# WEALTH MANAGEMENT

## TOP TRENDS 2023

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# FOREWORD

Today's business world operates within ambiguity, and so does the wealth management sector: neither stability nor solid growth can be guaranteed. Moreover, mounting inflation, rising interest rates, wavering geopolitics, and the specter of new global health crises may spark a 2023 recession or stagflation. Amid these vagaries, precisely identifying the most impactful near-term wealth industry trends depends on a combination of model-based analyses, industry experience, and a historical lens.

The industry is undergoing a paradigm shift fueled by changing demographics, generational wealth transfer, the growing influence of millennial high-net-worth individuals, and burgeoning digitalization. Today's investors are more knowledgeable than ever, with access to expert information and research tools at their fingertips. Armed with that know-how, many clients want to take an active role in managing their wealth.

Financial advisors are challenged to drive client portfolio performance within an investment climate marked by risk and uncertainty – and exacerbated by ever-expanding regulations, new business models, and dynamic competitive forces.

And so the overriding question for relationship managers in 2023 may be the following: as more offerings are commoditized, and more clients expect greater convenience, self-directed digital platforms, and a la carte fees, how will wealth management firms distinguish themselves, continue to grow, and justify rates?

Wealth Management Top Trends 2023 offers insights about critical topics that may reshape the industry in the near and long term.

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# INTRODUCTION

Wealth management firms that target and welcome next-gen investors can fortify their positions amid shifting client demographics, requirements for bespoke investment solutions, advancing technology, and industry consolidation.

## CHALLENGING MARKET CONDITIONS WILL SHAPE THE WEALTH MANAGEMENT INDUSTRY

As economies lurched out of the pandemic throughout 2022, wealth firms – taking note of robust equity markets and demand for omnichannel and personalized engagement – began digitalizing the end-to-end client journey. So, what will shape 2023? Expect a combination of trend-influencing factors – new client priorities and behaviors, challenging macroeconomics, product and services democratization, more regulatory oversight, tight margins, and ever-increasing competition.

## LOOKING BACK AT 2022

Last year, our Wealth Management Top Trends 2022 report anticipated that wealth firms would focus on capturing immense intergenerational wealth transfer opportunities. And indeed, firms worldwide are beginning to build or advance capabilities to attract millennials and Gen X and Gen Z clients while recruiting specialized talent who understand next-gen wealth perspectives. As a follow-up to our 2022 sustainability trend forecast, high-net-worth individuals (HNWIs) desire more accurate and detailed environmental, social, and governance (ESG) impact data. And they are more vigilant about potential greenwashing – meaning companies conveying false or misleading information about their social/environmental commitment and behaviors.

Family offices are raising their profile among investment heavy hitters. Capgemini's World Wealth Report 2022 analytics foretold the trend that a third of ultra-HNWIs globally (those with greater than USD30-million in liquid assets) use family offices to manage their wealth. Moreover, to meet evolving client expectations and capture the expanding mass-affluent segment, we reported advisors' transition by advisors to a personalized, hybrid advisory approach. Embedded wealth management offerings distributed via FinTech platforms and open APIs are disrupting industry dynamics and incumbents, as digital transformation and customer-centricity enable frictionless client convenience.

## WHAT TO EXPECT THROUGHOUT THE MONTHS AHEAD

The onus is on wealth management (WM) firms to expand digital offerings as investor interest in digital assets, and portfolio expansion heats up. Our World Wealth Report 2022 revealed that 70% of HNWIs have invested in digital assets, which illustrates why firms must diversify products and services, including a range of digital offerings. And when it comes to inclusivity for segments such as the mass affluent or women, only 27% of firms say they actively pursue these prospects. Additionally, WM firms lack segment-specific products and services, with only 37% providing offerings for women. Yet family offices and WealthTechs aggressively pursue underserved segments. The most successful traditional firms will strategically reimagine how to attract and retain increasingly diverse client communities.

Firms that stay in the game will empower advisors with updated and actionable data sources, flexibly scalable advanced technology, streamlined workflows, and multichannel and digital tools. Our World Wealth Report found that only 46% of wealth firms augment advisor capabilities with leading-edge digital tools for personalized engagement. In addition, a robust cybersecurity system will be essential in 2023 as wealth services become increasingly digitalized and infrastructure migrates to the cloud.

Amid global economic volatility, mergers and acquisitions will stoke competition, boost firms' assets under management, and expand strategic footprints into new markets through non-traditional and niche products and services. Furthermore, as interest in sustainable investment grows, wealth firms will hedge against greenwashing through transparent propositions that meet HNWI expectations and sustain reputational trust. Globally, 55% of HNWIs say causes with positive ESG impact are critical investment objectives.

As demand for specialized portfolios escalates, expect more investors to opt for a direct indexing strategy. In addition, the growing complexity of assets, the necessity to adjust to volatile markets and uncertainties, access to experts, and shrinking investment management costs will heighten the profile of outsourced Chief Investment Officers (OCIOs).

So, who will adeptly meet the needs of tomorrow's investors – traditional wealth management firms, agile and customer-centric WealthTechs, or family offices positioned to deliver a wide range of services with one-stop-shop convenience?

## TOP TRENDS FOR 2023

We based our 2023 wealth management trends on analysis across five broad themes.

- **Change in industry dynamics**, where we examined public calls for more stringent regulations to curb corporate greenwashing and increased tendencies to outsource the chief investment officer position.
- **Creating and enabling new values** covers the demand for digital assets – beyond cryptocurrencies – and HNWI requests for a direct indexing investment strategy.
- **Customer centricity** covers strategies to expand market share through new segments such as the mass affluent and women.
- **Business resilience** explores why cybersecurity is essential as industry digitalization escalates and WM firms modernize their core IT infrastructure and empower advisors with automated productivity tools.
- **New horizons** includes how mergers and acquisitions (M&A) will reshape industry scale and the impact of family offices as HNWIs demand end-to-end personalized service.

**Exhibit: Top trends in wealth management 2023 – Priority matrix**

**Changes in industry dynamics**

1 ESG regulatory standards aim to curb corporate investment greenwashing

2 Demand for OCIO services is on the rise

**Creating and enabling new values**

3 Investor appetite for digital assets drives wealth industry capabilities beyond cryptocurrencies

4 Amid volatility, investors seek new portfolio strategies, such as direct indexing

**Customer centricity**

5 Wealth management firms refocus on the mass-affluent segment

6 As women increasingly control more wealth, firms must earn their trust and wallet share

**Business resilience**

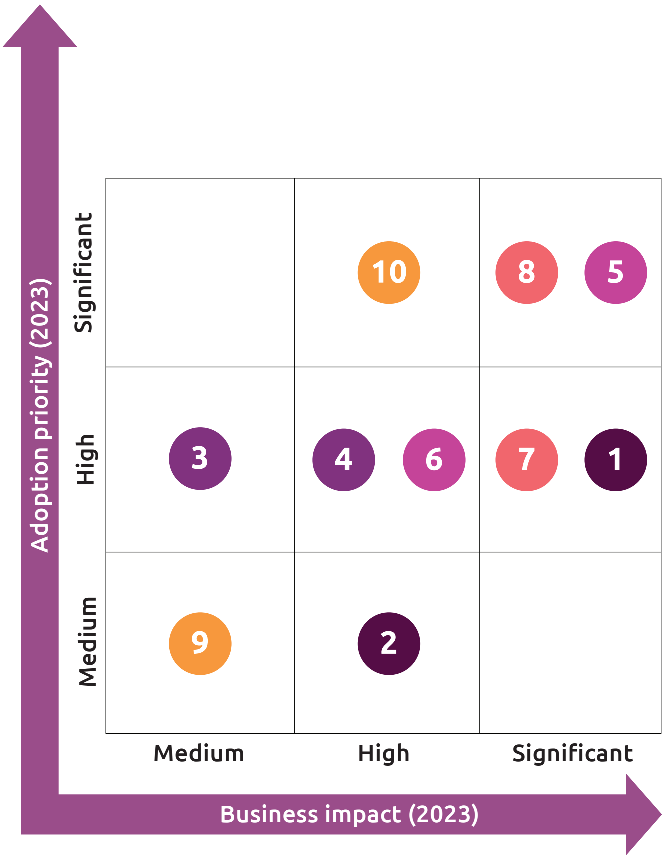
7 Evaluating cybersecurity for future readiness

8 A digitalized core can bridge the gap between relationship managers' expectations and WM firms' automation capabilities

**New horizons**

9 The wealth management industry is consolidating to achieve scale

10 Family offices showcase bespoke services while facing regulatory dynamics




Source: Capgemini Research Institute for Financial Services Analysis, 2022

The matrix represents Capgemini's prioritization of 2023 trends in an operating environment including:

- Rising inflation and interest rates, coupled with stagflation trends
- Operational disruption due to geopolitical instability
- Intense competition and increased focus on customer centricity due to the entry of new-age players
- Operational cost overruns and high capital lock-in
- Dynamic regulatory activity.

