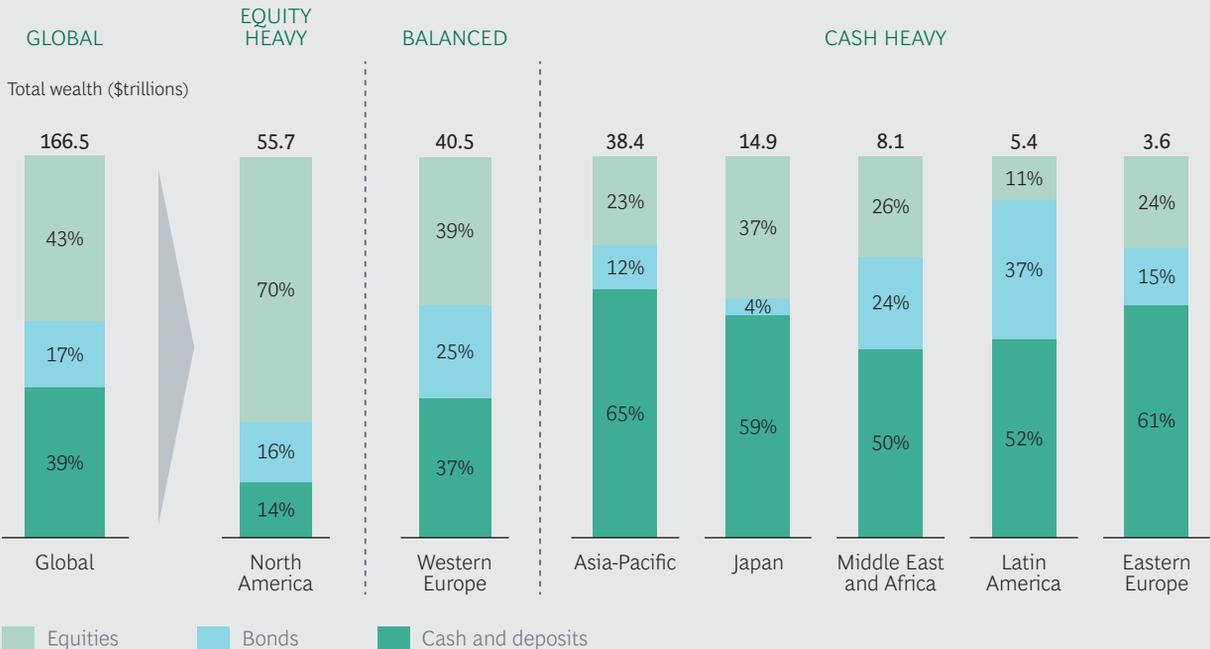
The evolution of private wealth, and the dynamics of growth, took varying forms in different regions in 2016. A climate of change is expected to continue in the coming years, with some regions surpassing others in terms of overall wealth.

North America.² The level of private wealth in North America rose by 4.5%, reaching \$55.7 trillion, in 2016, compared with growth of 2% during the previous year. This increase indicates that the region has effectively left the 2007–2008 financial crisis behind. Initial market reaction to the US presidential election in November was positive, following campaign promises to reduce taxes, deregulate financial markets, and increase household incomes. Forecasts remain optimistic, with private wealth projected to grow by nearly 6% per year, to reach \$73 trillion in 2021.

This positive outlook is reshaping the landscape and intensifying competition among current players with different business models, such as full-service brokerage firms, private banks, registered investment advisors, trusts, and online institutions. For example, nonprivate-banking players (such as discount brokerage firms that do not require minimum asset levels from clients), are now entering the wealth management industry.

EXHIBIT 4 | Equities Remained the Favored Global Asset Class in 2016

SHARE OF WEALTH BY ASSET CLASS



Source: BCG Global Wealth Market-Sizing Database, 2017.

Note: Private financial wealth, including life insurance and pensions, is measured across all households. Because of rounding, not all percentages add up to 100.

All US wealth segments benefited from the positive performance of equity markets. The upper HNW segment posted the highest growth in wealth (slightly more than 6%), followed by the UHNW segment and the lower HNW segment. Future growth is projected to be driven by the same segments in the same order.

Equities, accounting for 70% of private wealth, continue to be the favored asset class in North America and are expected to increase their share of total wealth allocation over the next five years.

Western Europe.³ The level of private wealth in Western Europe rose by 3.2%, to \$40.5 trillion, following a modest increase of 2.4% a year earlier. The fate of the Eurozone remains a question mark on the heels of Brexit, which potentially clouds future market forecasts. Nevertheless, private wealth in Western Europe is projected to expand by almost 4% per year, to reach \$48 trillion in 2021.

Indeed, uncertainties over Brexit's implications for pan-European wealth managers will

linger in the coming months as Luxembourg and Frankfurt, among others, actively position themselves as stronger financial hubs. Switzerland remains the largest private-banking hub in the world and an attractive option in terms of political stability and the quality of its banks' offerings. In addition, new regulations, such as the Markets in Financial Instruments Directive (MiFID) II and the Payment Service Directive II, are shaping the market and creating both opportunities and challenges for all types of players.

In 2016, about 60% of the growth in wealth in Western Europe was driven by the creation of new wealth, stemming from GDP growth and new savings rather than the performance of existing assets. The lower HNW segment posted the strongest wealth expansion in the region, while the UHNW and upper HNW segments posted modest growth. Differences across the region reflected variations in stock market performances. For example, performance was strongly positive in the UK but negative in Italy. An expansionist monetary policy supported the overall growth of the region.

Asset allocation was fairly balanced, with equities garnering the largest share. Allocation to bonds grew more than allocation to cash and deposits, narrowing the difference in share between the two asset classes. European bonds also performed well compared with global bond averages. Looking ahead, the split among asset classes should stay largely balanced, although the share of equities is projected to increase because of an expected rise in performance.

Eastern Europe.⁴ Although private wealth showed increases in all of the largest Eastern European markets in 2016, regional growth slowed, rising 4.7%, to \$3.6 trillion, compared with expansion of more than 7% a year earlier. The loss of momentum was influenced by a slowdown of growth in Russia, although no countries experienced negative growth. The UHNW and upper HNW segments posted the most robust wealth increases, a trend that is expected to continue (although other segments are also poised to rebound to some extent).

We continue to see different trends between firms that are part of the European Union and those that are not. The former will be affected by the Western European climate mentioned above and will likely continue to invest in developing new wealth management capabilities. The latter will face increased scrutiny, because of a strong regulatory push toward greater transparency, when their clients wish to invest wealth in offshore financial centers. As a result, onshore investment may become a more attractive alternative. Moreover, declining interest rates are prompting clients to look for alternative asset classes and investment instruments.

The highest share of wealth remained invested in cash and deposits in 2016, but stocks will likely increase their share over the next few years. Overall, wealth in Eastern Europe is projected to expand at an annual rate of 5.5%, to reach \$4.7 trillion in 2021.

Asia-Pacific.⁵ Regional growth also slowed measurably in Asia-Pacific, where private financial wealth rose by 9.5%, to \$38.4 trillion, compared with an increase of more than 12% in 2015. It was the first time in five years that

the region failed to post double-digit growth. A key factor was the slowdown of Chinese economic growth, which was driven by the country's ongoing transformation from an industrial economy to a more balanced consumer and services economy. As a consequence, countries that rely on Chinese exports of raw material—for example, Australia—also experienced a slowdown. Annual wealth expansion in Asia-Pacific is projected to remain at nearly double-digit growth through 2021. Also, Asia-Pacific is expected to overtake Western Europe as the second wealthiest global region by the end of 2017.

Trends differ between firms that are part of the European Union and those that are not.

China, which possesses the highest private wealth in the region and the second highest globally, saw its wealth expand the most in both relative (13% year on year) and absolute terms as government efforts to transform the economy showed positive results. India also posted double-digit growth (11%) amid a climate of government reforms, breaking the \$2 trillion mark in private wealth, with most of the expansion stemming from new household savings. Significant growth in wealth is projected to continue in India.

In 2016, we witnessed the continuing exodus of smaller non-Swiss foreign wealth managers from Asia-Pacific—prompting some local players to expand their offshore businesses—along with a consolidation of the market into Swiss players' overseas branches, banks in Singapore, and branches of other international players. These market changes have caused major ripple effects, including considerable movement of employees among firms in the region. Moreover, the market is increasingly splitting in structure, with global private banks active offshore and local banks active onshore.

In terms of wealth distribution, although the upper HNW segment posted the strongest growth in 2016, wealth held by the UHNW

segment is projected to expand the fastest—at an average CAGR of nearly 15%—through 2021. Wealth held by the lower HNW segment also appreciated significantly in 2016 and is projected to rise by 11% annually through 2021, increasing that segment’s overall share. The importance of the UHNW segment reinforces the value of going to market for private, corporate, and investment banking businesses, a trend that we are already seeing.

Allocation to bonds (12%) grew slightly more than allocation to cash and deposits (65%) in 2016, but bonds still account for the lowest share of asset allocation.

Japan. Japan posted the lowest growth among all regions in 2016, as private wealth increased by just 1.1%, to \$14.9 trillion. Given a low forecast for GDP growth through 2021 (1.4%) and an aging population, future wealth expansion in Japan will depend on the performance of the asset classes. The market is expected to rise eventually, following positive trends in the fourth quarter of 2016, and generate modest growth in wealth (roughly 2% per year) through 2021. The combined levels of wealth in Asia-Pacific and Japan should surpass the level of wealth in North America by 2019.

Wealth managers may have to rethink and restructure their business models.

