

# 2024 EY Global Wealth Management Industry Report

Rethinking the how



**EY**

Building a better  
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# Preface

Over the last two decades, the key question facing wealth management<sup>1</sup> executives was “where to play?” Our engagement with industry leaders around the world leads us to believe that the essential challenge for these leaders has shifted. Today – faced with fundamental changes in client relationships, assets in motion, shifts in competition, and under pressure to improve financial performance and strengthen client trust and value – the industry's defining question has become “how to win?” in terms of growth, profitability and sustainable competitive advantage.

This report aims to answer this question, focusing on what is decisive for outperformance mid to long-term. It shall be both a revealing mirror to the industry and an inspiration for leaders who believe they have a responsibility to design the tomorrow of their organization and shape the future of the wealth management industry.

It is our belief that any attempt to answer this question must begin with a fundamental understanding of the industry's logic of value creation and its financial performance drivers. Therefore, we intend to avoid buzzwords or restatements of well-known industry trends.

Instead, we review the drivers of evolution forcing wealth managers to rethink and reshape their core value proposition, business and operating models, data models and technology infrastructure (see Setting the scene).

We then explore the underlying industry challenges that firms must address to outperform their competitors in value creation over the next five years (see Ten underlying challenges).

Finally, we suggest practical, proven concepts, defining the business and operating model levers most likely to overcome those challenges (see Key concepts for execution) followed by deep dives into four of these concepts in order to illustrate their impact and strategic value.

We have a strong belief that organizational evolution requires leadership stepping up and owning the change agenda motivated by an inspiring purpose. Strategic action needs resilience and an intrinsic drive to overcome skepticism and what we call the organizational immune system fighting innovation. Our multidisciplinary teams in key markets and regions, along with our team at the Global Center for Wealth Management, look forward to hearing your views and continuing our dialogue and collaboration.



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<sup>1</sup> In this report, “wealth management” refers to the spectrum of private client banking for affluent wealth bands, HNW, uHNW, and family offices. Refer to Methodology for details.



# Executive summary

How to outperform in today's wealth management industry? We believe this is the existential question facing wealth management leaders – and the question that this report aims to address.

In essence, the answer can be broken down into three elements – why, what and how.

First, the “why.” Short-term performance targets, financial market volatility, technology-driven change and trends should not blur the focus; wealth managers should remain rooted in their core purpose. The essence of the industry's value proposition has always been – and will remain – supporting and coaching wealthy clients in the accumulation, protection and responsible growth of their assets and in managing their personal legacy for the benefit of future generations. Enshrining this purpose as a “North Star” with a strong sense for purpose is crucial to long-term success.

Second, the “what.” Our research identifies 10 underlying challenges that wealth managers must overcome between now and 2030. These challenges are derived from a fundamental understanding of the wealth management industry's drivers for value creation, coupled with a forward-looking analysis of the forces reshaping industry dynamics, wealthy clients' lives and the wider context.

Overcoming these challenges is vital if wealth managers are to create value for clients, stakeholders and society over the remainder of this decade. Similar to a decathlon, firms need to master them best possibly in order to consistently outperform both current rivals and future competitors.

Third and most importantly, the “how.” We have gathered experience from cases across markets and disciplines which shows there are industry-specific, objective-focused business and operating model concepts that firms apply to effectively address the industry challenges.

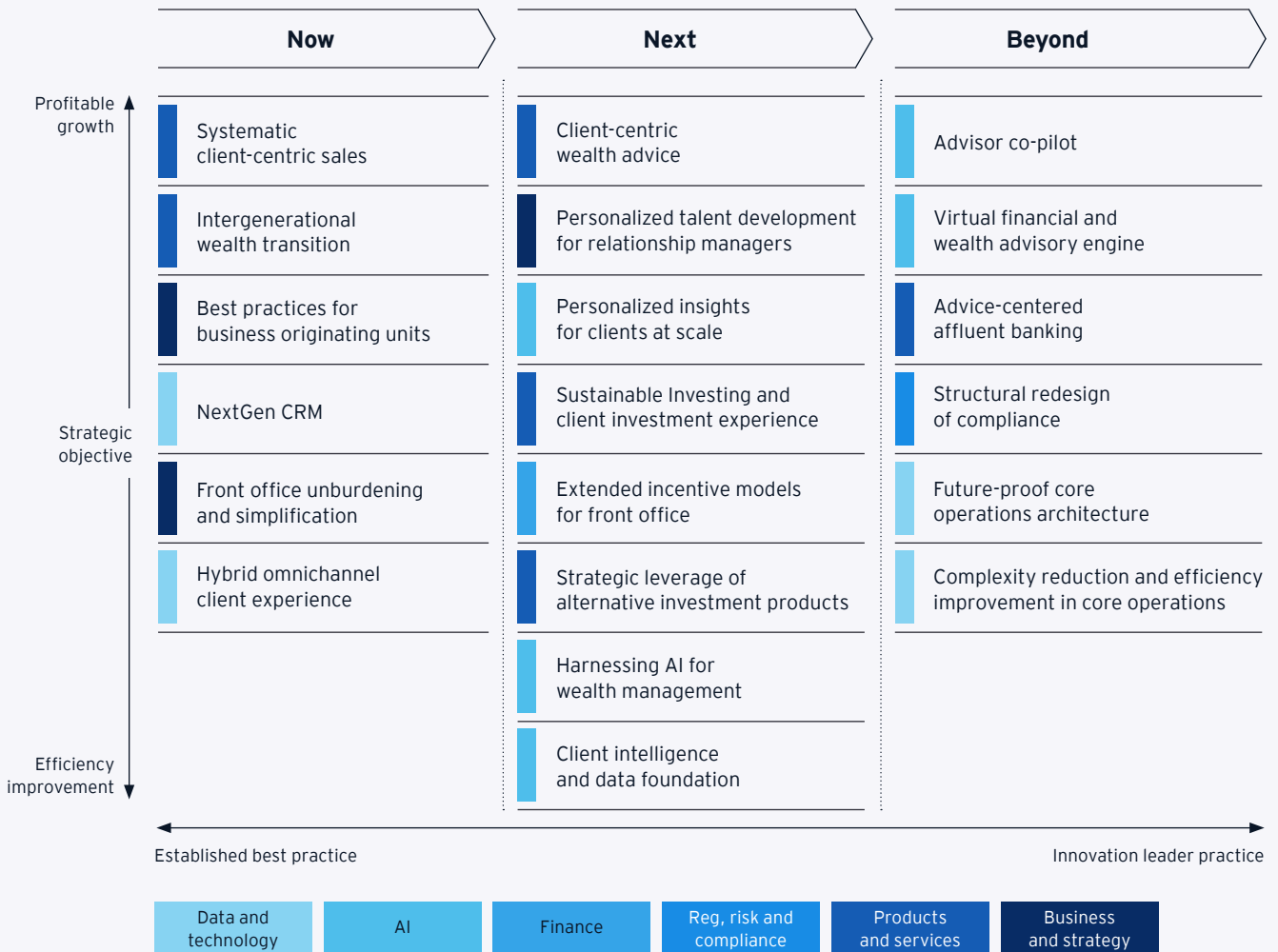
Our report identifies and defines 20 of the most impactful of these key concepts. Each one represents a real-world approach, method or blueprint with the power to address one or more of the underlying challenges facing wealth managers. We also examine four key concepts in greater depth – future of affluent banking, innovation in wealth advice, intergenerational wealth transfer and the meaning of artificial intelligence (AI) for wealth management – setting out what they do, why they work and how firms can implement them.

Despite the volatility, uncertainty, complexity and ambiguity currently facing the wealth management industry, clients' fundamental appetite for a valuable, trusted relationship they can rely on for financial and personal support is largely unchanged. Indeed, it may be greater than at any point in recent years.

The imperative for wealth managers now is to execute purposeful, focused, client-centric changes that will renew, broaden and strengthen those relationships in the years ahead. To execute and deliver on evolutionary change, emphasis on senior leadership combined with an entrepreneurial mindset for long-term value creation is key.

Firms that can harness and implement key concepts will be best placed to outperform their current and future competitors – creating the greatest value for clients, stakeholders and society.

## Key concepts to outperform in wealth management



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# 1

# Why change is needed: setting the scene

The overarching question of “how to win?” confronting wealth managers is a function of the context in which the industry operates. In this section we identify the specific macro themes which we expect to shape the industry’s development between now and 2030 – and to dictate individual firms’ priorities.