**Adoption priority** refers to the urgency of adopting a 2023 trend to maximize value creation because of its sector importance.

**Business impact** represents the impact of a trend on wealth management firms' 2023 business as it relates to customer experience (CX), operational excellence, regulatory compliance, or profitability.

Circumstances will vary for each firm depending on its business priorities, geographical location, and several other factors. For more information, don't hesitate to contact us at wealth@capgemini.com.

## TREND 1

# ESG REGULATORY STANDARDS AIM TO CURB CORPORATE INVESTMENT GREENWASHING

As sustainable investing becomes increasingly popular, the spotlight will shine on social and environmental disclosure gaps. Expect standardization and transparency as regulators drive to safeguard investors.

## CONTEXT

ESG investment products have become mainstream across markets. Therefore, as HNWIs demand ESG-aligned products, wealth management firms must prepare to meet investors' changing priorities by differentiating their advice.

- Bloomberg reports that ESG investments will exceed USD53 trillion by 2025, representing over a third of the projected total assets under management (AUM) of USD140.5 trillion[1]. As a result, the ESG debt market could rise to USD15 trillion by 2025.[2] Still, some bond issuers became skittish in 2022 based on an assessment that lower ESG investment financing costs may not be worth the risk of exposure to greenwashing accusations.[3]
- Most assets managed by ESG funds worldwide were concentrated in Europe in 2021, accounting for 81% of total AUM; US fund managers handled 13%.[4]
- While Europe has been the ESG debt-issuance engine, we expect the next growth trend to be wide-ranging.
  - » The European Union finalized its master plan against greenhouse gas emissions in Q2 2022. The EUR1 trillion *Fit for 55* package includes climate and energy legislation to support the region's political pledge to cut greenhouse-gas emissions by at least 55% by 2030.[5]
  - » ESG assets in the United States have expanded by 40% since 2020, and 2022 totals may exceed USD20 trillion.
  - » Expect Asia to host the next ESG growth wave, particularly in Japan, where the country's Government Pension Investment Fund (GPIF) has been allocating funds to ESG investments since 2017.[6]
- Our World Wealth Report 2022 analysis revealed that 55% of global HNWIs invest in causes with positive ESG impacts they consider important.

## CATALYSTS

- As ESG-linked products become more widely available, cautious investors seek evidence of measurable impact. According to World Wealth Report 2022 analysis:
  - » 64% of HNWIs ask for an ESG score to know more about a fund's societal impact and performance.
  - » 78% of ultra HNWIs and 81% of HNWIs younger than 40 are likely to request ESG scores from their WM firm.
- Within the same report, WM firms and advisors expressed societal impact (SI) strategy challenges:
  - » 40% of advisors said it was a complex task to obtain accurate ESG impact data.
  - » 50% of firms lacked clarity regarding sustainable investing ROI.
- While ESG investing has strengthened its grip by becoming mainstream and even mandatory in certain jurisdictions, it comes with challenges. Regulatory scrutiny will be essential as investors seek assurance against greenwashing.

## IN A NUTSHELL

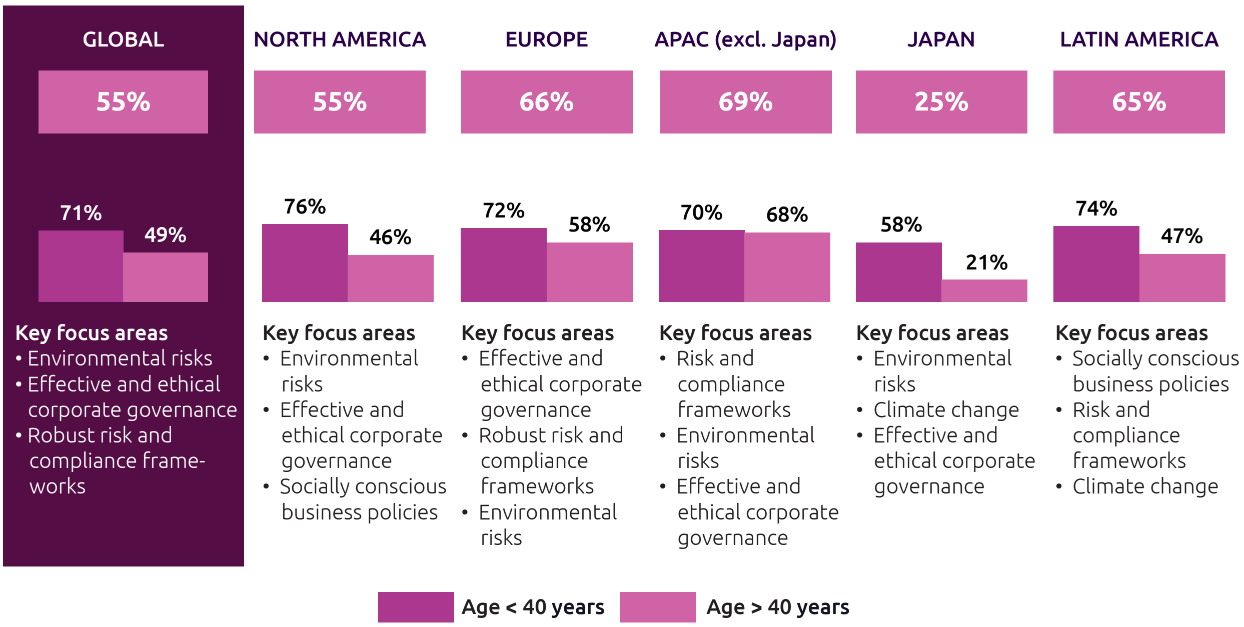
Measuring, reducing, and disclosing investment portfolio carbon information at scale and in line with global pledges, such as the Paris Agreement's 2050 net-zero target, will likely present challenges.

Relationship managers say ESG due diligence is complex because of challenges in measuring the actual impact of ESG-aligned investments. The introduction and enforcement of global ESG impact disclosure regulations are crucial to helping investors evaluate ESG impact accurately.

- BlackRock mentioned in its *2022 Sustainable Investment* statement that a quarter of its assets invested in corporate and sovereign issuers were net-zero aligned and will grow to at least 75% by 2030.[7]
- Vanguard expects about USD145 billion of its USD1.7 trillion in actively managed assets to be net zero by 2030.[8]

**Figure 1. Global HNWIs represent diverse ESG investment objectives and focus areas**

% HNWIs with environmental, social, and governance (ESG) impact as an important investment objective




Source: Capgemini Research Institute for Financial Services Analysis, 2022

## IMPACT

In the months ahead, we expect wealth management firms will continue seeking internationally recognized metrics to ensure fair and accurate sustainable investment comparisons. Meanwhile, the trend – so far – has been for governments and regional authorities to share standards for use within their geographies. The Global Reporting Initiative (GRI), IFRS Foundation Framework, or the Task Force on Climate-related Financial Disclosures (TFCFD) offer baselines.

However, in 2023 as major global markets introduce and enforce more ESG regulations, SI disclosure will become more consistent, comparable, and informative. Eventually, regulatory standards will bolster investors' ability to evaluate ESG opportunities and risks.

We anticipate regulators to expand metrics in 2023 and beyond, following the example of Europe, which was an early mover. The Sustainable Finance Disclosure (SFDR) and Taxonomy Regulation (SFTR) offer EU investment managers new rules about disclosing ESG risks in their products and incorporating risk assessment within investment processes. In the UK, large asset management firms must produce climate disclosure reporting aligned with the TFCFD.[9]

In the United States, the Securities and Exchange Commission assesses climate and material ESG issues along two dimensions – how companies report on ESG issues and how they address potential greenwashing by investment firms promoting ESG products.[10] And Hong Kong's Securities and Futures Commission implemented new guidelines in 2022 on enhanced disclosures required for authorized funds citing ESG factors as their investment focus.[11] Singapore, India, China, and Japan are also considering sustainability regulations and requirements.[12]

## TREND 2

# DEMAND FOR OUTSOURCED CHIEF INVESTMENT OFFICER SERVICES IS ON THE RISE

As assets become increasingly complex and market uncertainty makes expert adjustments essential, specialist managers – Outsourced Chief Investment Officers (OCIOs) – offer cost-effective support.

## CONTEXT

Once a niche subsector, outsourced chief investment officer (OCIO) services are now critical components within the wealth management ecosystem. The term refers to the full or partial outsourcing of an organization's investment function to a third party or investment consultant.