Growth in wealth may receive a boost from government initiatives (such as NISA, Junior NISA, and iDeCo) that provide incentives for a transition from savings to investment.⁶ Some results are already visible, as the number of investment accounts both at wealth managers and at online brokers has increased. The next challenge for these players will be to gain both trust and assets under management from new customers.

A further trend that may create opportunities is the introduction of fiduciary duty in wealth and asset management businesses, aimed at elevating ethical and legal standards in the

best interests of clients. Wealth managers may be forced to rethink and restructure their business models in order to comply with new standards set by the government. Those that adapt best will gain a degree of competitive advantage. Moreover, competition is intensifying among wealth managers as new entrants—such as regional banks, online brokers, and nonfinancial players—join the industry.

The number of millionaire households in Japan increased modestly in 2016 (1.7%), as did wealth in all segments, with the upper HNW segment faring the best. Although nonmillionaire households held slightly more than three quarters of all private wealth in Japan in 2016, the share for millionaire households is projected to increase as their wealth grows at a slightly higher rate through 2021.

In terms of asset allocation, cash and deposits remained the most popular asset class. Japanese equities are expected to gain share relative to other asset classes through 2021, however.

Latin America.⁷ In 2016, Latin America posted growth in private wealth of nearly 9%, to reach \$5.4 trillion. This expansion, the second highest growth rate of all global regions, was greater than the rate of 6.3% in the previous year and was slightly more attributable to the appreciation of existing assets (56%) than to the creation of new savings (44%).

Colombia had one of the highest growth rates (14%), while the region’s two largest economies, Brazil and Mexico, both saw private wealth rise at a rate of 10%. Brazil, as well as the overall region to some extent, was negatively affected by both political instability and lower commodity prices. Nonetheless, regional wealth is projected to rise by 6.7% annually through 2021, driven by solid growth in all three principal asset classes.

Wealth held by the upper HNW segment grew at a double-digit rate in 2016 (13%). Future growth is expected to be led by the same segment, followed by the lower HNW segment and the UHNW segment, which will benefit from the projected solid performance of equities.

In allocation terms, cash and deposits, despite posting the lowest growth of all asset classes, retained its status as the preferred class, accounting for more than half of private wealth in the region. Equities, recovering from weak growth a year earlier, posted double-digit growth in 2016, while allocation to bonds increased at the highest rate, closing the share gap with cash and deposits. Equities, with a projected CAGR of nearly 10% per year at fixed exchange rates, should lead growth among all asset classes through 2021.

Moreover, it is important to consider the development of wealth in Latin America when inflation and devaluation are taken into account because the above-mentioned growth rates (in fixed exchange rates) overestimate real growth. Inflation has affected Venezuela, Argentina, and Brazil in particular, while currency devaluation has especially affected Mexico.

When taking inflation for the region into account, annual growth was about 2% over the past 5 years (compared with a CAGR of 7% with fixed exchange rates). Governments are currently taking action, such as tax amnesties, to encourage repatriation of previously undeclared capital, which can then be invested in the regional economy or managed locally. But there are still no signs that previously undeclared offshore assets, postregularization, are moving onshore in a material way. Moreover, because of political instability, offshore solutions remain attractive for wealthy families. Private banks must therefore actively engage with their clients and implement solutions that ensure wealth preservation in this challenging environment.

Looking ahead, the future looks brighter for the region. When inflation is considered, wealth is forecast to grow by 5% per year to reach almost \$7 trillion by 2021. By then, Brazil's economy is expected to recover, aided by lower and more stabilized inflation rates. In Mexico, which had negative growth in 2016, the recent challenge has been the strong devaluation of its currency. The exchange rate between the peso and the dollar should stabilize this year at about half the 2013 rate, though it may fluctuate in response to the dy-

namics of Mexico's relationship with the US government. The remaining Latin American countries, after five years of sluggish growth, seem to have recovered. The economic outlook for these economies improved as a result of government action to boost the private sector and attract investors.

Middle East and Africa.⁸ MEA rebounded strongly, with private wealth rising by 8.5%, to \$8.1 trillion, in 2016, compared with growth of less than 2% the previous year. The richest country in the region, Saudi Arabia, posted moderate wealth expansion. However, the Saudi Arabian government is implementing a reform, called Vision 2030, that should both accelerate growth in the country and positively impact the entire region. Regional growth stemmed equally from new savings and from existing assets. Lower oil production and a slight rebound in oil prices have benefited growth in wealth. Overall, the strong regional results, combined with public-sector initiatives, are prompting more international players to open branches in MEA.

The Saudi Arabian government's reform, Vision 2030, should accelerate growth.

Wealth held by the upper HNW segment grew by double digits, with robust expansion expected to continue over the next five years, helped by the projected solid growth of equities. The strongest growth, however, is expected in the UHNW segment. Cash and deposits accounted for roughly half of regional wealth in 2016, with bonds and equities sharing the remainder on a relatively equal basis. Looking ahead, the share of wealth allocated to each asset class is expected to remain stable, with regional wealth projected to rise at an annual rate of roughly 8% through 2021. In the coming years, more local players will enter the wealth management market as traditional revenue pools become more competitive. (See the sidebar "Private-Banking Revenue Pools: Wealth Accessibility Varies Across Regions.") In the short term, leading wealth

PRIVATE-BANKING REVENUE POOLS

Wealth Accessibility Varies Across Regions

Total global onshore financial assets (excluding life insurance and pension assets, as well as cash, but including deposits) equaled roughly \$110 trillion in 2016. These assets can be tapped by private banks, asset managers (including insurers), retail banks, brokers (including direct brokers), intermediaries, and online players.

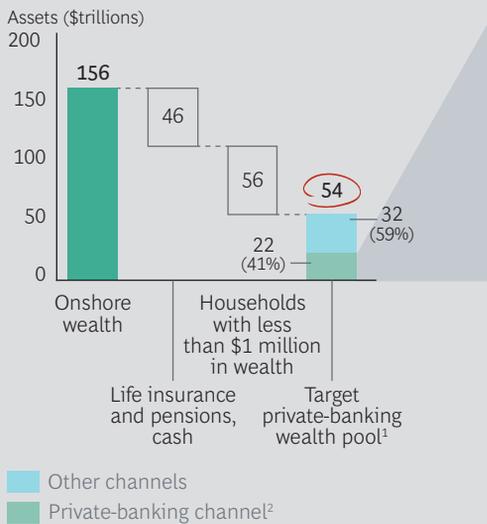
For many regions, especially Western Europe, private banks are the key wealth management players. This is not the case in some other regions, however, most notably the US, where other channels are more mainstream. For our purposes, the private-banking channel consists of players providing private-banking and wealth management services to wealthy customers (defined as households with wealth

greater than \$1 million), either through pure private banks or as standalone dedicated units of universal banks. For the US, additionally, wirehouses, brokers, and bank trusts are included.

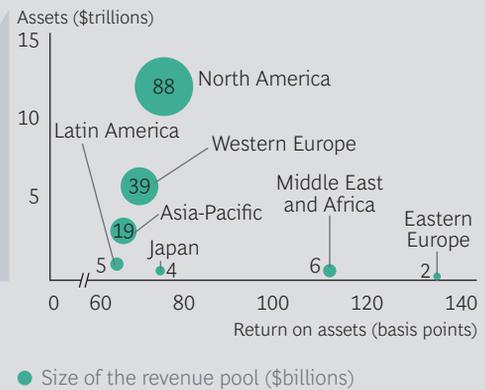
Globally, private-banking players in 2016 held roughly \$22 trillion in total financial onshore assets, or 41% of the target private-banking wealth pool (\$54 trillion).¹ The global revenue pool of the private-banking channel was estimated at \$163 billion (or about 73 basis points on \$22 trillion).² The leading region for revenue pools was North America (\$88 billion), which also held the largest amount of private-banking assets worldwide (\$12 trillion). Second was Western Europe, with a revenue pool of \$39 billion and private-banking assets of \$6 trillion. (See the exhibit below.)

North America Led Private-Banking Channel's Revenue Pools in 2016

THE TARGET PRIVATE-BANKING WEALTH POOL WAS \$54 TRILLION¹



THE REVENUE POOLS OF THE PRIVATE-BANKING CHANNEL ACROSS REGIONS²



Sources: BCG Global Wealth Market-Sizing Database, 2017; Global Wealth Manager Performance Benchmarking Database 2009–2017.

Note: Private financial wealth is measured across all households. Because of rounding, not all percentages add up to 100. Revenue pool = the amount of assets that institutions are able to capture with their services (penetration) multiplied by the revenue margin (price realization) that they are able to achieve on these assets.

¹Onshore household wealth (excluding life insurance and pension assets, as well as cash, but including deposits) of households with greater than \$1 million in wealth.

²The private-banking channel comprises players that provide private-banking and wealth management services to wealthy customers (defined as households with greater than \$1 million in wealth), either via pure private banks or as standalone dedicated units of universal banks. For the US, wirehouses, brokers, and bank trusts are also included.

North America had the highest share of wealth held by millionaire households and is therefore the region where wealth is most accessible for private banking. Looking at private-banking penetration (defined as assets held by private-banking players divided by assets held by millionaire households), Western Europe (with a ratio of about 85%) is among the highest. These conditions contribute to making the above regions favorable markets for private banking.