## 1.1 | Financial pressures on firms

The decade after the global financial crisis saw solid growth in wealth managers' client assets and revenue streams. Average annual financial market growth of 14% from 2012 to 2021 pushed global private client wealth to an estimated level between US\$320t and US\$360t, aided by a strong post-pandemic recovery.<sup>2</sup>

Since 2022, increases in inflation, interest rates and market volatility have created a far less promising economic outlook. Many wealth managers are experiencing weak net new asset growth, and investment management margins are being squeezed by:

- ▶ **Growing competition:** Competition from new entrants is increasing (see Structural changes, below) and a growing range of investment product and service providers is accelerating the commoditization of portfolio management.
- ▶ **Price sensitivity:** Clients are becoming more conscious of value and, thanks to greater transparency, increasingly discerning about investment charges. Regulation is boosting fee accountability, further trimming industry margins.
- ▶ **Asset allocation:** Open architecture and passive investing are eroding fee levels. Greater use of discretionary mandates and structured products has only partially offset this trend, and even higher allocations to alternative assets are unlikely to boost overall margins.

- ▶ **Higher concentration:** Wealth management has experienced a surge in M&A activity since the COVID-19 pandemic, albeit with variations across regions.<sup>3</sup> The resulting consolidation of market share is accelerating competitive dynamics.

There is every indication that wealth managers will face an incremental further erosion in gross margins over the rest of the decade. Profitability pressures are being reinforced by rigid cost structures, increasing operational complexity, growing compliance burdens, and fiercer competition for talent.

Combined growth ambitions of wealth managers exceed global growth of private wealth – while investment management margins continue to erode.

<sup>2</sup> GCWM research; private financial assets including deposits and securities, on- and offshore assets, pension funds and life insurances

<sup>3</sup> <https://www.ft.com/content/6bd98d0c-e556-4358-aa0a-a80e1628517f>

## 1.2 | Structural changes in the industry

Wealth management's historically attractive and relatively stable margins, together with its risk profile and limited costs of capital, are encouraging banks, asset managers, pension providers, health insurers and other challengers to establish or extend their market presence. This is fragmenting the provider landscape, and we expect incumbents to face increasing competition from, among others:

- ▶ **Online brokers and WealthTech firms.** So far, this group has had a limited impact on revenue and profit pools, but their influence will grow, especially as younger generations inherit and build greater wealth and WealthTech firms accelerate the digitization of the industry.
- ▶ **Asset managers,** some of which will respond to acute growth and profitability pressures in their core activities by seeking to push further into wealth management with differentiated value propositions.
- ▶ **Universal banks, wire houses, custody banks, health insurers and other global financial institutions,** which are doubling down on their efforts to extend their footprint among both affluent and high net worth (HNW) clients.

Increasing competition from these maturing players will accelerate structural change in wealth management, forcing incumbents to defend their market positions, enhance their capabilities, differentiate themselves more strongly and rethink the synergies offered by parent groups' integrated business models. Areas of growing investment by incumbents include:

- ▶ Improving wealth advice and planning capabilities; almost half of financial advisors planned to make upgrades to front office platforms in 2023<sup>4</sup> to improve client journeys.
- ▶ Digitizing processes such as client onboarding including KYC and AML,<sup>5</sup> portfolio management, client reporting, middle office operations, regulatory compliance and marketing.
- ▶ Acquiring niche investment providers, such as alternative asset managers.
- ▶ Partnering with technology vendors and banking service providers to reduce time-to-market and overcome the limitations of legacy technology systems.



<sup>4</sup> "Wealth Management Firms Set Technology Priorities for 2023," Coalition Greenwich, February 14, 2023

<sup>5</sup> Know Your Customer and Anti-Money Laundering



## 1.3 | Uncertainty and ambiguity for clients

Every generation believes that it is living through unprecedented times. Even so, wealth managers and their clients do seem to be experiencing an exceptional level of change. Key themes include:

- ▶ Slowing growth in global wealth, declining from the average annual rate of 6.6% between 2000 and 2022,<sup>6</sup> together with rising inequality in both mature and developing markets.
- ▶ Demographic shifts, increasing longevity and vast wealth transfers between generations. One analysis forecasts transfers of US\$18t by 2030 among those with net worths over US\$5m,<sup>7</sup> another expects the US market to see inheritances totaling US\$84t between 2023 and 2045.<sup>8</sup>
- ▶ Client preferences shifting toward greater personalization, convenience, sustainability and risk aversion. Demand for relevant hyper-personalization is growing in every client segment.
- ▶ Geopolitical strife including direct conflict, multipolar rivalry, social tensions, climate change and new diseases – strengthening clients' appetite for reassurance and advice.
- ▶ The advance of regulation in multiple markets, covering areas including consumer protection, financial stability, privacy, data protection, climate and sustainability.
- ▶ Disruption and displacement from new technologies such as Generative AI (GenAI), emerging technologies like blockchain and quantum computing, and cyber threats such as ransomware.
- ▶ Growing client choice, with investment innovations ranging from the democratization of private markets to the growth of digital currencies and the emergence of tokenized assets.
- ▶ Changing employment expectations and patterns of work affecting both clients and wealth management staff across areas as diverse as purpose, work-life balance, career progression and remote working.

These drivers suggest that wealth advice, investment management and client experiences are likely to change more rapidly in the next five years than in the last 20 – creating both threats and opportunities for incumbent wealth managers.

## 1.4 | The growing case for change

Collectively, the drivers of change we have outlined are reshaping the client relationships that are at the core of wealth management's purpose. Clients are gaining relative power, with an increasing focus on performance, net value, experience and brand reputation. Digitization is transforming relationships in every wealth band, including a growing preference for self-direction among affluent clients.<sup>9</sup>

Even so, it's equally crucial to appreciate that clients' desire for a valuable, trusting relationship with their wealth manager remains in essence unchanged. This is especially apparent at key moments such as market shocks or major life events when emotional stakes are in play alongside financial ones.

In the next section we examine the challenges that wealth managers must overcome to navigate this changing landscape and increase client perceived net value.

Organizations that embrace change – rooting their thinking in purpose while responding to clients' shifting needs and expectations – will be best placed to renew and strengthen client relationships and outperform in the years ahead.

Given all developments and scenarios, one truth will remain: to outperform wealth managers will need to increase perceived net value for clients.

<sup>6</sup> UBS Global Wealth Report 2023

<sup>7</sup> Preservation and Succession: Family Wealth Transfer 2021

<sup>8</sup> <https://www.nytimes.com/2023/05/14/business/economy/wealth-generations.html>

<sup>9</sup> How digitalization can drive personalization in wealth management," EY, April 2021

# 2

## What to do: 10 underlying challenges

A deep understanding of wealth management's value creation mechanisms is crucial to identifying the strategic levers of outperformance that will allow firms to optimize key value drivers such as growth, efficiency, profitability, risk and intangible assets.

This section defines the 10 most important underlying industry challenges wealth managers must overcome in order to create value for clients, stakeholders and for society.

The challenges are connected to one another, but firms which address only a handful of them will gradually fall behind. Wealth managers need to master as many of these challenges as possible if they are to consistently outperform against current peers and future competitors.

That is a tough hurdle to clear; most wealth managers are currently a distance from achieving best practice in every one of these areas. Fortunately, applying the optimal solutions will allow firms to tackle several challenges at once.

The 10 underlying challenges for wealth managers which we address in this section are to:

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- 1** Stand out in the age of personalization

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  - 2** Elevate relationship management

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  - 3** Deliver client-centric advice at scale

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  - 4** Create synergies with modular offerings

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  - 5** Provide seamless, consistent experiences

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- 6** Redefine the relationship manager

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  - 7** Outperform on organic growth

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  - 8** Overcome complexity in operations

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  - 9** Build future-proof technology and data infrastructure

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  - 10** Redesign key control functions

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## 2.1 | Stand out in the age of personalization

Wealth managers need not only to match, but to exceed, clients' increasing expectations for personalization. Firms that can clear that bar and differentiate themselves strongly will benefit in terms of client acquisition, development and retention. The challenge is to deliver exceptional tailoring to HNW clients while also stepping up personalization at scale for affluent segments.