- From 2016 to 2021, the global OCIO industry grew from USD1.29 trillion in assets under administration (AUA) to USD2.46 trillion, according to a report from US-based Chestnut Advisory Group. The industry segment is on track to reach USD4.15 trillion in AUA by 2026, an 11% five-year CAGR.[13]
- Non-US outsourced chief investment officer assets reached USD834 billion in 2021, comprising just over a third of global OCIO assets under administration. International OCIO assets grew by more than 28% in 2021 (an average 15% increase between 2017 and 2021). As a result, non-US OCIO assets under administration are likely to surpass USD1.2 trillion by 2026, according to the 2022 Chestnut Advisory report.[14]
- Amid geopolitical and macroeconomic uncertainty, corporations and financial institutions, such as asset management firms, leverage the OCIO discretionary investment model to gain expertise and scale.

## CATALYSTS

Demand is up for OCIO services because investment strategies are becoming more complex. OCIOs are conveniently available and attractive as the post-pandemic environment sparks an uptick. Firms that bring in external chief investment officer support receive custom decision-making advice without giving up authority.

- As high-impact investment personnel and board committee members left or retired as part of the "Great Resignation," asset owners became burdened. Therefore, wealth management firms are shifting investment management to outsourced chief investment officers.
- As institutional portfolios continue to diversify and scale, allocators seek direction to navigate new risk barometers and nascent opportunities such as cryptocurrency, non-fungible tokens (NFTs), metaverse investments, and real assets. Increasingly, OCIOs are influencing those decisions.
  - » Investment complexity is driving decisions to use OCIO services.
  - » Mayback Securities Thailand partnered with BNY Mellon Investment Management to strengthen its investment advisory and wealth management capabilities.[15]
- Major firms such as State Street, BlackRock, and Vanguard have established OCIO business lines. Meanwhile, several niche OCIO players also exist. For example, Boston-based Cambridge Associates specializes in helping endowments, foundations, and pension plans manage custom investment portfolios. Moreover, as in-house investment teams face challenges in delivering high returns within today's ongoing low-interest environment, it makes sense to outsource investment professionals with better connections and resources.

## IN A NUTSHELL

A seasoned OCIO can make strategic asset allocation changes during market disruptions (e.g., the beginning of the COVID-19 pandemic in 2020). They can swiftly alter portfolios to rebalance and benefit from investment opportunities available only for a brief time.

- OCIOs may combine asset classes – cash, real estate, bonds, digital assets, alternative investments, and stocks – to accommodate clients' appetite for risk. These multi-asset strategies are crucial during market dislocations such as those spurred by COVID-19 and other uncertainties.

- OCIOs eliminate the need to hire and retain internal investment management staff by providing up-to-date systems for policy design, risk management, back-office operations, and performance measurement.
- Through portfolio management efficiencies, OCIOs can reduce operational costs by bargaining for competitive manager fees, eliminating fund-of-fund fees, and negotiating third-party provider agreements.
  - » The trustees of Centrica outsourced the UK utility's GBP10 billion (EUR11.98 billion) pension schemes to global investment manager Schroders for end-to-end fiduciary management services focused on robust portfolio construction, sustainability, and bespoke service and reporting.[16]
  - » In New Brunswick, Canada, WorkSafeNB selected Toronto-based SEI Investments Company for OCIO services handling more than USD1 billion (CAD1.4 billion) of the organization's assets. WorkSafeNB administers no-fault workplace accident and disability insurance and comprehensive accident prevention health and safety initiatives for employers and their workers. SEI will provide investment and operations management services, asset allocation strategy, client servicing, and reporting.[17]

**Figure 2. What's driving the Outsourced Chief Investment Officer's popularity?**

**Great Resignation**
- Key investment staff and board committee members have either left or retired
- Wealth management firms find it increasingly more viable to shift asset management to OCIOs

**Volatile Investment Environment**
- Traditional firms are not properly structured to effectively navigate a volatile, complex, fast-moving investing environment
- OCIOs are well-equipped to tackle these situations

**Cost Structure and Resources**
- OCIOs charge a fixed monthly rate/fee
- Firms can offset costs associated with full-time employees and focus on reducing downtime and driving productivity

**Agile Governance Advisory**
- Holistic approach to advising clients on articulating risk and return targets
- Effective risk management
- ESG implementation and measurement

**Increasing Demand from Corporates, Non-profits, and Pension Funds**
- Traditional firms are well poised to take advantage because they have long-standing relationships with these entities

**Complex Asset Class Expertise**
- Bespoke services to suit each investor type
- Expertise in complex products digital assets, PE, infrastructure, alternative assets, etc.

Source: Capgemini Research Institute for Financial Services Analysis, 2022

## IMPACT

An OCIO offers investment portfolio direction for corporations and asset management firms during complex, challenging fiduciary times. Services include managing assets, navigating through market instability, and optimizing portfolio performance to help reach investment goals.

We anticipate the OCIO trend to gain even more momentum in 2023, enabling wealth management firms to delegate investment responsibility to seasoned specialists, putting the firm in a position of oversight and gaining the bandwidth to focus on organizational objectives. Outsourced portfolio management is poised to become a significant trend – particularly among endowments, foundations, and family offices.

## TREND 3

# INVESTOR APPETITE FOR DIGITAL ASSETS DRIVES WEALTH INDUSTRY CAPABILITIES BEYOND CRYPTOCURRENCIES

Wealth management frontrunners are meeting investor demand for portfolio expansion and diversification by becoming digital asset experts.

## CONTEXT

The sweeping shift from traditional investments is encouraging wealth management (WM) firms to offer digitally structured products in addition to digital tokens or "coins" that exist on a distributed and decentralized ledger (blockchain).

- HNWIs seeking to diversify their portfolios are turning to digital assets. And they want information on everything from cryptocurrencies to indirect crypto investment through exchange-traded funds (ETFs), NFTs, metaverse-related products, and digital currency.
- WM firms must educate their relationship managers and clients about the nuances of digital offerings.
- Many firms remain relevant by offering investment strategies and client experiences that include detailed and transparent views of digital products.

## CATALYSTS

As interest in digital assets booms, WM firms are giving their product capabilities and offerings a facelift.

- Accordingly, digital asset management solutions are on track to 13.6% compound annual growth (2022–2027), nearly doubling from USD4.2 billion to USD8 billion.18
- With digital asset choices proliferating, more HNWIs are expressing interest because a wide range of digital assets allows investors to diversify their portfolios to suit unique financial goals.
- Increased digitization and blockchain advancements further facilitate digital asset transactions.

## IN A NUTSHELL

Our World Wealth Report 2022 revealed that 70% of HNWIs globally invested in digital assets (including more than nine out of 10 HNWIs younger than 40), with cryptocurrencies being the favored digital asset.

- Today's growing range of digital assets – and metaverse influences – have become catalysts inspiring WM firms to explore investment options beyond cryptocurrency.
  - » HSBC launched a discretionary metaverse portfolio for high-net-worth investors and ultra-HNWIs in Asia.[19]
  - » AXA Investment Managers (AXA IM) unveiled the multi-cap AXA WF Metaverse Fund to provide long-term metaverse investment growth opportunities.[20]
- Relationship managers must understand digital asset strategies, underlying infrastructure, tax implications, risks, and details about returns to balance client enthusiasm for digital assets while explaining associated risks.[21]
  - » Nasdaq and Hashdex, a São Paulo WealthTech specializing in digital assets and blockchain, launched the Nasdaq Advisor Academy and a curriculum that offers financial advisors tailored educational resources. Topics include the digital asset ecosystem evolution, investment considerations, regulations, taxes, and more. The program features live presentations, core learning materials, Q&As, and practice modules.[22]
  - » Bank of America launched a virtual reality training program for 50,000 employees to build and retain new skills, such as strengthening and deepening client relationships, navigating difficult conversations, and responding with empathy.[23]
- Influential US financial services author and podcaster Ric Edelman founded the Digital Assets Council of Financial Professionals (DACFP) in 2018 to train and educate wealth advisors about digital assets.[24]

**Figure 3. Success in the expanding digital assets universe requires knowledgeable relationship managers**

Relationship Manager *rockstars* educate clients about the growing universe of digital assets

- They are familiar with a range of digital assets and ecosystems
- They are supported by advanced technology infrastructure
- They consider investments with an eye on returns
- They approach digital asset portfolio combinations strategically
- They are well-versed in regulations and associated risks

Source: Capgemini Research Institute for Financial Services Analysis, 2022

## IMPACT

WM firms will continue to educate relationship managers and clients about digital assets and ecosystems in 2023 and for the foreseeable future to meet the needs of HNWIs curious about alternative investments. In addition, training initiatives will help firms upskill staff and broaden organizational capabilities as more relationship managers want to learn about digital assets.