The developing regions of Asia-Pacific, Latin America, MEA, and Eastern Europe present an increasingly significant revenue pool for private banking: they had a combined total of \$33 billion, with an average return on assets (ROA) of around 75 basis points in 2016. The amount of private-banking-channel assets compared with total assets is relatively low for some of these regions. The potential revenue pool would be much larger if private-banking institutions increased their penetration, considering that a large part of HNW household wealth is currently captured by retail and commercial banks, asset managers, securities firms, and trust companies. China was the largest contributing country in its region in 2016, with nearly \$12 billion in revenue pools.

Looking ahead, assets held by private-banking players are expected to rise to roughly \$33 trillion globally by 2021, representing a yearly increase of about 8%. Yet with increasing digitalization, private banks are expected to feel pressure on ROA during that time. The shift from the traditional RM model to digital low-cost solutions for self-directed mandates will pull global ROA levels down in the near future. In anticipation of that shift, banks are working hard to protect their profitability levels by reinventing the advisory service model (where clients pay a fee) in order to achieve higher margins.

In 2016, assets held by private banks, excluding deposits (about \$18 trillion), were split across service models as follows:

- **Self-Directed:** 48%, with the majority being advisory without mandate, leading to a revenue pool of \$44 billion
- **Advisory:** 24%, leading to a revenue pool of \$30 billion
- **Discretionary:** 28%, leading to a revenue pool of \$47 billion

Despite the fact that large players are currently struggling to push their lower HNW clients into both discretionary and advisory products, we expect strong growth to occur in the latter. The major reason for the increase of advisory (mainly at the cost of self-directed) mandates is the implementation of new service-pricing models arising as a result of such regulations as the Markets in Financial Instruments Directive II.

The potential ROA that countries can achieve will continue to vary significantly. High-ROA markets in some regions, such as Eastern Europe and MEA, represent an opportunity for top-line growth. Ultimately, taking both AUM and ROA evolution into account, revenue pools are projected to grow to an estimated \$242 billion by 2021.

NOTES

1. Defined as onshore millionaire household wealth (excluding life insurance and pension assets, as well as cash, but including deposits).
2. Excluding lending revenues.

managers are expected to keep their market share because many local players are still developing the necessary skills.

The Offshore Perspective

In 2016, offshore wealth grew at a slower pace (3.7%) than onshore wealth did (5.4%). Switzerland remained the largest offshore center, with a 24% share, but that share is projected to decline through 2021. Hong Kong and Singapore remain the fastest-growing offshore centers globally because of both their status as the preferred booking centers for regional clients and the anticipation of strong growth in Asia-Pacific. (See Exhibit 5.) Expansion is expected to continue in the long term, but China’s ongoing restrictions on investment outflows may slow it down to some degree in the short term.

Investors in Asia-Pacific (including Japan) remained the largest source of global offshore wealth in 2016, with \$2.9 trillion placed in offshore booking centers. Investors in Western Europe accounted for slightly less, at roughly

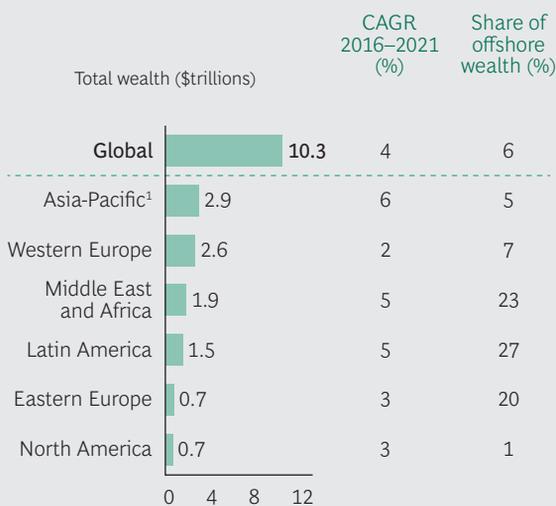
\$2.6 trillion. Only about 1% of wealth in North America is booked offshore. Eastern Europe and Latin America have the highest ratios of offshore-to-onshore wealth. The expected return of wealth to Brazil, or repatriation flow, as a result of the 2015 tax amnesty has not been as substantial as anticipated. Instead of repatriating wealth, many households disclosed their offshore wealth but left it offshore.

In the future, despite the expected continued convergence of offshore and onshore margins, offshore bookings will remain a key growth opportunity, particularly in the upper HNW and UHNW segments. Wealth managers therefore need to assess the following negative and positive factors for their markets in order to retain existing clients and attract new ones:

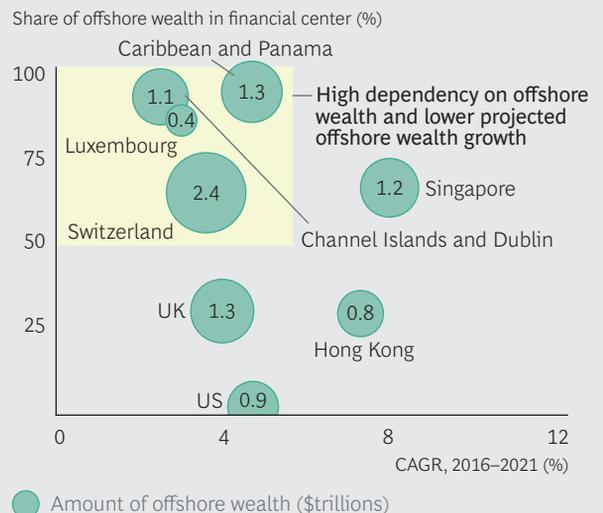
- **Negative.** Repatriation flows will be most affected by tax amnesties, greater transparency, and improved local offerings.
- **Positive.** The increase of offshore wealth will be driven by geopolitical and macro-economic instability, sophisticated client

EXHIBIT 5 | Asia-Pacific Booking Centers Will Post the Highest Growth in Offshore Wealth Through 2021

SOURCES OF OFFSHORE WEALTH BY REGION, 2016



FINANCIAL CENTER OVERVIEW, 2016



Source: BCG Global Wealth Market-Sizing Database, 2017.

Note: Private financial wealth is measured across all households. Offshore wealth is defined as wealth booked in a country other than a person’s country of residence or domicile. All growth rates are nominal. Amounts for all years were converted to US dollars at average 2016 exchange rates in order to exclude the effect of currency fluctuations. Percentage changes and global totals are based on complete (not rounded) numbers. Calculations for all years reflect updates to our methodology.

¹In this instance, Asia-Pacific includes Japan.

needs, currency depreciations (as seen recently in Latin America), investment options that are not available in some locations, and the search for safety in a world of cybercrime.

NOTES

1. Private financial wealth includes cash and deposits, mutual funds, listed and unlisted equities, debt securities, life insurance payments, and pension entitlements, all either onshore or offshore and held directly or indirectly through managed investments. It excludes investors' residences and luxury goods. Wealth figures and percentage changes are based on local totals that were converted to US dollars using year-average 2015 exchange rates for all years in order to exclude the effect of currency fluctuations.

2. For the purposes of this report, North America comprises Canada and the United States.

3. For the purposes of this report, Western Europe comprises Austria, Belgium, Cyprus, Denmark, Finland, France, Germany, Greece, Ireland, Israel, Italy, Liechtenstein, Luxembourg, Malta, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, and the United Kingdom.

4. For the purposes of this report, Eastern Europe comprises Azerbaijan, Belarus, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Kazakhstan, Latvia, Lithuania, Poland, Romania, Russia, Serbia, Slovakia, Slovenia, Turkmenistan, Ukraine, and Uzbekistan.

5. For the purposes of this report, Asia-Pacific comprises Australia, Bangladesh, China, Hong Kong, India, Indonesia, Malaysia, Myanmar, New Zealand, Pakistan, Philippines, Singapore, South Korea, Sri Lanka, Taiwan, Thailand, and Vietnam.

6. NISA stands for Nippon Individual Savings Account; iDeCo, also known as J401k, is a self-managed pension.

7. For the purposes of this report, Latin America comprises Argentina, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Guatemala, Mexico, Panama, Peru, Uruguay, and Venezuela.

8. For the purposes of this report, MEA comprises Algeria, Angola, Bahrain, Egypt, Ethiopia, Iran, Iraq, Jordan, Kenya, Kuwait, Lebanon, Libya, Morocco, Nigeria, Oman, Qatar, Saudi Arabia, South Africa, Sudan, Syria, Tanzania, Tunisia, Turkey, United Arab Emirates, and Yemen.

AN INFLECTION POINT FOR WEALTH MANAGERS

OVER THE PAST DECADE, wealth managers have been forced to come to grips with the decline of what for many years was a highly lucrative industry that was lightly regulated, with very low capital requirements and limited transparency on offerings and price levels. Indeed, since the financial crisis of 2007–2008, they have been dealing with sobered investors who demand reduced fees and commissions in order to maximize returns in a low-yield world.