Wealth management is intrinsically a bespoke industry. In practice, however, firms continue to draw a distinction between the higher levels of customization they provide to ultra- and upper-HNW clients and the relatively standardized service available to lower-HNW and affluent segments. Only the most profitable clients can support the costs associated with a true "white glove" experience – although the precise cutoff differs between markets.

Now, however, this key feature of wealth management business models is being undermined by evident shifts in client expectations. Digitization is sharpening personalization and convenience in many industries and incorporating new features that create more sophisticated experiences. The wealthiest clients are enjoying a surge in personalization in their online and offline lives, setting an ever-higher standard for wealth managers to exceed. For example, 93% of ultra-HNW clients view access to product specialists as an important factor.<sup>10</sup>

The increasing complexity of wealthy clients' needs and requirements is further sharpening demand for truly individualized wealth management experiences. This is about more than tailored portfolios or ad hoc wealth advice. Wealth managers need to personalize services, insights, reporting and client interactions themselves if they are to convey a strong sense of personalization and achieve meaningful differentiation.

Chasing ever-higher client expectations has the clear potential to push up costs and complexity. The challenge is to deliver exceptional levels of personalization to HNW clients, while using the power of technologies like AI to step up personalization at scale in affluent segments. Successful firms stand to generate a stronger client sense of differentiation and value creation.

### **C-suite question:**

How can we more systematically provide outstanding personalization and value to all of our clients?

<sup>10</sup> EY Global Wealth Research Report 2023," EY, April 2023

## 2.2 | Elevate relationship management

Wealth managers need to achieve a step-change in client relationship management and front office performance. This requires cultural sensitivity and carries the potential risk of client relationship harm. The challenge is to modernize and simplify front office operations in a smooth way, increasing productivity and enhancing experiences while maintaining a high level of client centricity.

Wealth managers' business-originating units have pursued a range of productivity initiatives in recent years including segmentation reviews, client profiling, client-to-relationship-manager ratios, client book purity, advisor-client matching, leakage management, incentive realignment and front office role segregation.

We observe that many of these projects have not delivered significant, lasting benefits. In fact, many firms have seen front office running costs climb without a corresponding improvement in productivity. This reflects multiple factors including a growing compliance workload, increasing operational complexity and a lack of client service innovation.

Front office practices vary widely between, for example, a Swiss private bank and a US wealth manager. In our view, though, the fundamental principles of value creation for clients are comparable, even if value extraction strategies differ. Getting the basics right – while being aware of trade-offs and avoiding excessive disruption – is key.

In our experience, sustainable improvements in relationship management require a combination of stronger individual client propositions, enhanced

front office productivity, targeted training, optimized incentives and systematic operationalization. Successful initiatives start with a purpose-driven ambition and bold financial goals, use sophisticated stewardship to further clients' interests, are validated with client and staff insights, and focus on client perceived net value. End-to-end remodeling calls for a mix of strategic, operational and tactical measures, underpinned by stringent but sensitive change management.

Customer relationship management (CRM) technology, augmented by AI, can add value by supplying next best actions, aiding financial planning and reducing relationship managers' workload. However, unlocking these benefits depends on the right skills and an optimized data architecture.

### **C-suite question:**

How do we take front office productivity to the next level while building trust?

## 2.3 | Deliver client-centric advice at scale

High-quality financial planning and advice is central to wealth managers' value proposition. The challenge is to deliver these services at scale, while providing bespoke advice to HNW clients at a manageable cost. Technology has a key role to play in boosting relevance and profitability, but many elements must be aligned for firms to materially increase the value of advice.

Research across developed markets suggests that variations in financial literacy by income levels are evident. However, given the decline with decreasing income levels and the growing complexity of investing and of wealthy clients' financial lives, this reveals a significant opportunity for wealth managers to create value by helping clients to make better decisions.

This view is supported by EY research showing that thorough financial planning and advice continues to be a vital relationship anchor, especially at crucial moments in clients' financial journeys. For example, 85% of clients value personal advice when monitoring performance.<sup>11</sup> As already described, enhancing relevance and personalization is also an increasingly vital source of differentiation and premium pricing.

However, creating value from advice depends on high up-front trust, time commitments by clients and relationship managers, and appropriate front office capabilities. It can easily become complex and costly to execute, meaning that wealth managers often struggle to make a profit from advice – even when it generates strong perceived client value.

- ▶ In the affluent segment, the core service is financial planning, but providing meaningful tailoring and value-added advice at scale, rather than falling back on “product push,” is a real challenge.

- ▶ HNW clients require more sophisticated advice and execution covering accumulation, protection and legacies, while the ultra-HNW expects truly bespoke, complex advice or family office services. Here, firms' greatest challenge is to gather the necessary range of legal, tax and investment expertise while keeping costs to serve under control.

In short, wealth planning at scale has a material positive and sustainable impact on client profitability, but finding ways to deliver it at limited cost is crucial. Technology such as AI can help wealth managers to break out of current paradigms and deliver greater perceived client value from advice at a manageable cost. But technology is only part of the story. Relationship managers' capabilities and transparency over the costs of advice are just two of the many factors that play a role in delivering trusted advice that achieves strong client satisfaction.

### C-suite question:

How can we provide every single client with valuable, tailored advice?

<sup>11</sup> 2023 EY Global Wealth Research Report, April 2023

## 2.4 | Create synergies with modular offerings

Smarter, synergistic approaches to investment choices can unlock significant value for clients and wealth managers alike. The challenge is to develop a modular offering that draws on the best in-house and external products to create a whole that's greater than the sum of its parts, enabling firms to provide customized product suites to a wider range of clients.

Wealth managers have transformed their investment offerings over the last decade. Clients enjoy access to asset classes including commodities, real estate and cryptocurrencies, along with solutions such as multi-asset, factor, sustainable, thematic and impact investing. Many firms have now added private market investment propositions to their product shelves, and some are using technology to put more portfolio management capabilities into the hands of self-directed investors.

Greater diversification gives clients exposure to more varied returns – such as the short-term performance of alternative assets or structural themes like decarbonization. New solutions also help to boost wealth managers' investment management fees. However, greater choice does not always create value: firms can struggle to personalize alternative investment offerings, to develop in-house product expertise, and to integrate new assets into discretionary portfolio management and client reporting.

All too often, adding products seems to push up risks, complexity, and the costs of advice and operations without creating sustainable improvements in client returns or profitability. This can lead wealth managers to restrict truly tailored, full-spectrum offerings to the wealthiest clients while providing others with only a limited, commoditized product suite.

In our view, the solution lies in a more ambitious, synergistic approach. This means looking beyond choice for choice's sake. Instead, firms must learn how to create lasting value from a modular approach to investment products and services – including approaches like product bundling and subscription options.

This calls for transparent investment advice; closer alignment between clients' assets and their desired financial outcomes; smoother manufacturer-distributor links; better product governance; and a flexible operating architecture that enables seamless investment management, reporting and compliance. As investment choices grow more complex, simplifying client contracting and educating clients on the benefits and risks of new solutions is also crucial to creating value.

### **C-suite question:**

How do we make our offering menus comprehensive, clear and appetizing?

## 2.5 | Provide seamless, consistent experiences

Wealth managers need to deliver smooth omnichannel experiences for every customer journey. This calls for an overall channel architecture, backed up with operational alignment that can integrate in-person and digital interactions. To outperform, firms must not only provide seamless experience across multiple channels but also maximize both efficiency and convenience in every channel.

Wealth management has always and rightly put more emphasis on face-to-face client relationships than other financial sectors. The industry may have lagged in its adoption of digital channels, but that reflected the value that clients place on personal interactions with dedicated relationship managers.

Recent developments have altered this approach. Demand for digital channels has accelerated, fueled by the COVID-19 pandemic and the rapid digitization of modern life. EY research shows that millennial clients see digital offerings as central to wealth manager selection, and that even older generations now view digital channels as table stakes.<sup>12</sup> The growing influence of WealthTech firms has also accelerated convergence and partnering between incumbents and digital-first rivals.

As they upgrade their remote and virtual capabilities, wealth managers are discovering how hard it is to deliver seamless experiences across multiple channels. Challenges include:

- ▶ The need to offer online experiences that match the look, convenience and intuitiveness clients are accustomed to receiving from digital-native industries.
- ▶ The difficulty of achieving seamless integration with traditional service models, given the key client interaction role of relationship managers.
- ▶ The reliance on third parties for elements of key operational channel capabilities, making it harder to deliver consistent, homogenous experiences.