Firms will overcome digital delivery obstacles by providing their advisors with productivity-enhancing resources and equipping them to handle queries about digital assets. The trend is empowerment for relationship managers, so they can guide clients to develop successful investment strategies as WM firms weave new digital solutions into infrastructure upgrades.

## TREND 4

# AMID VOLATILITY, INVESTORS SEEK NEW PORTFOLIO STRATEGIES, SUCH AS DIRECT INDEXING

A rebalanced portfolio can be a safety hedge within a dynamic investment environment.

## CONTEXT

Financial markets worldwide are uncertain due to lackluster corporate earnings, rising interest rates, inflation, and incendiary geopolitics. Volatility is unsettling, but it serves as a reminder of the value of portfolio diversification in distributing risk across geographies, industries, and asset classes.

- Democratization of assets and sophisticated portfolio management techniques have leveled the playing field.
- In the past, only the wealthiest investors and their advisory firms sought direct indexing due to high costs. But recent tech advancements make customizable indices available to a broader customer base. As a result, mass-affluent investors are turning to direct indexing (DI) because it supports tax efficiency, diversification, personalization, and values-based investing.
- Increased demand for DI products and strategies is inevitable as wealth firms scale portfolio personalization to meet investor requests to align holdings with their social and environmental values.
- HNWIs and ultra-HNWIs seek to rebalance their portfolios. As a result, many are actively shifting to alternative investments, especially private equity.
  - » Investors are pursuing private markets to offset short-term volatility and boost longer-term returns.
  - » By 2024, 46% of HNWIs will invest in private markets, up from 29% in 2022.[25]

## CATALYSTS

One of the most significant advantages of direct indexing is tax-loss harvesting, which enables investors to offset profits with losses when the stock market drops. Direct indexing may also appeal to those looking for portfolio customization, such as values-driven investors (particularly millennials) who want to divest from specific sectors.

- In Q2 2021, DI was a USD399 billion market, and Boston FS researcher Cerulli Associates expects it to grow to USD730.5 billion by 2026. The DI leaderboard includes Morgan Stanley, BlackRock, Fidelity, Columbia Threadneedle, Natixis, and Envestnet.[26]
- Alternate investments are a top choice for HNWIs and ultra-HNWIs seeking to rebalance their asset allocations.
  - » The World Wealth Report 2022 found that HNWIs' preference for alternative investments had increased by five percentage points between 2018 and 2022.
  - » The 2022 Preqin Global Alternatives Report predicts that alternative investment AUM will rise from more than USD13.3 trillion in 2022 to upwards of USD23 trillion in 2026.[27]
  - » Goldman Sachs is reportedly set to invest USD30 billion in alternative investments in Asia. In Asia, Goldman Sachs is doubling investments to about USD60 billion, focused on technology startups, real estate, consumers, and renewable energy.[28]

## IN A NUTSHELL

In the United States, separately managed accounts (SMAs) are attracting the interest of WM firms as big players acquire firms specializing in direct indexing and bespoke strategies delivered via SMAs.[29]

- WM firms increasingly target SMAs toward mass-affluent retail clients with at least USD100,000 to invest. In addition, SMAs offer direct ownership of securities and tax advantages over mutual funds.
  - » Vanguard acquired Just Invest, a California provider of tax-managed, tailored wealth management technology, in late 2021. Vanguard said Just Invest's personalized indexing platform would enable its advisors to unlock ways to tailor client experiences and provide value within its USD3 trillion financial intermediary business.[30]
  - » BNY Mellon subsidiary Pershing purchased DI solutions provider Optimal Asset Management, a DI solutions provider, in Q4 2021. Optimal Asset Management's patented software allows investors to select individual equities in an index solution, including options to tailor portfolios for sustainable investments.[31]

  - » BlackRock acquired Aperio, a pioneer in customizing tax-optimized index equity SMAs. The combination expands BlackRock's personalization capabilities via tax-managed strategies across factors, comprehensive market indexing, and investors' ESG preferences.[32]
- Family offices and ultra HNWIs currently hold around 90% of the more than USD7 trillion in private-market AUM. An Oliver Wyman/Morgan Stanley report anticipates private-market AUM to grow to roughly USD13 trillion by 2025, aided by HNWI investment.[33]
- Blackstone plans a private equity fund targeting individuals with between USD1 million and USD5 million in investable assets, with periodic opportunities to withdraw to mitigate liquidity challenges.[34]

## IMPACT

Expect more WM firms to prioritize private markets to give HNWIs higher returns and alternative asset diversification advantages. Moreover, technology and education will play a critical role in helping relationship managers respond to investor demands to incorporate alternative investments in diversified portfolios.

As investor preference for alternative investments increases and the private markets open up, firms will need educational and informational capabilities and funds suited to a broader clientele. Demand for DI products and services is surging because DI enables customizable client portfolios based on investor values and preferences. Moreover, the desire for higher portfolio returns using tax-efficient investment strategies is rising, along with demand for low-fee trading environments and technological advancements that automate manual advisory functions.[35]

The DI trend will continue to gain momentum in 2023 as wealth management firms add DI offerings for a competitive edge. Moreover, DI technology providers will evolve as large asset management firms seek to ramp up their index advisory tools through acquisition and partnerships.

## TREND 5

# WEALTH MANAGEMENT FIRMS REFOCUS ON THE MASS-AFFLUENT SEGMENT

Historically, wealth management firms catered to HNWIs with personalized, fee-based approaches and retail clients with a broad product range – and overlooked the mass affluent.

## CONTEXT

The mass-affluent wealth band includes investors with assets between USD250,000 and USD1 million. The segment is flourishing as more middle-class individuals seek to expand their wealth through investment.

- Mass affluents account for around 11% of the global population, with a high proportion of digitally-engaged young professionals seeking personalized offerings, according to Credit Suisse. As mass-affluent wealth grows organically and through inheritance, it will require more sophisticated financial advice.[36]
- A Global Data Wealth Markets Analytics report says mass affluents in the United States are on track to control over USD47 trillion by 2025.[37]
- The global high-net-worth population continues to swell, albeit affected by regional market fluctuations and the bullishness of major stock indices. However, months of low-interest rates and economic uncertainty have squeezed financial sector profits. The result? Financial institutions and relationship managers are looking at mass affluents with more focus.
- Dynamic post-COVID-19 market conditions and increasing competition from new-age players and robo-advisory solutions are pushing WM firms to boost performance, business scale, and efficiency.

## CATALYSTS

Some future-focused WM firms have adopted a new outlook and are capturing the mass affluent in their early life stages and growing them within their ecosystems. However, most firms continue to neglect this wealth band.

- Our World Wealth Report 2022 revealed that only 27% of firms serve the mass affluent wealth band, and only 36% are exploring offering services in the near to mid-term.
- Some WM firms and banks are making significant efforts to capture this segment. For example:
  - New York-based alternative investment management firm Blackstone plans to double its global private wealth team to expand its mass-affluent business in the next few years.[38]
  - HSBC's Global Private Banking unit plans to hire about 100 new employees in China in 2022 as the bank expands mass-affluent services and offerings.[39]
  - In the spring of 2020, DBS launched NAV Planner, Singapore's first digital advisor, to help retail customers improve their financial well-being. Through NAV Planner, DBS aims to democratize access to WM services to enable more people to invest in stock markets while mitigating risk through better information.[40]
  - Lloyds Banking Group plans to launch a digital service combining banking, insurance, advice, and investment products targeting mass-affluent individuals.[41] Lloyds aims for more than GBP5 billion (greater than USD6 billion) in total banking balances for its mass-affluent customers by 2024 and is targeting GBP 25billion (greater than USD30.36 billion) of incremental net flows into its 2026 investment proposition.

## IN A NUTSHELL

The rising pool of mass-affluent investors demands and expects more from WM firms. And if firms don't deliver, plenty of enthusiastic FinTechs and robo-advisory services will cost-effectively fill the void.

- The demand for complex financial products is up, especially among mass-affluent investors expected to branch out from exchange-traded and mutual funds. In 2023 and beyond, we believe they will explore and opt for alternatives such as structured products, digital assets, art, non-bankable assets, and other traditional HNWI assets.[42]
- Relationship managers are turning to FinTech solutions and artificial intelligence to tap into the mass-affluent demographic, which includes youthful investors comfortable with online investing.
- Today's mass-affluent clients are looking for solutions that consider the rising cost of living, their growing interest in sustainability, and their retirement requirements. In addition, they expect assistance in accumulating and safeguarding their wealth, together with cost-effective financial counseling and advice.
- Firms realize they need new capabilities to capture leads through alternate data sources such as online channels.