Our most recent benchmarking of more than 125 wealth management organizations, including those that are independent and those that are part of larger banking institutions, has revealed some key insights into how the industry has evolved since the crisis and where it is currently heading. For example, it is evident that numerous factors have exerted pressure on top-line margins. These include:

- A push by regulators for greater transparency and investor protection
- The rise of passive investment vehicles, such as exchange-traded funds, that offer a low-cost alternative to higher-margin, actively managed, and structured products that have not delivered on their promise to provide superior returns
- A broadening competitive landscape in which banks, fintechs, and asset managers

offer lower-priced investment options targeted at the affluent segment (but which could also attract households with higher net worth)

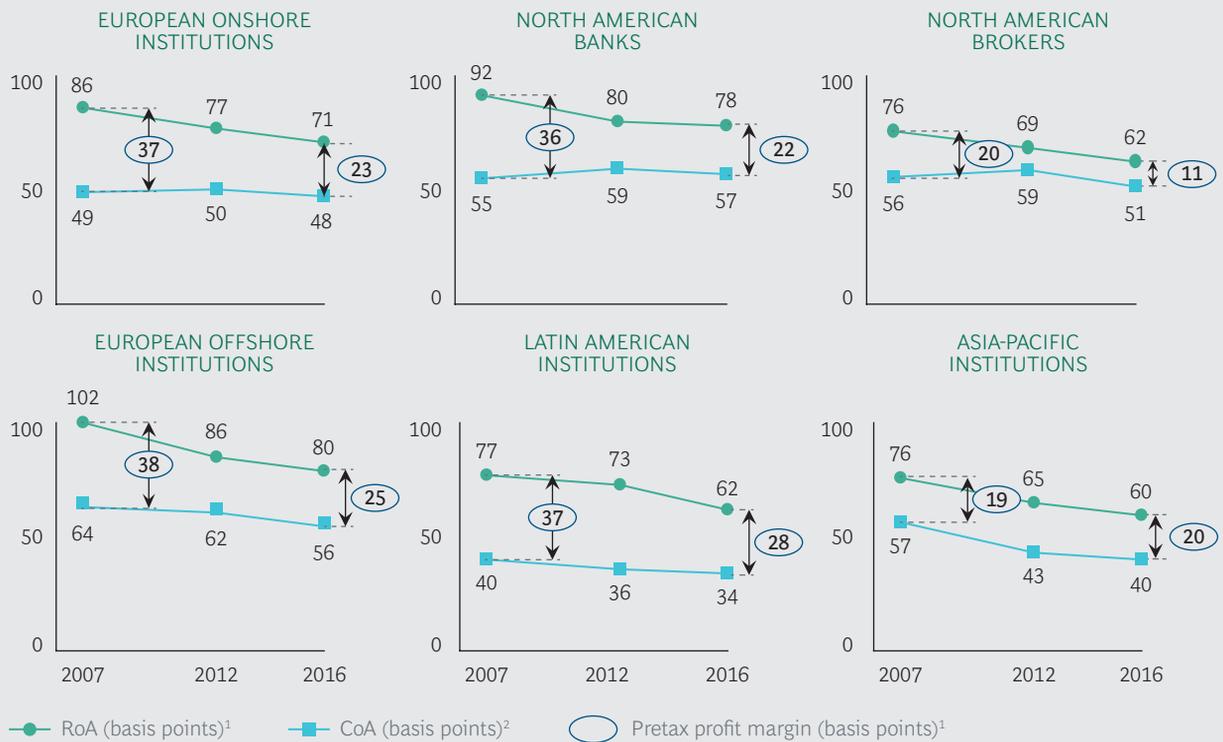
- Measures by governments to repatriate assets held offshore

The result has been a steep decline in top-line margins over the past ten years, with return on assets declining across many regions and types of players. (See Exhibit 6.)

Fortunately, profits have not decreased as much as revenues, indicating that wealth managers have been managing costs to help mitigate negative trends. Costs relative to assets under management have declined from 52 basis points in 2007 to 49 basis points in 2016. Overall, pretax profit margins have dropped from 33.0 basis points in 2007 to 22.4 basis points in 2016. (See Exhibit 7.)

To be sure, just as clients have demanded lower fees and commissions, wealth managers have tried to reduce costs to ease the squeeze on profit margins. Front-office, central functions, as well as asset and product management functions, have been particularly hard hit. Some cost reductions may have been long overdue, such as divestments of subscale, unprofitable, or high-risk business areas, client segments, and booking centers. These moves have led to a considerable

EXHIBIT 6 | Return on Assets Globally Has Gradually Declined



Source: Global Wealth Manager Performance Benchmarking Database, 2009–2017.

Note: Numbers have been rounded.

¹RoA = revenues over average assets and liabilities under management.

²CoA = cost over average assets and liabilities under management. Cost excludes depreciation, amortization, provisions, and losses.

amount of assets changing hands in recent years.

Other cutbacks have come from a greater focus on segments in the sales organization, weeding out unprofitable clients, phasing out underperforming relationship managers, and increasing the link between pay and performance. (See the sidebar “The Relationship Manager of the Future,” on page 20.) Still more downsizing has stemmed from sharpening investment processes (by creating a house view), streamlining the product portfolio to reduce administration costs and eliminate underperforming and unprofitable products, professionalizing vendor management, insourcing contract work, offshoring noncore services, and eliminating duplicate work streams among wealth managers and central services staff in such areas as marketing and human resources. While much has been done, there is still significant potential to further streamline the approach. (See Exhibit 8.) Moreover, once banks have become leaner and more focused, and have adopted the

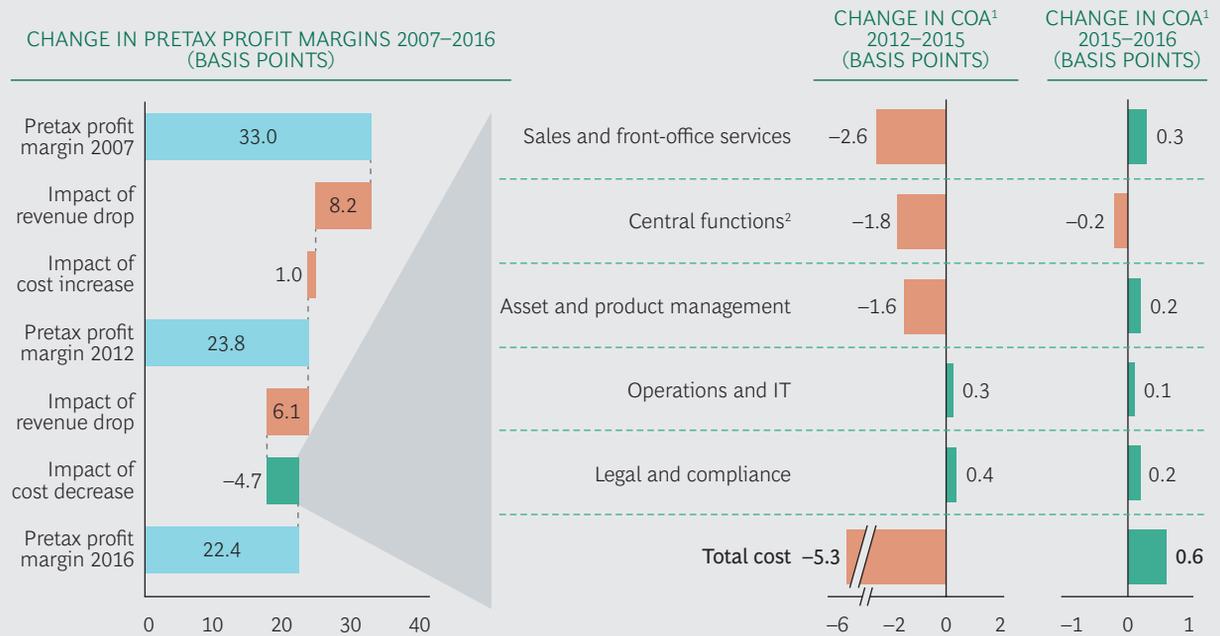
right mindset, they will be in a better position to tackle the upcoming challenges.

Reducing Costs, Increasing Investments

Needless to say, cost reduction is generally a beneficial course of action for any enterprise. But it can become problematic when it occurs at the expense of investing in a viable future business model. This is a price that numerous players in the wealth management industry have paid in recent years, making the sector one of the least innovative areas of banking and the slowest to adapt to the changing environment.

The reality is that, unlike retail banks and consumer companies across many industries, a lot of institutions have failed to provide even a minimum level of client-facing digital technology. Moreover, the segmentation of clients on the basis of their behavior has often been neglected, as has service to the large affluent market, a gap now being targeted by

EXHIBIT 7 | Despite Cost Reductions, Pretax Profit Margins Have Fallen Substantially Over the Past Ten Years



Source: Global Wealth Manager Performance Benchmarking Database, 2009–2017.

¹CoA = cost over average assets and liabilities under management. Cost excludes depreciation, amortization, provisions, and losses.

²Includes HR, marketing and communications, accounting, finance, and other central functions.

robo-technology. Legacy IT systems that hamper the ability to innovate have been maintained, hindering the automation of both middle- and back-office processes.

In order to build successful business models and optimize cost reduction, wealth managers need to increase their investments. Although companies in a number of other industries have already taken this approach to the evolving digital environment, many wealth managers have not; they are still attempting to make old ways of doing business continue to work in the new private-banking environment.

Players Are Starting to Act

In the past year, however, we have observed an inflection point: more wealth managers are using cost savings and other resources to increase their strategic investments. They are shifting from a short-term focus on maintaining profitability to a longer-term outlook that involves defining the business model of the future—one that will be digitalized and vertically disintegrated, with noncore functions highly commoditized.

To be sure, decisions driven by the maturation of applicable technologies and changing client expectations will define the future of the investment profession unlike any previous shifts in the industry.

Digital technology, which supports both improved client service and process optimization in the middle and back offices, is now at the forefront of the investment agenda of leading wealth managers. These initiatives generally address such critical areas as improving the overall client experience by defining end-to-end customer journeys (supported by digital technology) and leveraging analytics and big data for more granular client segmentation (based on wealth, demographics, and behavior). Machine learning in the investment process and the use of robotics in operations are also coming in to play.