- ▶ The difficulty of establishing a unified data and technology architecture, and of smoothing over the regulatory differences between multiple markets.

Wealth managers must overcome these barriers if they are to provide frictionless, high-quality, omnichannel experiences for all major customer journeys. That not only means allowing clients to skip between channels at will according to their needs, preferences or location.

Firms also need to maximize the value of their omnichannel architecture and technology assets to achieve a consistent experience across the interaction channels. This might include capitalizing on clients' willingness to perform low-value interactions online – helping relationship managers to focus on value-adding bespoke engagement; harnessing digital engagement tools such as chat bots, integrated video and co-browsing; and optimizing the potential for digital channels to facilitate high-value activities, like add-on sales among self-directed clients.

### C-suite question:

How can we provide smooth, joined-up client journeys across channels?

<sup>12</sup> EY Global Wealth Research Report 2023", EY, April 2023





## 2.6 | Redefine the relationship manager

Wealth managers have started to rethink and redesign the role of relationship managers, enabling them to act as prime movers in delivering differentiated, client-centric experiences. This will require empowering relationship managers with tools and training, and establishing business and operating models that enable staff to strengthen trust and increase client net value.

It's not only wealth management business models that vary between markets. So, too, do the roles of relationship managers. Swiss private banks take a very different approach compared with those in the UK and the US, for example, while client contact models differ widely across Asia-Pacific markets. These variations have a significant effect on how wealth managers acquire new clients and build relationship value.

Despite these differences, we believe that all wealth managers need to elevate the relationship manager role, developing broader stewardship capabilities that encompass advice, protection, sustainability and personal skills. As clients gain access to increasingly sophisticated investment management tools, relationship management will need to move beyond transaction support and formulaic advice - differentiating firms through a truly client-centric value proposition that delivers holistic, personalized experiences. In our view, the urgent need to renew relationship manager portfolios with a younger generation of advisors will help to develop a cadre of relationship managers able to:

- ▶ Embrace hybrid client interaction models, including new tools such as virtual client presentations, to provide high-value advice and elevate client education.
- ▶ Develop the skills to harness new technology such as AI, enhancing efficiency and personalization.

- ▶ Facilitate a coherent, integrated client experience across digital and in-person channels.
- ▶ Build expertise in key services such as wealth planning and greater competence in alternative assets, emerging investment solutions and sustainable investing.
- ▶ Complement intellectual skills and technical expertise with greater emotional intelligence and stronger risk management.
- ▶ Mentor younger staff to develop a talent pipeline for future relationship managers.

The ultimate aim for every relationship manager is to become a priority client's trusted advisor on wealth matters - effectively earning a seat at their kitchen table. That calls for more than the renewal of relationship managers' training and capabilities. It requires them to work within integrated business models that empower them to strengthen client trust and relationship value. That calls for a firmwide understanding that sustainable, profitable growth should be more reliant on client lifetime value than product contribution - underpinned by a shift in management metrics and internal incentive schemes.

### C-suite question:

How can we foster greater productivity among our relationship managers?

## 2.7 | Outperform on organic growth

Wealth managers need to develop sustainable routes to organic outperformance in asset and revenue growth — requiring a blend of strategic, operational, and tactical initiatives. These include new approaches to client acquisition, activation and development; stronger brand differentiation; and the ability to take advantage of opportunistic hiring and acquisitions.

Heightened competition and falling margins are making sustainable organic growth a key strategic imperative for wealth managers. However, volatile financial markets and clients' increasing taste for switching (44% of clients plan to switch, add a new provider or move assets in the next three years<sup>13</sup>) mean that firms can no longer rely on market growth to lift asset values. In our view, another more fundamental problem is that the design of key client journeys has been largely unchanged for decades.

As a result, wealth managers are increasingly reliant on tactical growth campaigns targeted at asset gathering, leakage management or allocating more assets to higher margin discretionary mandates. The ability to grow by hiring relationship managers from rivals is becoming less effective too, reflecting higher costs, better client book protection and weaker staff retention.

This situation creates an opportunity for wealth managers to take a strategic, innovative approach to growth to outperform their rivals. The challenge is to make client acquisition and development more systematic and to formulate more informed predictions about potential avenues for growth. Firms must also remember that the costs of retention are typically lower than those of acquisition. These factors apply not only to direct client-facing businesses, but also when firms serve wealthy clients via financial intermediaries.

At present, we do not believe that digital channels in isolation can transform client acquisition — especially among HNW clients — although they can play a valuable role in engagement and retention. For the foreseeable future, we expect client-centric journeys based on individual target insights, initiated through early-stage person-to-person interactions, to outperform digital acquisition.

Given time, a more systematic approach to organic growth will not only help wealth managers to outperform the market, it will also reduce pressure on relationship managers, allowing them to focus on delivering relevant and differentiated experiences. The goal for wealth management firms should be to develop a multi-driver growth model that improves the profitability of existing clients, strengthens client acquisition and retention, and increases levels of cross-sell.

### C-suite question:

How can we systematically increase conversion rates for client acquisition, add-on sales and retention?

<sup>13</sup> EY Global Wealth Research Report 2023", EY, April 2023



## 2.8 | Overcome complexity in operations

As client offerings have grown broader and deeper, wealth managers have seen their operating models progressively gain complexity – and inefficiency. The challenge is to break out of this cycle by taking a more systematic approach to efficiency, building scalable operating models for future growth.

Despite largely favorable markets, aggregate cost-income ratios in wealth management have deteriorated during the last decade. Operating models have suffered waves of growing complexity as firms have broadened market coverage, client segments, on- and offshore activity, offerings including structured financing and channel functionality. This complexity has driven up day-to-day running costs across core and support functions.

In response, wealth managers have targeted cost reduction and automation using management approaches such as Lean, Six Sigma, Agile and business process re-engineering. In general, these initiatives have generated short-term savings, but they have often failed to deliver sustainable improvements in efficiency. Current extensions to client offerings – such as private market products and new online channels – threaten to further complicate operating models.

Barriers to economies of scale are unusually high in many areas of wealth management, and especially where asset management, asset servicing and investment banking are vertically integrated. Firms are rightly reluctant to limit the products and services they offer to clients, or to rely on shared service centers and outsourcing. Even so, there is no absolute reason why broader client offerings should be incompatible with progressive improvements in efficiency.

The challenge for wealth managers is to move beyond tactical approaches to cost cutting and take a more strategic approach to driving profitable growth efficiently.

Firms should aim for systematic programs that can deliver sustainable, incremental gains across the whole business. These need to:

- ▶ Use a targeted mix of strategic, structural and tactical cost optimization levers.
- ▶ Distinguish between value-driving complexity and value-diluting inefficiency.
- ▶ Leverage new technologies and ways of working to simplify and harmonize operations.
- ▶ Identify inefficiencies arising from siloed operations or shared infrastructure for firms aligned with larger organizations.
- ▶ Understand which activities may be better performed by external providers than in-house staff.
- ▶ Build on a simple, flexible, future-proof operations and technology architecture (see section 2.9).

The objective should be to establish scalable, adaptable operating models that can enable better client experiences, handle higher volumes and take advantage of future opportunities without matching levels of cost growth.

### C-suite question:

How can we achieve sustainable profitability gains, despite growing complexity?

## 2.9 | Build future-proof technology and data infrastructure

For many wealth managers, the goal of developing a clean, flexible data and technology architecture always seems to be just out of reach. The benefits of a future-proof infrastructure are compelling, but this is something that most firms have not yet been able to establish.

We are seeing technology spending become a leading driver of increased cost growth for wealth managers. Firms have invested in several waves of technology innovation – including packaged software, software as a service (SaaS), platform as a service (PaaS), robotics, cloud and AI – that have often generated conflicting architecture implications. The repeated addition of third-party solutions has led to more inflexible infrastructures based around legacy core systems, resulting in spiraling technology complexity and increasing dependence on external providers.

Complex technology structures not only push up the long-term costs of ownership, they also complicate data management, making it harder to establish a “single source of truth” and increase firms’ skill requirements. These self-reinforcing challenges depress profitability, damage client experiences and delay time to market for new products and services.