**Figure 4. Implement a winning strategy to attract and retain mass-affluent prospects**

**Adopt a client-centric strategy to develop cost-effective and bespoke offerings**

Find the right balance between digital and personal interaction while ensuring both are insights driven.

**Make strategic investments in advanced tech solutions**

Mass-affluent clients expect tailored digital solutions that are relevant to their lifestyle, and only by adopting digital and analytical tools can WM firms deliver seamless services to them. By investing in digital channels, self-learning AI, process automation, and big data analytics, firms can claim a bigger piece of the business.

**Implement an agile operating model**

Setting up the organization in a modular way to identify, analyze, and act quickly on the changes in the ecosystem and client expectations will enable WM firms to remain relevant in the disrupted environment.

Source: Capgemini Research Institute for Financial Services Analysis, 2022

## IMPACT

We anticipate more aggressive targeting of the mass-affluent segment in 2023. COVID-19, macroeconomic influencers, political uncertainty, rising debt, and low growth are prompting relationship managers to rethink their business and operating models to include the mass affluent. Due to shifting demographics, changing customer behaviors, and technological advances, firms can democratize WM products and services to include the mass affluent and gain market share. With an eye on the future, then, more WM firms will prioritize digital tools to help capture this segment cost-effectively and with a rapid time to market.

To provide the right experience to mass-affluent investors, firms must balance advisor-driven engagements and self-service touchpoints based on each customer's needs and preferences. And to ensure success, relationship managers will need a comprehensive and modular suite of self-directed digital tools and data-enabled advisory capabilities for seamless client service.

Wealth management firms with efficient customer engagement models and hybrid capabilities can cost-effectively cater to the mass-affluent segment. So, who has the most to gain from capturing the mass-affluent market? Incumbent wealth management firms, financial institutions, and affordably-priced retail brokers with a broad spectrum of solutions and hyper-personalized digital engagement are well-positioned for success.

## TREND 6

# AS WOMEN INCREASINGLY CONTROL MORE WEALTH, FIRMS MUST EARN THEIR TRUST AND WALLET SHARE

Women are moving up economically, owning a third of today's global wealth. Yet many wealth management firms misjudge their requirements, leaving women underserved.

## CONTEXT

The growing number of wealthy women is sparked by shifting global wealth distribution, cultural attitudes, and intergenerational wealth transfers. Another factor is the rise of women-led businesses.

- Today, women create wealth faster than at any time in history. The trend will likely gain momentum as more women join and grow in the corporate world, start and grow successful companies, advance their careers, or inherit more wealth.
- Forbes' 2022 billionaires list revealed that among 2,668 billionaires, 327 were women, worth a collective USD1.56 trillion, up from USD1.53 trillion in 2021.[43]
- Women may own much of baby boomers' USD30trillion financial asset pool because they are the leading beneficiaries of current wealth transfers, living an average of five years longer than men.[44]
  - By 2025, more than 60% of total UK assets will be managed by women, according to a forecast by the Centre for Business and Economic Research.[45]
  - In Asia (excluding Japan), women's investible wealth is expected to grow at an 8.88% CAGR (2020–2025) – from USD4.8trillion to USD7.3trillion.[46]

## CATALYSTS

Relationship managers tend to focus on broad assumptions about what female customers of WM firms want. As a result, they are mistargeting the category while offering financial advice, developing products and services, designing portfolios, and developing marketing messaging.

- According to our World Wealth Report 2022 survey of WM firm CXOs, most firms lack segment-specific products and services, with only 37% providing unique offerings for women.
- Women's growing economic power makes them attractive prospects for incumbent relationship managers as well as new-age players.
  - Swiss digital investment platform Marmot offers financial management for women, focusing on gender equality and sustainability. Marmot aims to empower women financially through financial education and investments that fit their situations and life goals.[47] It offers a robo-advisor with online client support for new investors; seasoned investors who make a minimal USD100,000 commitment receive expert wealth advisory with a management fee beginning at 1.0%. [48]
  - Founded in 2014, Ellevest, a by-women-for-women financial company, claimed USD1.4 billion in 2022 assets under management. Its unique investment algorithm successfully considers gender differences. Ellevest had 123,000 clients with an average account size of USD8,000 in Q1 2021.[49]
- New and incumbent WM firms are beginning to prioritize female investors. However, given the size of the opportunity, there is room to do more.

## IN A NUTSHELL

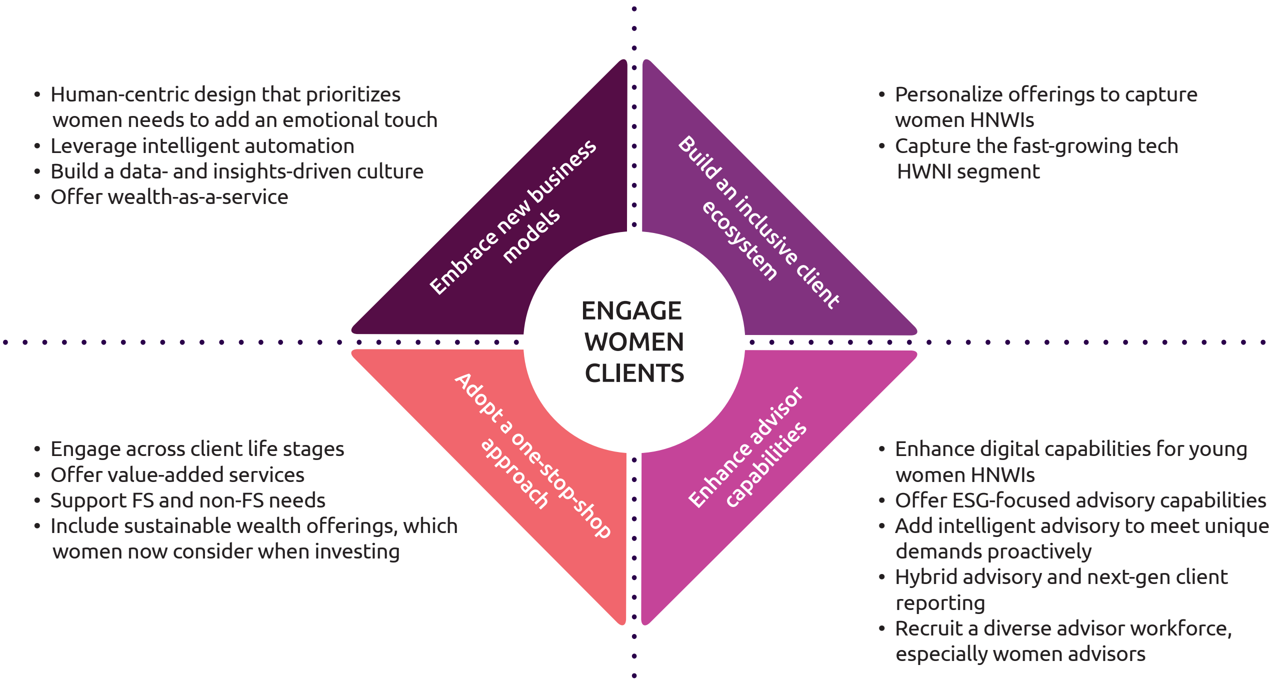
Like other investors, women seek healthy returns and purpose-driven investments. But, rather than focusing exclusively on profit, their goals include connection, meaning, a legacy for the next generation, and making a social and environmental difference.

- Many incumbent WM firms are not connecting with the next wave of clients because they don't have a segment-specific marketing strategy or offerings suited to women-specific needs.

» Our World Wealth Report 2022 survey revealed that women seek quality service, fees, product transparency, and data privacy and security when selecting a primary WM firm. The high-net-worth women we surveyed demand value-added services around retirement (75%), inheritance planning (75%), legal support (71%), and tax consultation (76%).
» Our survey also revealed that compared with male investors, women are less confident in their primary WM firm and their ability to generate or grow wealth over the next 12 months due to a lack of tools or education. Therefore, female HNWIs can benefit from investment education to improve their conviction, which will boost trust and confidence in their WM firm.

- The needs of women are not vastly different from men. And as WM firms build trust and address women's informational requirements, firms will have to adopt the right communication approach to build long-term relationships.

**Figure 5. Improved capabilities and engagement strategy can help WM firms serve women more effectively**




Source: Capgemini Research Institute for Financial Services Analysis, 2022

## IMPACT

As women's spending power and the wealth they control grows, we expect relationship managers to transform offerings and the customer journey of female investors in 2023 and the years ahead. Firms will improve their understanding of women's life-stage needs at the micro-segment level – entrepreneur, professional, single, married, with children, divorced, widowed, and retired.

