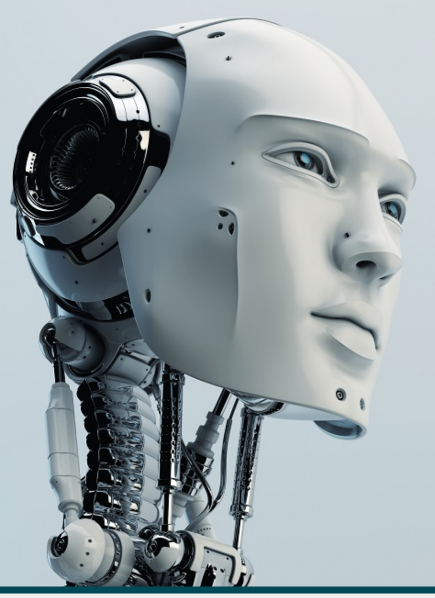

TRENDS IN THE US WEALTH MANAGEMENT MARKET

WHAT LESSONS CAN BE DRAWN FOR EUROPE AND THE UK?

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ABSTRACT

The US wealth management industry is undergoing significant transformation, meeting its challenges by leveraging technology. Financial advisory services are evolving from a traditional personal relationship approach to one of automation, emphasizing lower costs. New entrants are disrupting the market with innovative products and services, and established participants are adapting to the changes or losing market share. Assets are growing while the number of human financial advisors is shrinking. New operating models include discount and online brokerages and robo-advisors.

Regulatory change continues unabated and presents significant challenges. Advisors and assets are migrating from wirehouses to Registered Investment Advisors and hybrids. A variety of new technologies are impacting the US wealth management industry.

In this paper, drawing on our global footprint, Reply evaluates how recent developments in the US may be leveraged by players in the EU for competitive advantage.

BACKGROUND

Since the 2008 financial crisis, additional negative events have further eroded investor confidence in the markets. Nevertheless, US wealth management assets have nearly doubled since their low point in the crisis. Over the same period, however, the number of financial advisors has fallen by more than 10% from its peak. Half of all financial advisors are over the age of 55, and 100,000 are expected to retire in the next 10 years. Traditional wealth management operating models include large national full-service wirehouses, mid-sized regional self-clearing and fully disclosed introducing broker-dealers, and independent Registered Investment Advisors (RIAs).

NEW OPERATING MODELS

US discount and online brokerage firms cater to self-directed investors by offering low-cost transaction execution, most of them engaging with clients through their websites. These include Charles Schwab, E*Trade, Fidelity, Scottrade, TD Ameritrade and Vanguard. Schwab began to offer 24/7 quotation and order entry services in 1980 and 1982, respectively. Ameritrade launched automated trading via touch-tone telephone in 1988 and online in 1994.