The challenge for wealth managers is to deliver a step change in the simplicity and flexibility of their data and technology architectures – something the industry has struggled to achieve to date. The development of a future-proof technology and data infrastructure should minimize risks to existing platforms and use aggregation layers to maximize the value of legacy systems and data. Key elements of this transformation might include:

- ▶ Renewing core banking systems, taking advantage of market-leading platforms from independent vendors or (especially for smaller firms) using a third party, end-to-end outsourcing service provider.
- ▶ Developing a coherent enterprise-wide data architecture, underpinned by a clear data strategy, strong data governance and robust data management.
- ▶ Creating a strategic sourcing model, with the modularity to build up capabilities quickly by applying emerging third-party solutions and tapping into growing industry ecosystems.

A truly future-proof data and technology infrastructure will enable wealth managers to deliver coherent real-time, single-client views; seamless client journeys; and consistent omnichannel experiences which are supported by responsible AI, data and cyber risk, and hybrid cloud architectures. It will also ensure firms are ready to capitalize on future market, technological and regulatory developments, facilitating faster growth as well as sustainable increases in profitability.

### C-suite question:

What is our design for a powerful, efficient and adaptable technology and data architecture?

## 2.10 | Redesign key control functions

Wealth managers need to transform the efficiency and effectiveness of their risk management and compliance activities. The challenge is to sweep away outdated controls and complex processes – as well as institute significant cultural changes – without compromising on safety and security.

Many wealth managers have seen their compliance costs double over the last decade. Regulatory footprints have grown as firms enter new markets and offer a wider range of products and services. In addition, the years since the financial crisis have seen the scope of regulation broaden to encompass customer protection, financial stability, data protection and sustainability. Supervisors have also increased their demands on firms' resources. With intelligent redesign, the required changes might have led to efficiency improvements, but in practice more onerous compliance requirements have typically generated greater complexity in operations and technology.

As a result, firms today can find that the compliance and risk management costs of new activities exceed the associated revenues, while customer focus is frequently diluted by front office related duties. And yet, despite heightened spending, many firms still suffer fines and reputational damage from failures of control.

Wealth managers need to break out of this unsustainable cycle and develop control models that not only make risk management and compliance less costly but also more effective.

In our view, a systematic approach challenging the historically grown status quo can yield significant savings. Some firms have found that up to a third of legacy controls have been superseded by more recent regulatory requirements. Stripping away these redundant processes, while harnessing new technologies like AI surveillance, controls monitoring and automation, has huge potential to streamline reporting and key processes.

New control models can boost growth, too. The ability to quickly adapt risk management and compliance functions can be a significant enabler of organic growth – and opportunistic expansion.

Achieving this goal is not just a major operational challenge; the cultural barriers are significant, too. These include building closer links between control functions and business units; revolutionizing talent management and development; and – last, but not least – convincing stakeholders that there are modern operating model alternatives delivering on the traditional three-lines-of-defense model.

### **C-suite question:**

How can we evolve toward modern, efficient risk management and compliance?

# 3

# How to do it: key concepts for execution

In this section we explore how wealth managers can begin answering the “how-to-win?” question.



In this section, we explore how wealth managers can begin answering the “how to win?” question.

We believe the answer lies in harnessing key business and operating model concepts that will be most effective in addressing the 10 underlying challenges.

Drawing on our experience across diverse markets, our wealth management teams’ multidisciplinary capabilities and our Global Center for Wealth Management, we have identified and prioritized 20 such concepts. Some have a proven track record but have been sidelined by a preference for tactical approaches; others are more innovative, offering industry leaders the chance to excel over their competitors. We believe that each one can be

strategically valuable to any wealth manager, although their relevance will vary according to each firm’s unique circumstances.

The key concepts represent industry-specific approaches, methods or operating blueprints that deliver against wealth managers’ specific strategic objectives. Each has the power to help wealth managers address one or more of the underlying challenges they face.

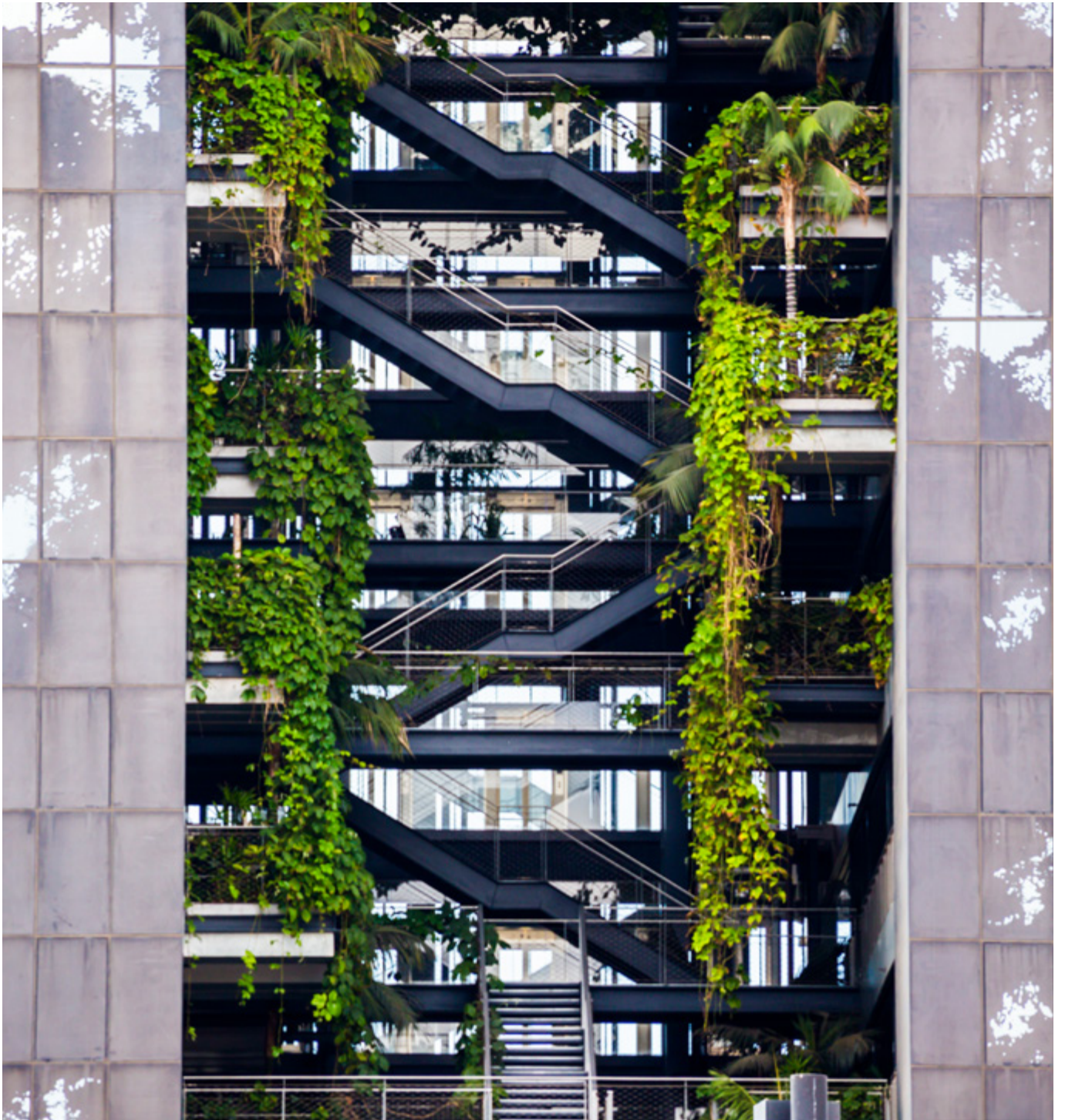
We now summarize the 20 key concepts (in alphabetical order) before making a deep dive into four of them to illustrate examples of their suitability and effectiveness as solutions in wealth management.