Firms that build women-centric digital platforms with relevant content and personalized CX will earn a competitive advantage in successfully attracting, engaging, and retaining this critical segment. The most successful relationship managers will understand women's needs and work to strengthen client relationships. Relationship managers should design products and services suitable for each micro-segment by understanding the target client base and applying advanced analytics.

***Capturing the mindshare of women and next-gen customers is about developing a new communication approach, advanced engagement channels, and emotional connections."***

**Harsh Kumar**
Head of US Citi Alliance, Citi Global Wealth Management, Citi Private Banking, New York, US

## TREND 7

# EVALUATING CYBERSECURITY FOR FUTURE READINESS

A robust cybersecurity system is more critical than ever in 2023 as wealth services become increasingly digitalized and cloud infrastructure migration expands.

## CONTEXT

In the recent past, WM firms accelerated the deployment of new and advanced applications, adopting emerging technologies such as cloud computing, artificial intelligence, and big data analytics through digital platforms.

- HSBC Global Private Banking is investing more than USD100 million in private banking digital capabilities. Its wealth and personal banking set-up enables HSBC to combine its private and retail banking businesses.[50]
- BNP Paribas Wealth Management expanded its digital services offering and launched a new solution dedicated to investing in private assets – private equity, real estate, and infrastructure.[51]
- Most wealth management players use cloud-based software to boost information processing and financial analytics capabilities. In partnership with Amazon Web Services (AWS), Goldman Sachs launched Financial Cloud for Data, a suite of cloud-based data and analytics solutions to help financial institutions securely integrate their data with its financial markets data.[52]
- COVID-19 accelerated the industry's IT infrastructure shift – particularly the digital transformation of traditional WM firms and the proliferation of WealthTechs. However, the adoption of cutting-edge technologies and efforts to digitalize the entire customer journey has contributed to cybersecurity risks for WM firms and investors.

## CATALYSTS

Digital transformation and a remote workforce made WM firms more vulnerable to cybercrime. In addition, most firms depend on third parties to perform digital transactions, which can cause a weak cybersecurity link.

- Globally, the financial sector reported more than 700 weekly cyberattack attempts in Q4 2021, up more than 50% over the same period in the previous year. Studies estimate that on a global scale the rate of cyberattacks is one every 10 seconds.[53]
- A VMware report indicates that 63% of financial institutions experienced an increase in destructive attacks in 2021, up 17% from 2020.[54]
  - Morgan Stanley Wealth Management reported compromised customer accounts via social engineering attacks.[55]
  - Bank of America spends over USD1 billion yearly on cybersecurity – an indication of the criticality of cyber safety.[56]
  - California-based trading app Robinhood suffered a security breach in November 2021 when hackers accessed the names, birthdates, and ZIP codes of roughly 7 million users, and then demanded a ransom payment. With the firm's security lapse in the news, account holders sued Robinhood for alleged cybersecurity failures that unlocked the door for hackers. As a result, the firm agreed to pay USD19.5 million in damages and USD500,000 in fees to US-based customers hacked between January 1, 2020, and April 27, 2022.[57]

## IN A NUTSHELL

Financially motivated cybercriminals often target WM firms for obvious reasons. Much like banks, WM firms handle lucrative financial data; however, they generally have limited security, smaller budgets, and fewer employees to protect their infrastructure. Cybercriminals have taken note, and now WM firms are increasingly vulnerable to attacks.

- The commercial impact on a business following a cyberattack is financially and operationally crippling.
- Until recently, many financial institutions underestimated the potential for reputational damage from cyberattacks. Unfortunately, the harsh reality is that it can take up to two years to fully recover following a data breach, which can be debilitating for fund managers.
- Wealth management firms are custodians of millions of clients' personal and financial data, making them attractive to hackers. A security breach can result in fines of millions or even billions of dollars, not to mention reputational damage because of public distrust. For example, regulators fined JPMorgan Chase USD200 million in December 2021 for failing to track work-related communication on employees' personal cell phones and email.[58]

**Figure 6. Cybersecurity is imperative in wealth management**


ource: Capgemini Research Institute for Financial Services Analysis, 2022

## IMPACT

The growth of artificial intelligence, machine learning, and the internet of things (IoT), together with 5G deployment, complicates firms' IT infrastructure. Therefore, 2023 will bring the need for continuing cybersecurity capital expenditure. In a digital investment world, ransomware attacks target private equity, venture capital, and retail fund managers. Clearly, firms cannot ignore potential risks. However, a combination of preventive technologies, policies, and procedures can help shield assets and client data. Analyzing weaknesses and vulnerabilities is the first step to constructing and maintaining a secure and resilient cybersecurity position.

Across the globe, the volume and sophistication of cyberattacks continue to increase and could spark business interruption, service disruption, theft of intellectual property and confidential information, litigation, and reputational damage. As a result, we expect WM firms to enhance security capabilities and educate clients and staff in 2023 to optimize cyber defense mechanisms and stave off digital infrastructure attacks.

## TREND 8

# A DIGITALIZED CORE CAN BRIDGE THE GAP BETWEEN RELATIONSHIP MANAGERS' EXPECTATIONS AND WM FIRMS' AUTOMATION CAPABILITIES

Wealth advisors will gain an efficiency edge as firms modernize their core infrastructure.

## CONTEXT

Relationship managers (wealth advisors) wear multiple hats. Besides offering financial guidance, they conduct client meetings, acquire and retain clients, and perform administrative tasks – all while keeping up with professional development. Not surprisingly, then, managers can dedicate little time to strategic initiatives.

- Many client-related tasks are back-office in nature, and significant efficiency improvements may be possible by implementing updated technology and process automation.
- In the post-COVID-19 environment, advanced technologies and digitization have accelerated and expanded. Today, automation and digitalization give many relationship managers a 360-degree view of client profiles, enabling more insightful product suggestions and meaningful client interaction.

## CATALYSTS

The wealth management ecosystem faces disruption on numerous fronts. Regulations and governance complexities, volatile markets, rising cost pressures, and evolving investor demographics, preferences, and behaviors have made profitability concerns top of mind for many WM executives.

- Automating and digitalizing high-volume manual processes that reduce costs and errors while freeing relationship managers to work on higher-value tasks is a timely and attractive proposition.
- Our World Wealth Report 2022 found that many investors leaned on digital channels and niche offerings during and after the pandemic, making them less dependent on relationship managers and more personally active in investing.
  - As a result, 51% of HNWIs seek self-directed tools and digital capabilities for advice and portfolio management.
  - 77% of US and Canadian financial relationship managers reported losing business because they didn't have the appropriate digital tools to interact with clients as the pandemic reduced in-person meetings.
  - 59% of relationship managers believe competition for customer mindshare is high, and 55% say demand is shooting upward for personalized services and engagement.
- Consequently, relationship managers want their firms to help them engage more substantially with investors through initiatives including upskilling and training, smart tools for analytics and a consolidated client view, and digital interaction and planning tools.
- Relationship managers say there is a gap between what they need and what their firm prioritizes. Although data-enabled workstations are narrowing the consolidated customer view gap, relationship managers say they want their firms to help them boost customer engagement.