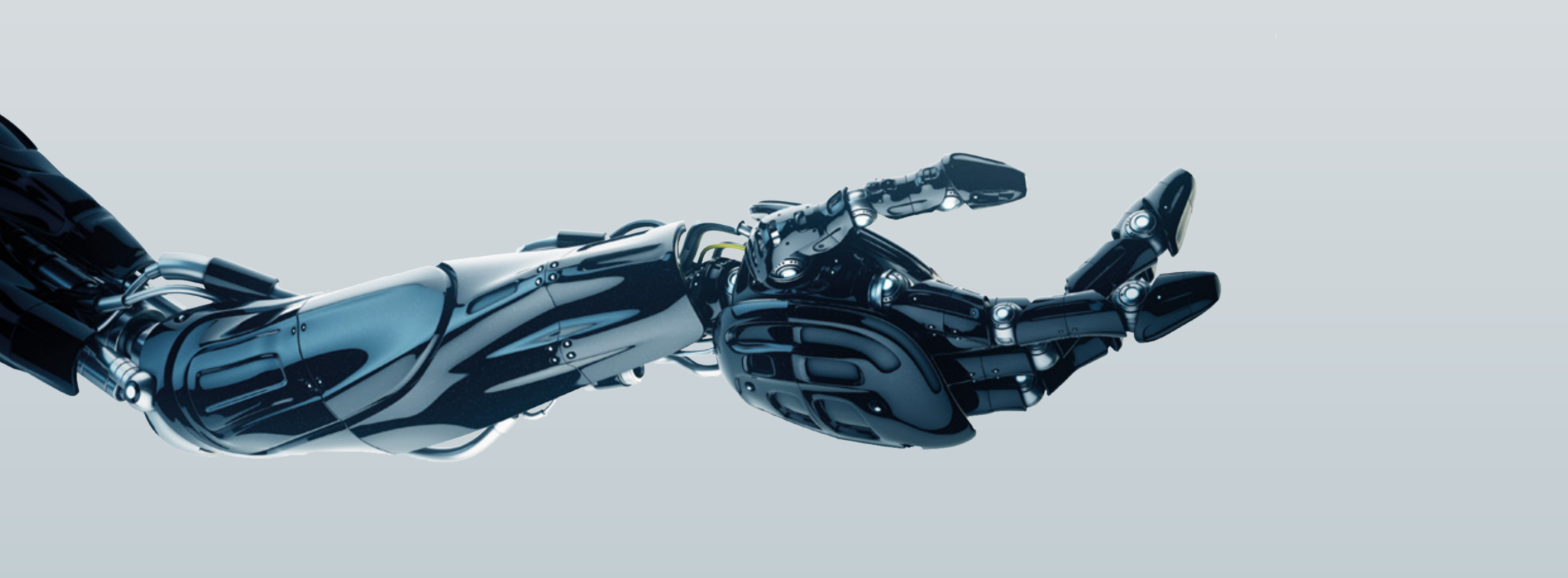
Robo-advisors offer online wealth management services, providing automated, algorithm-based portfolio management with little to no involvement by human financial planners. Most limit themselves to rebalancing or asset allocation, without addressing areas such as estate and retirement planning and cash flow timing management. Major US participants include Betterment, FutureAdvisor, SigFig and WealthFront. While still relatively small, this segment is growing very rapidly, doubling in size annually. Traditional wealth management providers are leveraging technology or partnering with new entrants to break into the robo-advisory services market.

TRANSFORMATION

The volume and pace of regulatory change and the resulting continuously evolving landscape are the largest challenges facing the US wealth management industry, creating significant and increasing costs and constraints in delivering an integrated client experience. Regulations cover customer protection, crime prevention, transparency and market stability, and particularly affect client on-boarding, advisory services and reporting. Operations and products must be continually evaluated and updated to maintain compliance.

Driven by desire for flexibility and independence, advisors and assets are shifting from wirehouse operating models to RIAs (independent firms that collect fees on clients' assets) and hybrids (independent firms that collect both fees on clients' assets and commissions on trades). This move is encouraging the development of platforms to provide RIAs with middle- and back-office infrastructure. In addition, relationships with multiple custodians and brokerage firms are increasing the demand for reconciliation and data aggregation.

New technologies including big data, social media, mobile devices, analytic capability, cloud storage and robo-advisors are disrupting the wealth management market. Advisory firms are seeking to improve operational efficiency by centralizing and consolidating their technology application portfolios.



UK AND EUROPE

On 4 December 2015 the European Supervisory Authorities (ESAs) published a Joint Committee Discussion Paper on automation in financial advice, with comments due to be submitted by 4 March 2016. European financial innovation includes a continuing increase in the digitalization of services across the banking, insurance and securities sectors and across EU Member States. Consumers are using automated tools, typically websites, to receive financial advice without or with limited human intervention. The ESAs are assessing the potential benefits and risks of automation with a view to determining appropriate future regulatory or supervisory actions. Potential benefits include wider access for consumers, provision of advice at lower cost, and the potential to deliver a highly consistent experience. Potential risks include the possibility that consumers could misunderstand advice provided to them without the benefit of a human advisor to support the process, and the possibility of limitations or errors in automated tools that may not be easily identifiable.

THE RISE OF THE ROBO-ADVISOR

Until recently, European robo-advisors were limited to a number of specialist brands such as Nutmeg, Wealth Horizon, Rockfox and Swanest in the UK, MoneyFarm in Italy, and Vaamo and owlhub in Germany. In December 2015, Deutsche Bank's online investment platform, maxblue, expanded its services to include the AnlageFinder robo-advisor, highlighting a much wider market potential than previously observed on the continent. This launch is symbolic of how new technologies are continuing to shape the next generation of wealth management services.

Robo-advisors offer a combination of automated features at low prices, allowing the retail investor to emulate professional investment strategies or explore non-traditional financial products through user-friendly and efficient platforms. As such, they are likely to continue to fuel the increasing number of discretionary relationships, while advisory ones remain fairly static.