Lasting transformation, however, goes beyond digitalization to ensure future efficiency and competitiveness. In our 2015 analysis of what differentiates top performers from average ones, we identified five characteristics shared by winning organizations, which we continue

to believe make a significant difference in performance. (See *Global Wealth 2015: Winning the Growth Game*, BCG report, June 2015.) These characteristics are:

- Segment-specific value propositions with tailored offerings, coverage models, and pricing
- Rigorous price realization in target client segments through sophisticated pricing strategies and strict enforcement
- Differentiated advisory offerings that are effectively implemented and monetized
- A focus on front-office excellence, including clearly defined roles and responsibilities and effective performance steering
- The ability to accurately measure and manage profitability across all elements in the value chain

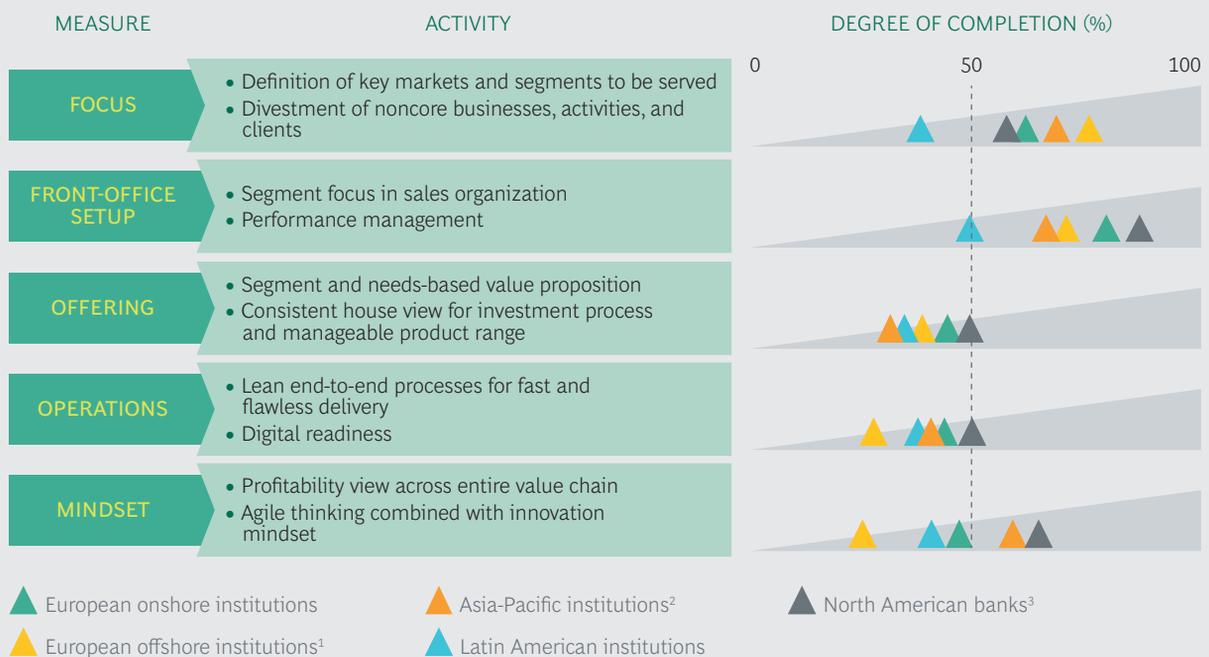
- Which core assets in the value chain that clearly differentiate us from our competition do we now possess or aim to build? (These assets range from client relationship management to investment management to operations.)
- Which new technologies can we leverage?
- In which areas can we outsource or partner?
- How do we demonstrate and differentiate the value that we bring to clients in the face of increasing transparency on services and prices?
- How can we adapt the mindset, behavior, and culture of our organization to win in the new reality?

Maximizing Focus and Agility

Given the greater transparency brought about by regulations and technology, clients will increasingly be able to navigate toward the best option for their own individual wealth level,

Wealth managers must therefore answer such fundamental questions as:

EXHIBIT 8 | Wealth Managers Are Streamlining Their Approach



Source: BCG project experience.
 Note: RM = relationship manager.
¹Primarily private banks from Switzerland and Luxembourg.
²Excludes Japanese institutions.
³Excludes broker-dealers.

investment preferences, and circumstances. That is why it is no longer possible for wealth managers to focus on all segments in all locations, juggling multiple business models. They must identify the areas in which they want to operate and truly excel; in other words, they must “carve out or get out.”

Two essential tasks are to crisply define the value of their activities to the client and to continuously improve the client experience (with emphasis on digital pathways). It is important to note that fast and flawless delivery is no longer considered a differentiator but is rather a core expectation, without which any institution would suffer competitively.

These tasks are best achieved using an agile approach that requires small, focused, cross-functional teams comprising business, IT, operations, risk, compliance, and finance personnel who are all aligned on key business objectives. This approach often fosters

better relationships among the various functions. Moreover, such teams must be led by senior management working toward a primary goal that is both simple and singular: meeting client needs. Success will involve reviewing the overall direction of various programs continuously and adapting when necessary in order to deliver consistent improvement—for example, by recognizing the shift from active to passive management in the product landscape and offering corresponding solutions. It is also critical to improve speed to market by developing minimum viable solutions that are then tested and refined.

Ultimately, wealth managers that choose to wait and see, and focus on business as usual, are unlikely to prosper as the transformation of the industry gains momentum. That is why they need to make bold moves now if they hope not only to survive but to thrive over the next decade.

THE RELATIONSHIP MANAGER OF THE FUTURE

Relationship managers (RMs) have long represented the wealth management industry in dealings with clients. Today, as the business evolves and digital client interfaces increasingly become the rule rather than the exception, how will the role of the RM change? What can clients expect? More important, what do clients really want? Wealth managers of all kinds must rethink the role of the RM. (See the exhibit below.)

Our benchmarking of more than 125 wealth management organizations has revealed some key insights.

The RM Today

The typical RM today is middle-aged, with a long tenure at the institution and thus many years of experience, but may not necessarily have a formal education in finance. New hires still typically come from competitors (72% in 2016, according to our survey) as few wealth managers have internal training programs that go beyond regulatory and product trainings. The share

of RMs hired directly from universities and other schools remains much lower (2%).

RMs currently have a multitude of roles and responsibilities, including:

- Acquiring and serving clients, including those “inherited” from other colleagues
- Providing financial advice to advisory and self-directed clients, typically when prompted by the client and often limited to the RM’s specific product expertise
- Executing administrative tasks for the client—such as account openings, transactions, and payments—in collaboration with the support staff
- Occasionally supporting the client with concierge services

Current interactions with clients typically take place during regular business hours and are mostly low tech, occurring via telephone, email, or occasional face-to-face

THE RELATIONSHIP MANAGER OF THE FUTURE (continued)

meetings. While the RM has the regulatory obligation to know the client (to avoid scenarios involving money laundering), the interaction tends to stay mostly financial and limited to the assets booked within that particular institution. RMs tend to spend their time advising clients with whom they feel a natural fit, possibly neglecting high-potential clients and risking their migration to a competing institution.

Except for in the US, where commission-based models are prevalent, RMs are paid a fixed salary and, on average, a 25% variable share of total compensation. Offshore-focused institutions in Asia-Pacific typically pay the highest share of variable compensation, 32%, and onshore banks in Europe pay the lowest, 12%. The bonus is typically discretionary, sometimes (but not

always) linked to performance metrics, such as net new assets or revenue, but rarely to profit contribution.

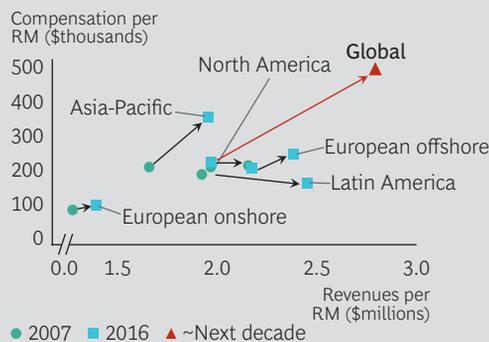
Two Key Factors Impact the Future Role of RMs

Overall, two key factors are rapidly challenging RMs today: advances in technology, and better-informed, more sophisticated clients.

Technology. Investment decisions made with the help of technology sometimes have an edge over those offered by human financial advisors. Machines can make unbiased, unemotional choices and analyze large amounts of data to generate conclusions within a very short time frame. Whereas most algorithms still depend on historical data and on assumptions and rules that are predetermined by humans, machine learning facilitates entirely

The Role of the Relationship Manager Continues to Evolve

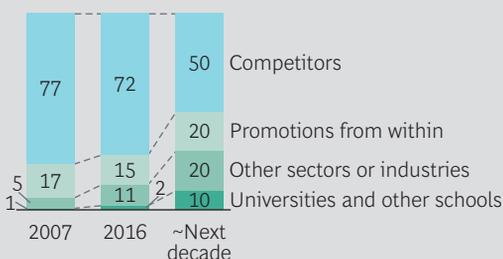
REVENUES PER RM AND PAYOUT¹



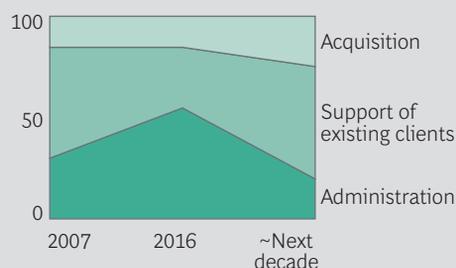
SHARE OF FIXED AND VARIABLE RM COMPENSATION (%)



SOURCES FOR NEW RMS (%)



RM ACTIVITY SPLIT



Sources: 2017 Global Wealth Manager Performance Benchmarking Database, 2009–2017; BCG project experience.