Key concept	Description
<p><b>1 Advice-centered affluent banking</b> (see Deep dive 1)</p>	<p>An innovative and integrated business and operating model alternative to traditional affluent banking strategies that addresses the untapped potential of client value related to financial health while competing effectively for trust in the affluent segment. With a client-centric design, the blueprint is built around financial and wealth planning covering the entire client lifecycle. In essence, this concept is a redesign of affluent banking with today’s optionality.</p>
<p><b>2 Advisor co-pilot</b></p>	<p>Advisor co-pilots are virtual assistants that enable relationship managers, investment managers and specialist advisors to improve their day-to-day productivity and efficiency – ensuring that interpersonal relationships remain the anchor of business origination. Co-pilots assist with client intelligence gathering, interaction preparation, insights development, advice recommendations, next-best-action guidance and administration. In addition, co-pilots help to overcome the challenge of enforcing compliance and ensuring efficient client transaction support.</p>
<p><b>3 Best practices for business originating units</b></p>	<p>A set of specific operating model design features targeting business origination performance. Differentiated by client wealth bands, regions and franchise maturity, the design features cover front office operations, intra-organizational alignment and collaboration, team organization, incentive structures and management (of segments, client books, sales, leakage, and teams).</p>

Key concept	Description
<b>4 Client-centric wealth advice</b> (see Deep dive 2)	An operational blueprint for wealth advice differentiated by client wealth band. It delivers a step-change in the net perceived value of personalized client advice, replacing tactical or product-centric investment advice delivered through a rigid framework. Key components include holistic financial and wealth planning, aggregated bankable assets, a multidimensional view on wealth, client objectives and lifecycle priorities, client best practices, value-enhancing annual client meetings and proactive leakage management.
<b>5 Client intelligence and data foundation</b>	A unified framework for client data management. It is based on a connected, interoperable data architecture that spans the organization and features defined processes, stringent governance and robust security risk mitigation. Automated analytics are applied to internal and external data sources to develop client intelligence data, information and knowledge – including client profiling.
<b>6 Complexity reduction and efficiency improvement in core operations</b>	A self-funding, systematic approach that allows wealth managers to deliver higher economies of scale across client segments, offerings, geographical markets, operating centers and regulatory environments. The approach iteratively separates value-adding complexity from cumulating inefficiencies in core operations. The latter are typically connected with profit-dilutive client groups or product clusters; sub-optimally standardized and automated processes; legacy data and technology architectures; and fragmented legal entities.
<b>7 Enhanced CRM</b>	A blueprint for state-of-the-art CRM architectures with comprehensive coverage of front office needs. Key features include role specific interfaces; full client lifecycle coverage; integrated and seamless advisor co-pilot functionality with workflow automation capabilities (see Advisor co-pilot); frictionless user experiences (including investment management, execution, reporting and real-time or post-call intelligence compliance); and a multichannel architecture with robust security.
<b>8 Extended incentive models for front office</b>	Recalibrating performance-based rewards enhances front office performance while increasing the retention of successful relationship managers. The aim is to balance tangible client book KPIs (such as AuM, NNA/NNM, CBV profitability and product sales targets) with intangible but strategic KPIs (such as client satisfaction, key client acquisition/development/retention, wealth transfers between generations and talent development).
<b>9 Front office unburdening and simplification</b>	A portfolio of strategic, operational and tactical levers to simplify the front office. Reducing time spent on administration and compliance allows business origination teams to outperform in terms of client relationship building and financial performance. Innovative levers that improve front unit productivity include AI-enabled smart workflow management, triage and automation of administrative requests including collaterals, and agent-driven data gathering and reconciliation.

Key concept	Description
<b>10</b> <b>Future-proof core operations architecture</b>	<p>Consistent blueprints specific to wealth management business models, differentiating alternative architectures for core operations, technology, and data. These allow firms to harness best-of-breed wealth-tech in their front and middle offices, taking advantage of optionality while retaining core banking vendors as strategic partners. Optionality covers sourcing (e.g., custom development, packaged software, SaaS, BPO); deployment (e.g., on-site, hosted or cloud); and variations in technology and data infrastructure.</p>
<b>11</b> <b>Harnessing AI for wealth management</b> (see Deep dive 4)	<p>This is about harnessing the power of AI in a way that delivers clear and sustainable competitive advantages while carefully managing risks. It covers the use of AI in functions like compliance, operations and risk management, and emerging applications of GenAI to areas such as innovation, RM enablement and client advice. The aim is to identify and mitigate potential risks. Key elements include model risk management and governance, AI framework and inventory, AI model assessments, regulatory compliance, data quality and security assurance.</p>
<b>12</b> <b>Hybrid omnichannel client experience</b>	<p>A portfolio of client journeys, with operational and technological design details and specific market-leading features. In combination with a wealth management specific software interoperability layer and a consolidated data store, this concept ensures seamless customer experiences, frictionless flexibility between channels, and accelerated feature innovation.</p>
<b>13</b> <b>Intergenerational wealth transition</b> (see Deep dive 3)	<p>As a tailored response to the opportunities and threats arising from demographic client shifts, this concept focuses on the financial implications of intergenerational wealth transfer. The solution combines the alignment of specific elements of the business and operating model (especially advice and offerings) with a strategic initiative that aims to increase asset retention based on best practices.</p>
<b>14</b> <b>Personalized talent development for relationship managers</b>	<p>A framework for systematic talent development that aims to incrementally upskill relationship managers to better perform in their day-to-day work. It does this through a combination of technology-based interactive training (covering best practices for relationship management, wealth advice, administration and other core tasks) and a structured program to share insights and knowledge that bring value and relevance to client conversations.</p>
<b>15</b> <b>Personalized insights for clients at scale</b>	<p>A process and technology blueprint that harnesses GenAI-enabled technology systems to deliver client-specific insights at scale. The ability to answer client questions and provide relevant insights on demand, and in a valued format, is a key driver of client perceived net value. Well-structured data access is required – covering client information, investment portfolios, internal and external investment products, research, and compliance.</p>

Key concept	Description
<b>16 Strategic leverage of alternative investment products</b>	<p>This is a front-to-back, end-to-end strategy for taking advantage of what is now an established trend for the democratization of alternative investments. Key elements of the approach include a compelling value proposition, client targeting, provider and product preselection, expert investment advice, client experiences, front office training and enablement, and embedding alternatives into discretionary mandates. It also encompasses operations, compliance and a prudent approach to risk.</p>
<b>17 Structural redesign of compliance</b>	<p>A concept that details specific options for the operating model and organizational setup of compliance. It sets out key aspects of data and technology architectures and explores the viability of predictive or ex-ante compliance in the first and second line of defense. Redesigning compliance can reverse the cost build-up that has been an unwanted side effect of a decade's investments in upskilling, digitization, analytics, sourcing, shoring, RegTech and now AI.</p>
<b>18 Sustainable investing and client investment experience</b>	<p>This blueprint enhances wealth managers' ability to provide credible, compliant investment products and advice in the field of sustainable investing (SI) – justifying a premium. Its application encompasses firms that approach SI as a purpose-led strategic cornerstone and those that view SI as a tactical extension to their investment offering. It works by ensuring streamlined data management and operations and by creating client investment experiences that target individual themes and preferences.</p>
<b>19 Systematic client-centric sales</b>	<p>An innovative toolkit for designing a systematic approach that materially increases conversion rates, targeting specific client groups. It works by establishing and continuously finetuning a sequence of predefined tactical actions to boost client acquisition, activation, development and retention. The concept is also suitable for higher margin products such as structured lending, discretionary mandates or private market investments.</p>
<b>20 Virtual engine for financial and wealth advice</b>	<p>A comprehensive business and operating model blueprint for a virtual financial and wealth advice engine. It enhances wealth managers' readiness for a future in which tech-enabled tools and virtual personal assistants will be increasingly trusted to deliver complex financial advice – and not only to self-directed clients. Virtual engines can adopt new AI-powered features as they become available.</p>



### 3.1 | Deep dive 1

## A personal trainer for wealth: advice-centered affluent banking

Delivering tailored, client-centric advice to mass and core affluent clients<sup>14</sup> in a way that strengthens their long-term wealth accumulation is one of the industry's greatest challenges. These segments need increasing support

#### Key concept

An innovative, integrated business and operating model alternative to traditional affluent banking strategies aimed at the lower segments of the wealth spectrum. It addresses the untapped potential of client value related

#### The rationale

Affluent banking can deliver higher basis-point margins than HNW client segments, but the combination of lower client asset levels with above-retail banking costs makes this a challenging business for many firms, especially when extending existing business models from HNW services to lower wealth bands.

However, this is a segment with material untapped potential: traditional affluent wealth management models, based on standard banking products and a strategic focus on cross-selling, fall short on financial advice. The advice gap has been increased by regulatory interventions and changing fee models, while product push and client-facing incentive models have also eroded trust.

to manage their financial health amid growing volatility and more complex family arrangements. How can today's firms evolve their business models to deliver more and lasting value while generating adequate profitability?

to financial health, competing effectively for trust in the affluent segments. The client-centric design of this blueprint is built around financial and wealth planning for covering the entire client lifecycle.