In the current economic climate of decreasing revenue yields and increasing regulatory constraints, robo-advisors also provide the opportunity to offer wealth management services to the lower portion of the client spectrum in a cost-effective way.

CHANGING EUROPEAN INVESTMENT BEHAVIOR

Beyond the appealing economics, the rise of the robo-advisor represents a natural response to the changing demographics of wealth management: on the one hand, the aging profile of advisors and, on the other, the rise of the millennial clients toward whom wealth will eventually shift.

The new generation of wealth management clients brings with them a set of expectations which have translated in digital terms into greater information accessibility and transparency, enhanced transactional and analytical functionality (such as financial planning and online portfolio management tools), and flexible remote connections (bringing the asset manager in direct contact with the client).

Advisory firms across Europe are leveraging technology as a catalyst for change, developing and executing transformation programs -- more and more often in a holistic approach. Robo-advisors are part of a vast digital ecosystem where regulatory processes, cybersecurity and omni-channel customer experience are converging to reposition wealth management services as a whole.

AUGMENTED HUMANS ARE THE KEY ASSET

Despite the talk about robo-advisors intended to be completely automated servicers, we think that humans are still a key factor for success in wealth management. We also see this in the emergence in the US market of the independents, such as RIAs and hybrid model advisors. In fact, we think that wealth management providers will continue to need motivated and competent professionals, who can personalize the contents and humanize the solutions proposed. Meanwhile, simple “clerks” will disappear.

Furthermore, we strongly believe that those firms which position themselves as “boutiques” will succeed, by offering what is not being industrialized (while using what has been industrialized). This implies that new technology must be used and innovation kept up in order to offer unique services and identify niches which differentiate them from the pack and create value for their clients.

New technology and solutions are very important in this landscape. We believe that wealth management providers should invest in digital systems (channels, data and applications) to transform traditional private bankers into “augmented” private bankers.

DIGITAL CHANNELS

The “human touch”, the element of trust, will remain a key aspect of wealth management. However, customers will always expect tools to make their lives easier, such as the facilities which let them engage in constructive and efficient dialogue (chat) wherever they may be. Integrated technologies (co-browsing, audio and video, and advisor-centered client portals) make long-distance interactions with experts and online conversations with advisors possible.

DATA OR INFORMATION

It is increasingly easy to find or buy data that allow the identification of areas in which a provider could serve as a reference point for the customer or offer new services to him.

For example, data related to real estate assets are made public in some countries. Supplemented appropriately by information about value, geolocation, co-owners or taxes, these data may allow the development of an assessment of the customer’s financial situation and lead to the opening of discussions on the distribution of his total assets or his estate inheritance tax efficiency.

THE NEW PAPER: APPLICATIONS

Finally, we believe the wealth management industry can improve and benefit from the digitalization of two aspects of the client relationship: the advisory and the operational.

With regarding to the operational processes, the introduction of European regulations allowing the digitalization of bank contracts, subscriptions and investments through digital signatures (such as those based on biometrics) would allow advisors to spend more of their time on more valuable activities and to perform administrative tasks in just a few clicks, and even remotely. This ability is already in place in some national legislation.

Regarding the digitalization of the advisory role, we refer in particular to the utilization of tablet computers and their associated applications in meeting with clients. These apps will change the way relationships are managed: no more traditional heavy methods involving collection of paper questionnaires, input of answers into computer systems, scores or dedicated indications, and development of proposals. Already today, the use of tablets in meetings allows digitization from the beginning and a new way of working.

Moreover, with mobile applications empowered by data, wealth managers will be able to advise their clients on an extended range of themes: inheritance planning, real estate, insurance, tax optimization, etc.

We believe that further robotization is in store, and that new technologies will be the "exoskeleton" of future wealth managers.

HOW WE CAN HELP

Reply is a specialized consultancy delivering initiatives in areas including wealth management and digital services. Our capabilities include regulatory interpretation and implementation and business and technology change. We would be happy to discuss these trends with you.

Reply provides wealth management and private banking firms with innovative, digital and technological solutions, drawing on our pan-European and US industry and regulatory knowledge (leading edge consultancy services) and our proven technology delivery capabilities (over 30 wealth management and private banking credentials covering operational processes and client relationship acquisition and management processes). With over 5,000 employees in Europe and the United States, Reply successfully bridges tradition and innovation.

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