Note: The brokerage model is excluded from the analysis. RM = relationship manager.

¹Fixed and variable compensation, excluding social security and insurance.

THE RELATIONSHIP MANAGER OF THE FUTURE (continued)

independent, forward-looking decision making. Moreover, machines are able to handle routine jobs, such as completing and verifying client records and other administrative tasks, on their own. Mobile devices also provide new ways of interacting with clients. Such dynamics imply that a larger number of tasks will eventually be carried out by machines rather than humans, and that some client segments may someday be served entirely by machines.

Client Sophistication. Clients are beginning to demand real value for any service fees paid. They will have more transparency than ever on offerings and fees and will be better able to compare providers. In addition, members of the upcoming generation of wealthy clients are far more technically savvy than those of previous generations. They expect RMs to match their 24/7 online lifestyle and embrace their geographic mobility and faster-paced cycles of building and selling enterprises and altering family structures.

The Next-Generation RM

The next-generation RM will likely be required (by regulators) to possess more formal financial education and (by employers) to be able to adapt proficiently to the dynamic, high-tech investment tools that are becoming available. New certification programs tailored to the RM function will be developed, complementing such degrees as the MBA and the CFA. The RM role will move beyond acquiring, administering, and reactively advising clients into such areas as leveraging advanced analytics and artificial-intelligence tools to offer highly responsive solutions to a broad variety of client needs, both financial and lifestyle-related.

Accordingly, RMs will need to blend technological literacy with sales techniques in order to identify the products and services that clients are most willing to pay for. The best RMs will have the people skills

needed to understand the motivations, risk aversion profiles, and pain points of customers, filling the gap in areas that technology will not be able to address for many years to come. They will also need to apply judgment, intuition, and lateral thinking in times of increased uncertainty and volatility. Once freed by technology from many routine administrative tasks, RMs will have time for more client-facing interactions. And because of interactive devices, RMs and clients will have more frequent contact, unlimited by business hours, leading to closer working relationships.

Clients will increasingly be able to choose their RM from all available profiles in the institution, supported by sophisticated matching technology that is fully aligned with client preferences. We see three RM archetypes emerging:

- **The Orchestrator.** The orchestrator will cater to clients who are demanding, performance focused, and have a net worth that is high to ultra-high, mainly in the advisory spectrum of the service offering. The RM's role will be that of a trusted primary point of contact and fierce custodian of the clients' sensitive data. Rather than try to be an expert in every field, the orchestrator will select specialists within and outside the bank who are best suited to meet each client's specific goals—encompassing investments, taxes, pensions, estate planning, family governance, residences, and the like. An orchestrator will typically not have a large client base.
- **The Enabler.** This RM serves sophisticated, self-directed clients at all wealth levels. These clients require access to advanced analytical tools to assess the market and their portfolios, fast and flawless execution of transactions, and technical support for their digital infrastructure. Given the right set of tools and technical support, these

clients can be quite self-sufficient and require little of an RM's time, allowing the enabler to manage a large number of such clients. However, they will still expect the RM to be highly knowledgeable and to serve as a sparring partner in debates about investment strategies.

- **The Guardian.** The guardian will cover the segment of high-net-worth clients who typically express a level of discomfort with financial markets, are uninterested in the latest digital tools, and would rather concentrate on personal interests than investments—though they understand that they must manage their wealth in order to preserve and enhance it. They are looking for a trusted person to guide them and make the process as pleasant as possible. For example, the guardian RM can help clients make sense of their investment strategies, devise a contingency plan in the event of a market downturn, and provide reassurance on cybersecurity. Clients will typically select discretionary mandates, which will allow the guardian to manage a large number of such clients.

Other client segments, mainly those in the mass affluent wealth category (and those at any wealth level looking for discounted wealth management services), will no longer be served by an RM at all and will have fully digitalized solutions at their disposal. Indeed, affluent clients, who typically have between \$250,000 and \$1 million to invest, may be assisted by an account management team (or a “virtual” RM) that provides technical and administrative support for the highly standardized and digitalized solutions. Such a team would be composed of lower-skilled, less-experienced staff who are more like today's assistant RMs.

Attracting the New RM

Given that RMs will play a pivotal role in the ongoing transformation of the wealth

management industry, institutions must review their methods for bringing them into the fold. Industry leaders will need to attract—and keep—the right people for the job.

Recruitment. In our view, wealth managers should consider hiring and training more RMs directly from universities, other banking sectors, and other client-service-oriented industries to enhance the skill set, rather than rely mainly on lateral hires from competitors. Since talented employees like to be associated with winning companies—and given the wounds to the industry's reputation in recent years—wealth managers should invest in their own brand. Solid training programs should be offered to new hires, and their potential paths to advancement made crystal clear at the outset.

Support. New hires and longer-tenured RMs alike need to be supported. To support an enabler RM, for example, wealth managers must develop sophisticated platforms that allow low-margin, self-directed clients to largely serve themselves so that RMs can manage high numbers of such clients. Institutions must give orchestrator RMs access to world-class teams of experts who can serve as a behind-the-scenes repository of knowledge; this will be critical for success. Joint go-to-market approaches with corporate and investment bankers are already happening in some markets, particularly in Asia-Pacific, and may become more common. Firms must make highly targeted investments in technology to help all RMs become as efficient as possible and to lessen their administrative burden. Skills training should be ongoing, rather than one-off, and should be updated to include best practices in collaborative ideation, the kind that machines are not capable of.

Motivation and Incentives. Wealth managers must apply a more entrepreneurial approach to relationship management. An

THE RELATIONSHIP MANAGER OF THE FUTURE (continued)

RM should draw up—and be measured against—a customized business plan that specifies the client niche that the RM plans to target and the tools the RM will require to do so. The fixed share of compensation will decrease in favor of a higher variable share, with a large upside for top performance. The present average global payout ratio on revenues generated by RMs is around 12%, but overall payouts could increase if RMs are able to raise their productivity from the current average of \$1.8 million in revenues to a minimum of \$3 million or higher.

Of course, even if wealth managers provide everything that RMs could possibly need, the question remains as to whether today's traditional RMs can make the shift to the new RM profile. Some may, but many may

not. Indeed, over the next decade, wealth managers could find themselves with a dual workforce composed both of “new” RMs and veteran RMs who are either unable or unwilling to change their ways of working. The veterans, who may have existing and often strong client relationships, still represent an asset to the institution and should continue to serve their client bases. But wealth managers must ensure that the next generation of clients is introduced to the next generation of RMs.

DIGITAL IN WEALTH MANAGEMENT

TIME TO GET IT RIGHT

DIGITAL TECHNOLOGY IS OMNIPRESENT and a key accelerator for future change. Accordingly, exploring and adopting innovative digital technologies and related new digital business models are critical strategies for senior management teams of leading companies around the world.

Wealth management institutions are no exception. Many have already executed digital projects and made digital initiatives a strategic priority. Fintechs, for their part, have provided a fresh and disruptive perspective on innovation, serving as catalysts for the acceleration and commercialization of digital change.

Yet most wealth managers have so far pursued digital innovation primarily as a feature selection exercise, centering on what their existing technology can provide along with what competitors and fintechs may intend to offer. Many of their digital launches have been realized opportunistically, stemming from one-off task forces, thus producing basic, largely disconnected, or insufficiently embedded digital capabilities. (See Exhibit 9.)

According to our benchmarking analysis, digital initiatives in the industry have centered largely on providing customers with basic portfolio functionalities and the ability to execute standard trading and payment transactions. What's needed, however, is to design

and implement fully rethought, reworked, and advanced client journeys across the entire value chain to transform the client experience. (See Exhibit 10.) Though few wealth managers have succeeded in doing so, the advantages are plain. Such a client journey would:

- Seamlessly cut across digital, relationship management, and expert channels
- Focus on the moments that matter most to clients
- Inject individual portfolio analysis, proposals, and instant interaction with RMs
- Align all required delivery processes end to end

Once client journeys have been redesigned, reworked, and become advanced, new revenue pools can be accessed through increased client engagement and cross-selling. Gains in efficiency can be unlocked through a rigorous and consistently applied front-to-back view.

Indeed, for most players, digital efforts have led to feature advancements, but many such efforts have spanned across isolated parts of the service model, lacking seamless integration with RMs, product experts, and shared functions such as risk, compliance, and operations.

EXHIBIT 9 | Many Wealth Managers Today Offer Only Basic Digital Capabilities

WEALTH MANAGEMENT VALUE CHAIN		DIGITAL CAPABILITIES	CURRENT STATUS	FUTURE PRIORITY
FRONT OFFICE	Client administration	<ul style="list-style-type: none"> • New-client onboarding • Account opening and service selection • Client self-service and administration 		
	Portfolio health check, alerts, recommendations, and advice	<ul style="list-style-type: none"> • Portfolio health check • Individual watch list • Targeted portfolio alert • Tailored investment ideas • News and research and market data • Product guidance and education 		
	Portfolio and performance analysis	<ul style="list-style-type: none"> • Portfolio simulation • Portfolio aggregation and drill-down • Advanced performance reporting 		
	Decision validation	<ul style="list-style-type: none"> • Interaction with advisor • Peer interaction • Expert access 		
	Client transactions	<ul style="list-style-type: none"> • Trading and payments • Lending 		
MIDDLE OFFICE	<ul style="list-style-type: none"> • Portfolio management • Risk and regulatory compliance 			
BACK OFFICE	<ul style="list-style-type: none"> • Trade services, clearing, and settlements • Credit management • Payment operations • Record and document maintenance • Reconciliations 			

Current status

- Not offered
- Basic offering available
- Advanced offering available
- Leading-edge offering available

Future priority

- Not planned
- Keep current level
- Priority for 2018 and beyond
- Priority for 2017

Source: BCG Global Wealth Manager Performance Benchmarking Database, 2017.