## IN A NUTSHELL

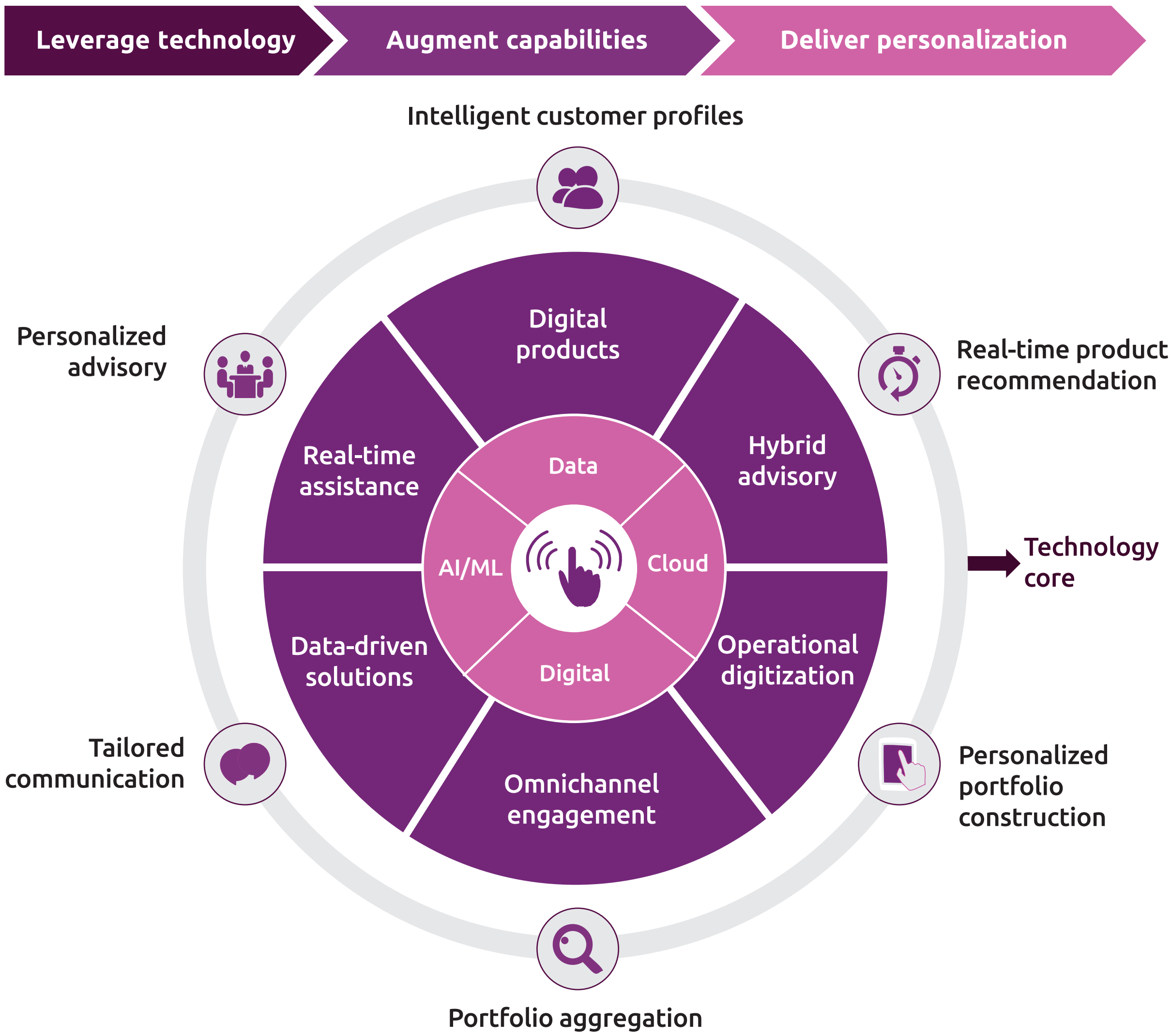
Client engagement and satisfaction improve when relationship managers efficiently manage their time. Those who recognize and eliminate time-consuming tasks, leverage advanced technology, and automate when possible can dedicate more attention to client-facing activities.

- Top wealth management firms are investing in automation and digitalization and embarking on an intelligent, tech-based advisory journey.
  - Bank of America approved a USD3.6 billion tech initiative budget in 2022 – beyond the USD35 billion spent over the preceding 12 years – to focus on secure and scalable technology platforms. As a result, the bank's global wealth and investment arm boosted clients' digital activity and maintained a leadership position in patents for secure and scalable technology platforms.[59]

» HSBC is enhancing its digital investment capabilities in Hong Kong to capture the market's fast-growing 18-to-25 age group. New solutions include Trade25, which offers zero-commission, zero-platform-fee stock trading, the educational service Wealth Coach, and Flex Invest, a low-cost portfolio builder. As a result, HSBC Hong Kong boosted its millennial customer base by 30% in the first six months of 2021, compared with the same period in 2020, accounting for nearly half of all new customers.[61]
» US investment bank BNY Mellon built its scalable cloud-based Data Vault platform by integrating vast information from multiple client touchpoints. The bank mines data-driven insights to create solutions that quickly address evolving investor needs.[62]
» Credit Suisse actively boosted its data extraction capability with a time-saving and scalable approach by investing in Daloopa, an Indian data-crunching firm powered by artificial intelligence.[63]

• A strong technology core –leveraging data, AI/machine learning, cloud, and digitalization – is the foundation of a scalable customer-centric engagement model.

**Figure 7. An automated customer journey will enable advisors to win and retain investor mindshare**




Source: Capgemini Research Institute for Financial Services Analysis, 2022

## IMPACT

A robust core and augmented ecosystem capabilities (such as data-driven and digital products, real-time omnichannel engagement, and hybrid advisory services) are now critical. A powerful technology stack is also essential to support digitization across the WM value chain to reduce costs and achieve scale.

In 2023, firms will likely continue the trend of personalized CX through relationship manager matchups and self-service touchpoints based on a client's unique needs and preferences. However, ongoing success is predicated upon a comprehensive and modular suite of self-directed digital tools and data-enabled advisory capabilities that foster seamless client service.

We expect more WM firms to enhance relationship manager capabilities through actionable data analysis, flexible technology, streamlined workflow activities, and digital tools. The most successful will boost personal relationships and customer advocacy by leveraging a data-driven, single-lens customer view. Moreover, future-focused WM firms will maintain investments in advanced digital tools for personalization and hybrid advisory offerings.

***Wealth management firms need to enhance their AI capabilities for digitizing clients' onboarding experience and help wealth managers serve existing customers and target new client segments with intelligent solutions."***

**Alexandre Duret**
Product Director, Wealth Management, Temenos, Paris, France

## TREND 9

# THE WEALTH MANAGEMENT INDUSTRY IS CONSOLIDATING TO ACHIEVE SCALE

**Wealth management firms, big and small, are reevaluating their long-term strategic direction and strongly considering consolidation to penetrate the HNWI market more deeply.**

## CONTEXT

Wealth management industry consolidations were ablaze throughout 2022 despite volatile market conditions. Through mergers and acquisitions (M&A), firms can cater to new markets and client segments with a broad range of products and services to suit diverse HNWI investment appetites.

- In the second quarter, firms put together 61 M&A deals involving registered investment advisory firms (RIAs), and a record 119 deals closed during the first half of 2022, up 47% over the first six months of 2021.[64]
- And activity continues in the second half of the year. Wealth Enhancement Group acquired Titus Wealth (an RIA with more than USD776 million in client assets) in July 2022. The deal marked Wealth Enhancement's seventh closed acquisition in 2022.[65]
- A desire to remain competitive, keep up with advanced technology and digitalization, improve top and bottom lines, and reduce costs through economies of scale and scope drives most M&A activity.

## CATALYSTS

Wealth management firms emerged from the pandemic relatively intact and aggressively returned to serving existing clients and strategizing to broaden their client base. Assets under management went up thanks to client cash flows accumulated during COVID-19 downtime.

- As fee pressures mount, more firms are reorganizing their business lines.
- Digital capabilities, such as robo-advisory, are in high demand. So, too, are superior client experiences and diversified portfolios that include ESG products, direct indexing, digital assets, and alternative investments. Attracting millennials, female investors, and the mass affluent is another priority.
- Consolidation can deliver scale, investment capital, and operational and marketing benefits for sweeping technology improvements.

## IN A NUTSHELL

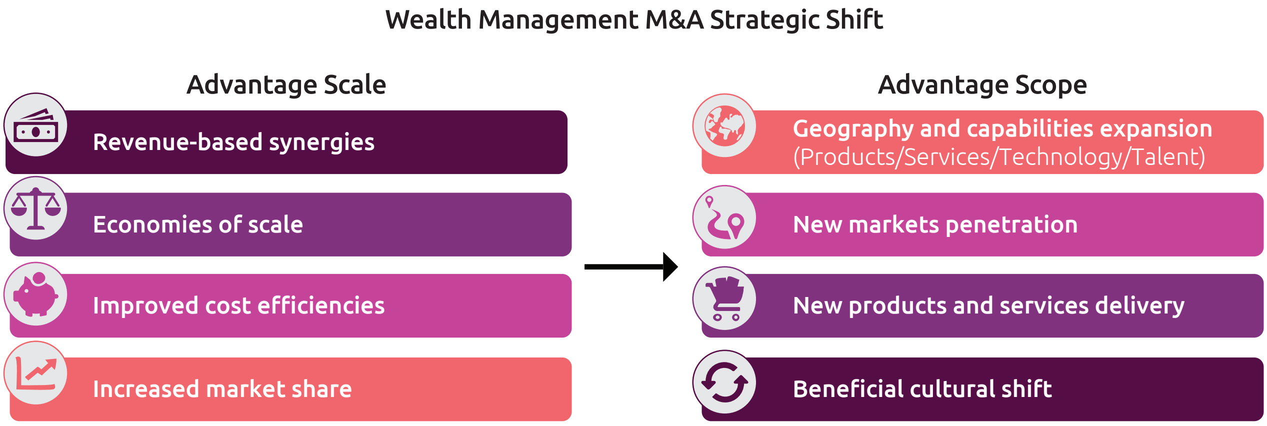
Mergers and acquisitions keep firms competitive through expanded AUM and a strategic footprint into new markets through non-traditional and niche products and services.