Shifting client interaction preferences, the perceived commoditization of products and advances in technology all point toward an inflection point for affluent banking models in which financial advice becomes the anchor of a meaningful and lasting relationship. The number of clients, the potential for client business consolidation and the increase in client lifetime value present a major opportunity. Our research shows that clients who engage in wealth planning are ~10bp more profitable in terms of fees, have 16% longer tenure and can increase their AUM by as much as a quarter.

This segment has a material imbalance between what will add value to a client's financial health and the capability of the industry in addressing these clients' financial health.

<sup>14</sup> Clients able to accumulate some savings (mass affluent) or significant savings (core affluent) but who must also work to generate income. See Methodology for details.

**The method**

The key to building trust and engagement among affluent clients is to give them the support and tools they need to make better decisions – building and tracking a holistic plan toward key personal objectives. The advisory process precedes the extension of client business volumes across products and solutions, which follows naturally as trust grows – clients decide on the outcomes they want to achieve, not the products that they are marketed. This shifts the paradigm from a product value focus to one of client value, with the product becoming the means to an end.

Institutions can leverage current developments in operations and technology to renew their affluent banking business models by:

- ▶ Providing advice systematically and at scale to a broader share of clients increasing the value of advice through better client intelligence and proactive recommendations.
- ▶ Helping clients to construct a basic but useful financial life plan, based on a few but key data

- points (including age, income, expenses, location, investments, cash, debt, pension provision, expectation on inheritance, dependents, and retirement goals).
- ▶ Providing a scoring framework for financial health and incentivization to act in line with financial goals via nudges engaging clients in tracking their financial fitness and improving their situation.
- ▶ Allowing clients to define their own engagement style, through a modular approach to client experience and curated educational content starting with scientifically proven principles for financial understanding.
- ▶ Using agile principles and incremental knowledge to test a market-differentiating value proposition on one segment in one market, followed by using learnings to transform additional client journeys and expand the scope.
- ▶ Building the underlying infrastructure and best practices for financial planning to roll out a data-powered, scalable operating model for the front office.

**The enablers**

Rooting the design of a new affluent advice-centric business and operating model(s) in the organization’s purpose with a strategic prioritization versus other demands which create less additional value for clients.

Cross-functional capabilities to own and deliver the customer outcomes end to end will enable quicker

development and more consistent experiences – ultimately driving client centricity throughout.

Combining the creation of a new client-led value proposition and pursuing the evolution of the operating model with a bold profitable growth ambition.

**The benefits**

The key benefits of advice-centric affluent banking models include:

- ▶ More effective cross-selling, as clients implement better financial decisions quickly and easily within a central ecosystem.
- ▶ Increasing market share and business volumes as more clients’ financial health improves, and self-reinforcing effects accelerate enhancements of perceived value.

- ▶ Greater client lifetime value as retention improves, with clients staying through the accumulation and decumulation phases.
- ▶ More stable revenue and profit, as greater customer scale enhances predictability, strategic planning and resilience to market volatility.

## 3.2 | Deep dive 2

# Elevating the value of advice: client-centric wealth advice

Clients' financial and wealth advice needs vary widely according to their circumstances, needs and expectations, but the relevance of hyper-personalized advice in strengthening client relationships and client perceived net

value is generally undisputed. How can wealth managers increase the value this service creates and deliver it on a greater scale?

### Key concept

An innovative operational blueprint for wealth advice, differentiated by client wealth band, that achieves a step

change in client perceived value vs. tactical, product-centric advice delivered through a rigid framework.

### The rationale

There is no single model of best practice in wealth advice. Firms typically segregate affluent, HNW and ultra-HNW clients, and national variations of client wealth bands have evolved over time. Even so, a focus on short-term performance has incentivized product push and high margin sales, creating an industry trend towards more product-centric advice. Legislation and regulation aimed at consumer protection have also made advisory processes more inflexible. Today, many providers use a structured advisory process that ensures regulatory compliance but often fails to fully exploit the potential of value-added advice.

The overall effect has been to deprioritize clients' long-term financial goals. Over the last decade, that has increased clients' focus on investment returns and charges, eroding the value of advice and increasing margin pressure. Most banks today face special conditions for a share of their client book that has grown far beyond majority.

This situation creates a strategic opportunity for firms that can deliver a step change in advice, differentiating through client centricity and a relentless focus on client perceived net value.



### The method

Wealth managers have the strategic opportunity to step up their value proposition and redesign their advisory processes, making advice far more closely aligned with clients' goals and personal preferences – and delivering that improved model at scale.

Client-centric advisory and service models need to: provide holistic advice based on clients' personal goals; tailor advice to different wealth bands and lifecycle phases; address growing product choice and commoditization; meet increasingly complex client needs with best practices; and facilitate intergenerational wealth transfer. Based on our project experience, dialogue with executives and financial analysis, we see four distinct business models:

- ▶ **Mass affluent:** Advice focuses on building and maintaining financial health. Financial planning is the relationship anchor. Advisors act as coaches who empower clients to navigate their decisions, harness a modular offering, and achieve their financial goals. Delivering this client-centric model at scale is the greatest challenge for firms (for more details see section 3.1).
- ▶ **Core affluent:** Similar to the mass affluent model, but with more wealth advisory mentoring. Holistic financial planning is focused on wealth aggregation with long-term goals forming the core of the advisory relationship. Again, scaling is a key challenge.
- ▶ **High Net Worth:** Advice focuses on protecting and growing long-term wealth. Wealth planning involving family members forms the relationship anchor. Advisors should act as trusted fiduciaries service clients' best interests and providing unbiased advice. Value propositions vary with client need (e.g., entrepreneurs, executives, independent wealthy) and lifecycle stage. A robust self-service platform for self-directed clients is a key feature and can also effectively act as a feeder.
- ▶ **Ultra-HNW:** Advice focuses on adding value through complex multidisciplinary subject matter expertise in cooperation with an extended ecosystem – such as advising clients on personal legacies, foundations or trust arrangements. The advisor acts as a trusted professional, combining strategic thinking, analytic skills, and clear communications with the ability to orchestrate multiple actors and solutions. Managing costs to serve is a key challenge.



**The enablers**

Rebalancing incentive structures for front office staff away from simplistic short-term targets and toward more balanced strategic client objectives that promote sustainable profitable growth.

Equipping relationship managers and front office support teams to understand clients' specific needs, leverage advice best practices for clients and advisors, align advice

with client key life goals and tailor suggested solutions to personal investment preferences.

Driving adoption of the required practices and expertise throughout the organization.

Developing a state-of-the-art platform strategy able to deliver advice to cost sensitive self-directed clients.

**The benefits**

The strategic and financial benefits of client-centric wealth advice and services include:

- ▶ Stronger long-term client profitability and better overall financial performance than for firms with more generic advice models.
- ▶ Enhanced customer loyalty and greater likelihood of clients consolidating their assets with their lead wealth provider.
- ▶ Higher yearly numbers of new clients per relationship manager, together with stronger recurring revenue streams and better value extraction.
- ▶ Materially improved positioning to address the key challenge of intergenerational wealth transfer.



### 3.3 | **Deep dive 3** Steering the great transition: intergenerational wealth transfer



Intergenerational wealth transfer presents a vast opportunity for wealth managers but also a critical threat to firms that fail to activate donors and build trust with inheritors. In particular, pure play wealth managers and

combined wealth and asset management businesses need to prevent potential outflows. What decisive measures have proven to be effective in addressing clients' intergenerational wealth transfer?

#### Key concept

A bespoke strategy and operating model concept focused on the financial implications of intergenerational wealth

transfer, that addresses both the opportunities and threats arising from demographic client shifts.

#### The rationale

An unprecedented, multi-decade transfer of wealth from Baby Boomers (“donors”) to younger generations (“inheritors”) has already begun. A recent report states that 2023 saw more new billionaires created by inheritance than entrepreneurship.<sup>17</sup>

This unprecedented wealth shift presents unique opportunities for wealth managers, with huge volumes of assets in motion and immense net new money flows to play for. It also threatens major outflows

for incumbents without robust wealth transition and legacy-focused advice.