This situation has evolved partly because margin declines and regulatory changes have focused much of wealth managers' attention on improving efficiency in the short term, leaving relatively few resources for longer-term, transformational investments in digital.

In order to make a true step change and leapfrog the competition, wealth managers need to shift their approach to digital technology and design advanced, high-impact client journeys front to back—creating a next-generation, 2.0 version of the client experience.

Client Journeys 2.0: Seizing the Opportunities

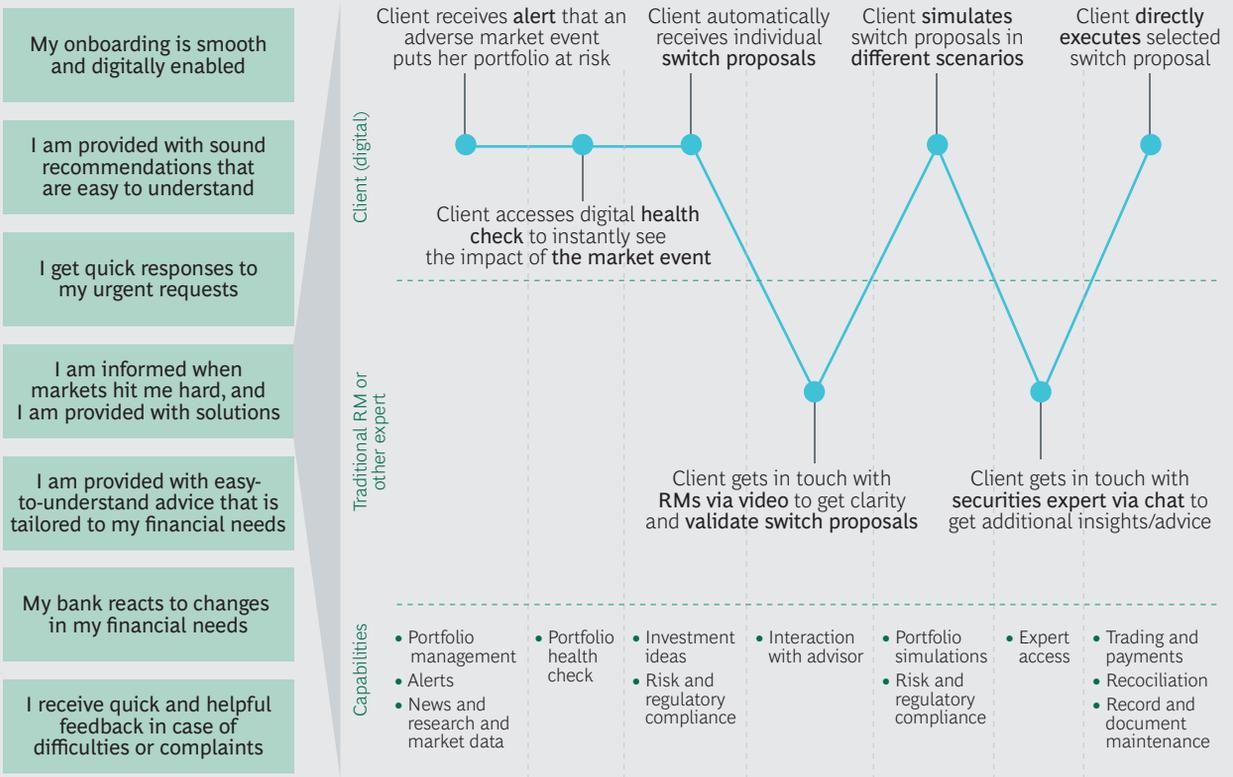
Client journeys 2.0 that seamlessly navigate their way through the front, middle, and back office, that cut across all digital, RM, and expert contact points to focus on the moments

that matter most to clients—therefore aligning all of the wealth manager's capabilities and processes for the delivery of the right services at the right time—go beyond most current approaches. (See Exhibit 11.)

To create client journeys 2.0, therefore, all processes, channels, and interaction points must be designed and implemented to deliver a superior client experience, largely through the use of digital technology. At the same time, the use of digital in these journeys fosters process efficiency and robustness and reduces operational risk, offering a redefined client experience that is more intuitive, integrated, and individualized. The emphasis on digital gives RMs and product experts additional time and incentive to focus on high-impact activities because they can rely on technology to help capture client behavior and identify individualized client offerings.

EXHIBIT 10 | The Client Experience Must Be Transformed Across the Value Chain

EXEMPLARY SIGNATURE MOMENTS



Source: BCG Global Wealth Manager Performance Benchmarking Database, 2017.
 Note: RM = relationship manager.

Client journeys 2.0 can go hand-in-hand with lower client attrition, higher conversion and cross-selling rates, and even new revenue models. Furthermore, client journeys 2.0 help identify key priorities for business and operating models, which can help extract greater value from existing resources and enable new ways of working that could permit, for example, faster responses to regulatory challenges and other forms of disruption.

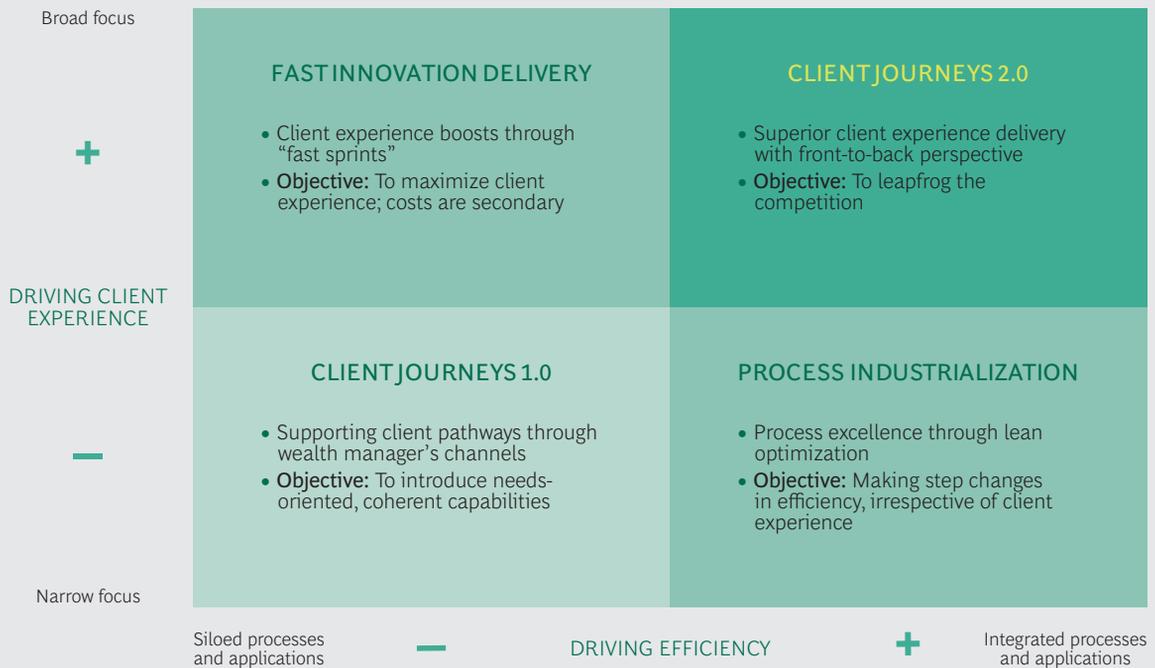
The result of achieving a client journey 2.0 can be a revenue gain of up to 20% to 25% and an efficiency gain of up to 30% to 40%, leading to a higher degree of future economic flexibility. Many wealth managers recognize that the potential benefits are substantial, and they are exploring appropriate initiatives. Key front-, middle-, and back-office features required to succeed are already on their agendas. Nonetheless, we have observed that most wealth managers currently do not prioritize or design front to back consistently—a signal that there is still

considerable progress to be made. The goals are achievable, but reaching them will require true commitment and perseverance.

A prerequisite for successfully introducing client journeys 2.0 across the entire value chain is to build a solid foundation for digital evolution. To create this foundation, a company should:

- Develop a comprehensive understanding of client needs and behaviors across segments and channels in order to identify the moments that matter to each client. This information can then become the basis upon which a company can focus its innovation, content personalization, and process reimagination efforts.
- Set clear priorities to change existing IT systems, which are often inflexible and end-of-life-cycle, into something that dramatically improves agility and time to market. This initiative should include

EXHIBIT 11 | Client Journeys 2.0 Drive the Experience While Optimizing Processes Front to Back



Source: BCG Global Wealth Manager Performance Benchmarking Database, 2017.

plans for reducing reliance on legacy systems and increasing the use of new technologies, as well as for establishing digital connectivity to ecosystems outside the company.

- Forge an agile way of working with interdisciplinary teams across functions and divisions. This should include systematically applying proven practices, thinking in terms of shorter (for example daily, not monthly or quarterly) delivery cycles, and rigorously tracking predefined KPIs.