- Throughout 2022, wealth management firms joined forces to pool resources and future-proof their businesses.
  - » Goldman Sachs acquired Netherlands-based NN Investment Partners for EUR1.7 billion in Q2 2022. The acquisition brought Goldman Sachs's assets under supervision to approximately USD2.8 trillion. NN Investment Partners had a track record for successfully incorporating ESG factors across its product range, with ESG criteria integrated into about 90% of its assets under supervision.[66]
  - » French asset management company Amundi completed its acquisition of Lyxor from Société Générale in June 2022 for EUR825 million to enrich its asset management capabilities with alternative investment expertise. As a result, Amundi gained combined ETF business control of more than EUR170 billion in AUM across more than 300 products – a 14% share of the European market.[67]
  - » Swedish investment house EQT AB agreed in Q1 2022 to buy Baring Private Equity Asia, which had EUR17.7 billion in AUM. EQT AB said Asian expansion is a strategic priority because the region accounts for more than a third of global GDP today and may contribute more than 40% of global GDP growth by 2030.[68]
  - » Morgan Stanley acquired Cook Street Consulting, an SEC-registered investment advisor that provides consulting services to retirement plan sponsors, corporate accounts, foundations, and endowments. Cook Street advises on about USD72 billion of client assets.[69]
  - » Citi created a single wealth management organization, Citi Global Wealth, by unifying its Global Consumer Banking and Institutional Clients Group teams.[70]

» Similarly, HSBC merged its Private Banking, Wealth Management, and Retail Banking business into a single Wealth and Personal Banking unit.[71]

- The consolidation trend is likely to continue, driven by firms' interest in achieving scale, operational efficiencies, and diversification through new capabilities.

**Figure 8. Exciting times for beyond-scale M&A strategies in the wealth space**




Source: Capgemini Research Institute for Financial Services Analysis, 2022

## IMPACT

The trend to build competitive advantages through scaling products and services, distribution, systems, or operating models has become, and will continue to be, a strategic imperative in 2023 and beyond.

In their quest to expand scale and scope to remain competitive, we expect to see a reorganization of business lines across WM firms. As firms grow through M&A, they may find that scale alone cannot ensure success. Scope partnerships will become more critical, with the emergence of WealthTech players that serve new and end-to-end wealth management markets.

For firms seeking organic growth, enhancing the advisor workforce and building a better customer experience through a revamped front office will be essential.

## TREND 10

# FAMILY OFFICES SHOWCASE BESPOKE SERVICES WHILE FACING REGULATORY DYNAMICS

Historically, family offices have demonstrated a long-term vision for multigenerational wealth through all-in-one-place convenience and hyper-personalized services.

## CONTEXT

Family offices are becoming popular within some high-net-worth investment circles. These offices have existed for centuries but are now emerging as sophisticated players in the wealth ecosystem.

- Over the years, family offices have earned a reputation as a reliable option by offering clients customized investment strategies.
- However, emotional connection and personal understanding now drive their success.
- A small, Texas-based family office initiated Elon Musk's tumultuous USD44 billion Twitter buy-out effort in April 2022.[72]

## CATALYSTS

What's fueling the growth of family offices? Key factors are emotional understanding, seamless communication, sound execution, and significantly lower service costs than traditional firms.[73]

- About 10,000 family offices worldwide manage nearly USD7 trillion (8%) of global HNWI wealth; and in terms of revenue, the family office market is on track to achieve a 6.01% CAGR (2021–2026).[74]
- The World Wealth Report 2022 revealed that 23% of HNWIs and 33% of ultra HNWIs use family offices to manage their wealth. 60% of tech-wealth HNWIs prefer family offices over WM firms.
- Family offices are proliferating as next-gen clients eye investment diversification, bespoke service, and a personal touch.

## IN A NUTSHELL

Family offices win customer trust and confidence through services that do not include product sales but instead feature the coordination, advice, monitoring, analysis, and assessment of clients' investment choices.

- They attract new business with a long-term wealth creation approach and customized solutions built through a deep understanding of each client's vision. 52% of HNWIs interviewed as part of the World Wealth Report 2022 said they prefer family offices because of their one-stop-shop convenience and personalized services, while 49% said they appreciated family offices' service costs compared with traditional WM firms.
- Typically unregulated, family offices will likely face strategic reevaluation as compliance mandates change. For example, challenging new regulations are going into effect, such as the US Corporate Transparency Act, which requires all entities formed in or registered to do business in the US to report beneficial ownership information to the Financial Crimes Enforcement Network.[75]
- Family offices may benefit from new regulations that can open business avenues that enable co-investments with other families in the network.
  - In Europe, the Markets in Financial Instruments (MiFID II) requirement obliges banks to provide access to their dynamic data previously protected in standardized reports. And that means family offices could make better-informed investment decisions by retrieving and utilizing the data and other information sources.[76]
  - Tax exemption measures for new family offices in Singapore may attract high-net-worth families with significant AUM.[77]

Figure 9. Family offices are evolving with a more holistic approach


Source: Capgemini Research Institute for Financial Services Analysis, 2022

## IMPACT

We expect a trend in which family offices become central hubs that provide a wide range of services, from managing wealth, to preparing the next generation for succession, to counseling, legal advice, tax planning, insurance, healthcare, and event planning.

As family offices become increasingly popular, they can enhance the mission-driven image of the wealth management industry by co-creating innovative products and services featuring verifiable and measurable impact. Furthermore, family offices can lead the industry by educating and expanding the WM ecosystem to generate positive, measurable social and environmental impact, and financial return.

*The three-party relationship between the client, the asset manager, and the family office is not about competing for the client but about ensuring maximum value for the client."*

**François Simon**
President and Co-founder, Agami Family Office, Paris, France

*The role of the family office surpasses strategic asset allocation. It brings discipline, pedagogy, and intimacy to clients, whereas WM firms' main objective is to deliver transactions to clients."*

**Édouard Herbo**
Co-founder Keepers, Family Office, Lille, m France

# CONCLUSION

The year ahead presents a challenging investment environment. Risk costs will rise for investors, global equity markets are uncertain, and unsteady real estate prices may make it difficult for wealth management firms to generate superior investment returns for their clients.

Competition is more open than ever, and unpredictable market volatility pushes wealth management firms to find new ways to grow. As a result, they are urgently reevaluating business models to differentiate their offerings amid sustained margin pressure and shifting client demands.

Influential new segments, including women and the mass affluent, have unique expectations and preferences. Meanwhile, most all clients increasingly are asking for digital-first engagement and seamless customer experiences. New technologies, global economic and geopolitical scenarios, and pandemic-induced behavioral changes are driving demand for hybrid advisory (digital and physical) capabilities with real-time personalization of products and services.

The advent and widespread proliferation of cutting-edge technologies, fluctuating investor asset allocation preferences, and demographic shifts will reshape the landscape in which incumbent wealth management firms and WealthTechs operate. Further, we anticipate more regulatory clarity around sustainable investment frameworks and accountability.

To succeed in this challenging environment, wealth management firms must prioritize growth strategies, adopt innovative business models and mindsets, and be able to alter resources swiftly in response to dynamic market conditions. Finally, increasing regulatory burdens, new business models, and overwhelming competition from non-traditional players – BigTechs, WealthTechs, and others – will further escalate the magnitude of industry disruption.

# ASK THE EXPERTS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Nilesh has been with Capgemini for 20+ years and is an expert in managing clients' digital journeys in core banking transformation, payments, and wealth management. In addition, he works with clients to help them launch new banking products and underlying technology.


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Marie leads Capgemini's Private Banking & Wealth Management capabilities globally. She has helped major banks define their strategy and transform and turn around their business, operating models, and technology platforms across HNWIs, mass affluent, and family offices.


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Carina has 20 years of wealth management experience, working for leading global and Swiss private banks and as a strategy advisor for wealth and asset managers. She has supported front-office transformations, developing new investment and advisory offerings and pricing, and private banks' ESG investing approaches. At Capgemini, she works with clients to transform business models into more sustainable and innovative businesses.


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Tatiana is a leading wealth management APAC expert specializing in digital transformation and new business models. She has dedicated most of her career to helping leading retail banking and wealth management players transform their operating models, advising on emerging needs related to growth, innovation, and digital change across Europe and Asia.


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