However, this sensitive topic for clients and relationship managers is a tough challenge. Donors have a natural tendency to procrastinate, despite the risks of delay; and many wealth managers are not yet in a position to engage future donors smartly and fully address the needs of clients on both sides of the intergenerational transfer.

<sup>15</sup> Billionaires ambition report 2023, UBS

**The method**

Wealth managers need to adopt a more strategic and systematic approach. This includes building relationship managers' confidence in their ability to engage proactively with donors on the purpose of their wealth. The aim should be to shift the narrative from "succession" (which may have negative connotations) towards family protection, peace of mind and "legacy" (personal, professional and perhaps philanthropic).

Firms also need to establish relevance with future inheritors who may not currently be clients. Advisory and service models are important, along with multi-generational channel strategies, but the primary aim should be a continuous effort to better understand:

- ▶ Inheritors' needs and values, which may be more complex than those of donors owing to the increasing globalization of wealthy families, political and financial market uncertainty, more frequent and complex family lifetime events, the growing wealth of women and less traditional family structures.
- ▶ Inheritors' preparedness, which may include lower levels of financial literacy and less inherent ability to navigate the familial challenges of intergenerational wealth transfers. EY research also suggests that

younger generations are more likely to be overwhelmed by complexity, requiring higher levels of empathy, and to have idiosyncratic investment beliefs.<sup>18</sup>

Patience and trust in client engagement is essential, given that intergenerational transfers require preparation over years or even decades. Wealth managers can take a gradual approach by:

- ▶ Starting small, with client conversations about plausible scenarios that naturally introduce topics such as power of attorney, living wills and last will execution.
- ▶ Building momentum, trust and confidence before addressing more sensitive and complex topics such as inheritance planning.
- ▶ Anticipating complexity and being ready for multi-stage transitions, with wealth transferring between spouses before passing between generations.

In addition, firms should assess a portfolio of tactical measures aimed at increasing conversion rates for inherited wealth – such as partner relationship building, multi-generational client coverage, preemptive onboarding, family wealth offerings, first- and second-generation community management, and relationship manager playbooks.

**The enablers**

Evolving the value proposition and advisory model for donors and inheritors, making the transition to a fully client-centric model of wealth advice and avoiding product push.

Rejecting simplistic assumptions about inheritors' needs and objectives, such as over-emphasizing digital

capabilities; we believe these aspects are relevant but not decisive.

Developing a combination of client relevance and specific subject matter expertise (including family governance, values, tax, legal) and soft skills among front office staff – aided by advisor co-pilots.

**The benefits**

The benefits of a defined business and operating model for intergenerational wealth transition include:

- ▶ Increased capture of intergenerational wealth during donor lifetimes, building the foundation for additional asset growth with inheritors.
- ▶ Higher trust, perceived net value and wallet share among donor clients and their partners.
- ▶ The acquisition of clients inheriting wealth from donors who were competitors' clients, with the potential for high levels of client development and retention.

<sup>16</sup> EY Global Wealth Research Report 2023", EY, April 2023

## 3.4 | **Deep dive 4**

# Ghost in the machine: harnessing AI for wealth management

The strategic meaning of AI is widely discussed in the industry. The potential for AI to improve productivity, efficiency and client experiences in wealth management

appears to be obvious, but how can firms maximize the value of their investments in this pivotal technology?

### Key concept

A framework for harnessing AI in a strategic, secure, responsible way, ensuring it delivers clear and sustainable benefits to both clients and wealth managers.

### The rationale

AI-enabled automation and customized AI assets have significant potential to improve front office productivity and experiences across the value chain. This is not limited to risk and compliance; AI applications can transform information search and retrieval, research and synthesis, intelligent content generation, query handling, and cognitive workflow management. While taking a cautious approach to client interactions, market leaders are already moving to embed AI into their business and operating models.

It's also striking that clients and wealth managers alike are increasingly willing for AI to support relationship managers and investment advisors in the front office, including for client engagement and the delivery of client insights.

This is clearly a long-term structural development with the potential to disrupt existing value chains, shape future wealth management business and operating models and have profound effects on adjacent industries.

The method

Wealth managers can use AI both to deliver relatively immediate payoffs in operational efficiency, and to generate longer-term value creation through improved client experiences, increasing share of wallet, and net new asset acquisition

In our view, client-facing improvements will generate the greatest benefits over time; for example, by strengthening personalization, advice, and client self-service. The most successful approaches will avoid the risks of hype cycles by focusing on valuable, targeted use cases. We expect to see three key areas of focus among front office applications:

- ▶ **Client self-service solutions:** Using language models and in-house knowledge resources to generate instant, natural responses to client – and relationship manager – queries. By layering AI on top of existing

contact capabilities, firms can provide a next-generation service that delivers more personalized, proactive client insights.

- ▶ **Omnichannel customer support optimization:** Applying an AI co-pilot as part of an omnichannel approach to provide real-time support along the client journeys across a variety of platforms, allowing relationship manager to dedicate more time to clients.
- ▶ **Personalization and sentiment matching:** Using AI to summarize and synthesize the history of a client’s interactions across all their wealth manager’s platforms, ensuring staff can deliver the desired information, personalized advice, product recommendations and wealth planning in the client’s preferred style and format.

The enablers

Acquiring a strategic view of data, backed up with the right hybrid architecture; the ability of AI to create value depends heavily on data quality – which is already a challenge for many firms.

Funding and implementing the technology transformation initiatives required to leverage the full potential of AI.

Addressing the talent agenda and developing a shared understanding of how to experiment, test, and implement new AI-driven capabilities across the organization.

Ensuring that legitimate concerns around the risk and compliance implications of new use cases are addressed by setting up strong AI guardrails.

Establishing a robust, transparent governance framework that takes a proportionate approach to managing the risks of AI – especially in emerging areas like large language models.

The benefits

The benefits of harnessing AI for wealth and asset management include:

- ▶ The transformation of client interactions and communications using AI, especially for self-service clients, cross interaction channels and in real time.

- ▶ Enhanced client experiences owing to more valuable, tailored recommendations for products and services.
- ▶ Significant efficiency gains achieved through task automation and process simplification.



# Methodology





This paper draws on research by the EY Global Center for Wealth Management, the global wealth and asset management knowledge function, and our wealth management professionals around the world.

Throughout this document, we refer to wealth management as banking services for the spectrum of client wealth bands ranging from mass affluent to high net worth (HNW), ultra-HNW and family offices; private banking includes the HNW, UHNW and family office client segments.

There is no globally agreed set of definitions for wealth management or for client segments such as mass and core affluent, lower and upper-HNW, or ultra-HNW. This reflects differences in income levels, wealth distribution, and living costs between key markets. We define the entry level for affluent clients as the household's ability to invest at least 10% of pre-tax income with no short- or mid-term financing goal, and for HNW as the ability to cover household expenses using total asset returns only.

Please refer to the table below for a full definition of the wealth bands we refer to in this paper when describing different client segments. We have intentionally varied the precise cutoff points since, in our view, absolute levels of wealth are less important than clients' needs and the meaning of wealth to them. The aim is to provide flexible client definitions that enable useful comparisons to be drawn between different markets.

For market sizing, we use the methodology of our Global Center for Wealth Management, which is built on multi-source data gathering, validation and analysis segregating individual market onshore wealth (population, households, financial assets, nonfinancial assets, debt, total net worth, and total bankable assets, households in wealth bands, wealth and income distribution metrics) and offshore wealth (private differentiated by domicile and institutional). Based on this, net new wealth, asset shifts from insurance and pension schemes, changes due to performance and foreign exchange (FX), and shifts of offshore wealth are derived based on available data and/or qualified assumptions where required.



Wealth band segment	Definition	Net wealth threshold (illustrative markets; lower bound; US\$m)		
		CHE	USA	HKG
<b>Retail</b>	No material longer-term financial savings/ wealth accumulation	0	0	0
<b>Mass affluent</b>	Steady accumulation of >10% pre-tax income in long-term savings/investments	0.25	0.15	0.1
<b>Core affluent</b>	High income tier (top 10%)/ liquidity event originated household wealth	2	1.5	1
<b>Lower HNW</b>	Financial independence/ asset returns sustainably cover household expenses	8	5	3
<b>Upper HNW</b>	Independently wealthy/ need to structure wealth	25	15	10
<b>uHNW</b>	Complex wealth management needs (family office, wealth structuring)	50	50	30



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