The Moment for Change Is Now

The time has never been more opportune to pursue a transformational approach to client journeys 2.0—to “connect the dots,” apply new technologies, and make a step change in the client experience. Smart information gathering, pattern recognition, early process triage, and automation through robotics—combined with artificial intelligence or machine learning—are sufficiently advanced to allow focused implementation. And they can provide tangible results, including improvements in both quality and the bottom line, within six to twelve months. Moreover, once launched, intelligent

processing technology improves itself over time, integrating systematic learning from past decisions and from the continuous refinement of algorithms. Complexity in client interactions, approvals, portfolio composition, and execution can thus be scaled and enhanced.

These next-generation technologies will allow fully automated capturing of the relevant information, which is largely performed manually today, as requests are recognized and documents read by new technological means, such as optical character recognition and natural language processing. Subsequently, content can be automatically assessed, classified, and analyzed, and a decision made on the basis of smart algorithms that learn. A standard account opening, a classic example, can be executed in nearly real time—much to the benefit of both the client and the wealth manager.

At the same time, complexity can be scaled and nonstandardized requests handled more swiftly. Requests can automatically be assessed in relation to previous cases, and intelligent workflows can triage the requests, sending them either to the “machine” or to the appropriate employee, in exceptional or highly complex cases, for decision. The ma-

chine learns from the past behavior of both the employee and the client, as well as from previous outcomes. A classic example would be a know-your-customer check for a party with several shell companies and unclear ownership structures. In this case, the relevant documents would be assessed and tagged, the machine would suggest a decision, and that suggestion would then be disseminated to the right experts.

Many wealth managers already intend to implement such technologies and create client journeys 2.0. According to our benchmarking survey, 55% of respondents are getting ready to implement artificial-intelligence and machine-learning capabilities, while 39% will have robotics technologies in place in the near future. Furthermore, 67% plan to implement service-oriented architectures to increase the flexibility and agility of their IT and reduce time to market. The use of big data and smart analytics platforms is expected to increase, with 75% of wealth managers planning to enhance their capabilities in that space. At the same time, 64% intend to introduce a central data lake and master data management, with 54% preparing to make use of intelligent workflows in the future. (See Exhibit 12.)

In order to enable, ensure, and maintain a true end-to-end approach to client experience, wealth managers also need to build the right organizational foundation. A number of players in the industry have already initiated the organizational changes required to support their digital agendas.

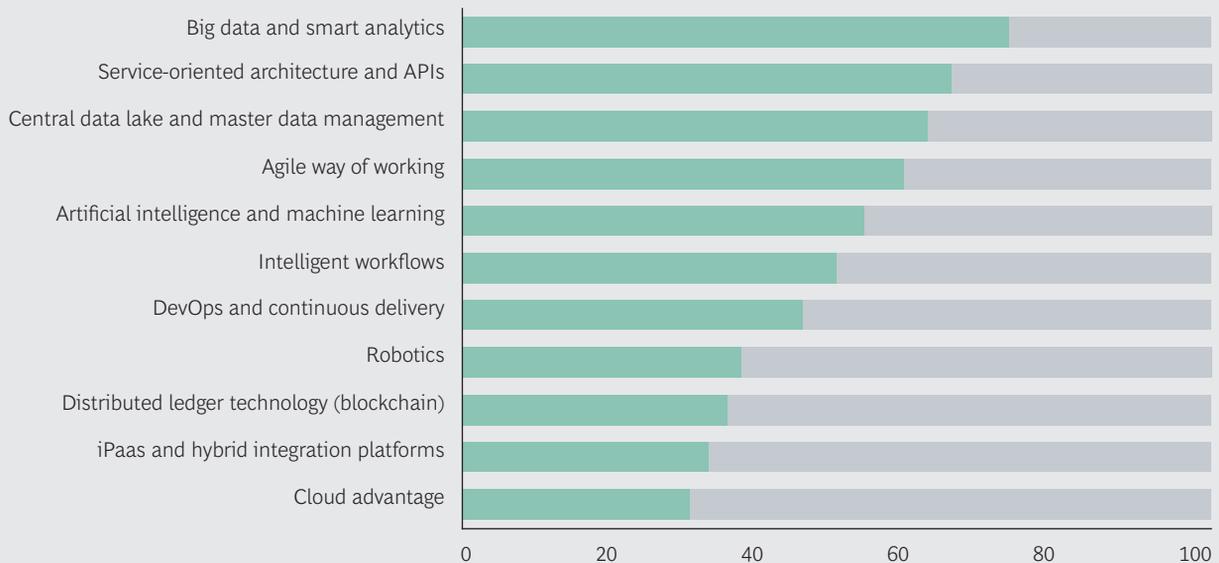
Our survey showed that a large majority of institutions (68%) have started to implement an agile way of working with robust methodologies and interdisciplinary teams. Those that have not (32%) expect to do so in the near future. We have also observed that 62% of wealth managers plan to improve their digital organizational alignment, which includes devising clearer definitions of digital KPIs and digital governance at the executive level.

Similarly, attracting, developing, and retaining key digital talent is becoming an increasingly important priority for wealth managers: 44% of survey respondents mentioned it as a concern regarding the digitalization of their businesses. Ultimately, realizing client journeys 2.0 will require new skills in technology, entrepreneurship, and banking. Such skills should not only ensure fast delivery but also foster a profound shift toward a more innovative culture.

EXHIBIT 12 | New Technologies Are High Priorities for Most Wealth Managers

NEW TECHNOLOGIES AND PRACTICES

SHARE OF WEALTH MANAGERS THAT SEE NEW TECHNOLOGIES AS A KEY PRIORITY NOW OR IN THE FUTURE (%)



Source: BCG Global Wealth Manager Performance Benchmarking Database, 2017.
 Note: API = application program interface; iPaas = integration platform as a service.

What It Takes to Succeed

Needless to say, it takes time to effectively design and implement client journeys 2.0. And the longer it takes to build the foundations discussed above, the greater the risk of falling behind—both in terms of differentiating the client experience and achieving process efficiency—and suffering a weakened competitive position. To fully construct a set of three to five truly differentiating client journeys 2.0 typically requires multiple early launches and refinement over 18 to 24 months, on average. In an increasingly agile wealth management industry, early launches with constant refinement implemented on the basis of real client feedback will be critical. Wealth managers, therefore, need to take action now in order to be ahead of the curve and transform the client experience.

Our survey results and case experience imply that wealth managers' starting positions to build client journeys 2.0 differ significantly. For example, large wealth managers often suffer from major inefficiencies in designing and executing digital propositions. They usually have the necessary firepower to make a step change, but complex operations, inflexible and end-of-life-cycle IT systems and applications, pronounced silo thinking, and resistance to transformational change have resulted in unsatisfactory digital advancement. Indeed, overcoming complexity and sacred-cow legacy structures, building technological foundations, and institutionalizing agility and change are key challenges to resolve.

Midsize wealth managers, overall, seem to be in a more favorable position than their larger peers; they typically have sufficient funds for investment and fewer constraints. But in our experience, the picture is nuanced. Some highly focused midsize wealth managers do thoroughly think about where best to allocate resources for transformational change in digital. Such frontrunners concentrate on a few differentiating client journeys and implement digital solutions through a “test early and refine” approach. In doing so, they often adjust their business and service models. Other midsize wealth managers, however, fall into a fragmentation trap, rushing into multiple client journeys before fully understanding their

clients' needs. For such players, it can be more opportune to rely on third-party solutions, collaborating with an advanced set of digital capabilities to rebuild the foundation, and re-considering client journeys 2.0 from there.

Smaller wealth managers are often not in a position to transform their businesses and fully enhance client experiences digitally. However, they can forge selected client journeys 2.0 “light” that center on personal relationships by using their off-the-shelf digital solutions as a stepping stone and then selectively launching smart digital additions.

Wealth managers must take action now in order to stay ahead of the curve and transform the client experience.

The gap between players that have successfully used digital to their advantage and those that have not yet managed to raise their games is expected to widen in the coming years. This is largely because digital capabilities that have already been successfully implemented and launched can be leveraged to realize client journeys 2.0 in the near future. This widening gap could also result in accelerated M&A activities.

Overall, wealth managers need to act upon five imperatives in order to successfully develop and apply client journeys 2.0:

- **Determine and closely link client journeys 2.0 to the institution's overall strategy.** Prioritize three to five specific journeys that have the most significant impact and feasibility of success in the short to medium term and draw a roadmap that acknowledges related tradeoffs concerning resource allocation. A clear path toward realizing the transformation can make the difference between being a leading player and a laggard.
- **Proactively lay the foundations for digital change.** In accordance with a distinct digital strategy, identify exactly

what clients value, determine the IT and data platforms necessary for the initiative, and build an agile organization. Forge the right governance bodies across departments and business units. Gradually build digital talent, which, in most instances, cannot be recruited internally.

- **Place initial focus on one signature client journey 2.0.** Test, learn, and refine. Actively reach out to clients with tangible prototypes because agility and client engagement will count more than ever. Ensure that all processes associated with the client journey are aligned and optimized to achieve the highest efficiency.
- **At the same time, figure out the end-to-end implications of the client journey 2.0.** Understand the associated costs and any adjustments required for the operating model, building on a clear set of principles, seamless development and delivery, the right skills, and a solid foundation in IT and data architecture. Support new technology, such as robotics and artificial intelligence, and manage risks thoughtfully.

- **Sketch out the next iterations and further build agile ways of working in order to scale learning and refinement that leads to lasting cultural change.** Institutionalize this change, and measure client journey 2.0 success—continuously tracking developments and planning ongoing improvement measures.

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The Boston Consulting Group has published other reports and articles that may be of interest to senior financial executives. Recent examples include those listed here.

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A report by The Boston Consulting Group, May 2017

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