UK Wealth Management at a crossroads:
11 trends to watch
The wealth management industry stands at a crossroads. Firms are torn between traditional and modern; old and young; active and passive; physical and digital. Wealth management firms, a segment which includes a range of models from full-service wealth managers and private client firms to private banks, must weigh up the costs of changing their business model, their client base, their IT infrastructure, and their culture against the risks of standing still. Can they afford not to change?

This whitepaper examines these existential struggles by sharing insight gained from one-to-one interviews with wealth management executives from 12 of the top 50 wealth management firms by number of client accounts in the UK, and sheds light on the challenges and opportunities that lie ahead.

Editions Financial undertook these interviews on behalf of SEI during Spring 2017. Interviewees were made aware of the purpose of the research and how its outputs would be used.

Four key themes are explored:

› The Client Landscape: The challenges of differentiating your wealth management business when competition is increasing and client needs are becoming more complex.

› Technology: The need to communicate to clients in the smartest way possible and complement human relationships with self-service models.

› External Pressures: The impact of regulation, the hunt for cost efficiency and the impact of geopolitical tensions.

› The Future of Wealth Management: The drive towards inorganic growth and the trend towards outsourcing.
**SECTION 1: The client landscape**

**TREND 1: Vying for the same pot**

**The battle for Middle Britain**

Traditional wealth managers attract traditional wealth clients. As a result, firms are in constant competition with each other for the same “old British money”.

Among private investment houses the baby boomer generation is the main client base; interviewees typically reported a preponderance of 50+ year-old clients who are retired or semi-retired. As such, one of the major challenges firms face within this highly competitive corner of the wealth market is the size of the pot.

Most wealth managers, despite having a handful of very sizeable accounts, are dealing with the mass affluent, tipping over into the lower bounds of high net worth. Typical account values quoted by respondents were in the £150,000 to £600,000 range, although a handful of firms put their clients in the high net worth (£1 million) and above category.

In this shared competitive space, clients at the lower end of the spectrum are likely to have their entire portfolio with one wealth manager, while those in the HNW category may be tempted to split their portfolio between more than one manager.\(^1\)

In fact, the use of multiple managers is growing. According to research by CEB, in 2011 55% of HNWIs used one wealth management provider, whereas this shrunk to 40% in 2016\(^2\). This makes the environment even more tense – and the need for distinguishing propositions (see Trend 2) ever more critical.

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\(^1\) [https://www.ft.com/content/be5462c0-ed3a-11e6-930f-061b01e23655](https://www.ft.com/content/be5462c0-ed3a-11e6-930f-061b01e23655)

\(^2\) Top 10 Technology Initiatives for Wealth Management in 2017, CEB Wealth Management Leadership Council, Webinar, 15/02/2017
Another challenge with the 50+ demographic is estate planning, and indeed the death of clients. One respondent noted that even most new clients are in their fifties and heading towards the de-cumulation phase. This was commented on by others as an important trend to watch, in particular given that younger generations are now calling more vociferously on the “Bank of Mum and Dad”.

This ageing (and indeed dying) client base emphasises the importance of retaining assets within the firm by helping clients with estate planning and reaching out to younger generations within families, who stand to inherit their wealth. To assist with this effectively, firms will need a well-honed strategy for engaging with customers, as well as solutions and technology that appeal to the next generation of investors (see Trend 5).

“Our average client age is 67 and we lose 5% to 6% or even 7% a year through death.”
Is relationship management still a key differentiator?

In an environment where firms are directly competing in the same demographic space, the trick is to find a differentiator or distinguishing proposition – just as Uber did in the taxi industry, with its slick technology, seamless payment experience and competitive pricing. Yet, in the face of the same regulatory, budget and technology constraints, most asset management firms are looking to leverage service levels and personal relationships to set themselves apart - meaning that their unique selling point is far from unique.

A common belief among respondents was that their firm’s level of personal and professional service was an important part of standing out in the crowd, and offering an ‘end-to-end’ solution was also viewed as a vital part of providing top-notch service to wealth management clients – the idea being to make it as easy and painless as possible for them to invest.

Globally, 36% of HNWIs believe that the firm itself is the reason to hold assets with them, compared to 24% who believe the wealth manager is the main focus. As firms become important entities in wealth management relationships, they need to put in place business models that leverage the brand value and technological capabilities they bring to the table.

The talent and expertise of a firm’s staff was also seen as critical, since clients are looking for good quality advice and for the investment manager to act as a “trusted adviser”. In fact, trust and expertise are seen as more important differentiators than investment performance, which will be an interesting point to bear in mind as firms look to adjust their business models going forward.

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“Clients have two important questions: ‘how much do I need to have saved for a decent retirement?’ And secondly, ‘when I’ve retired, how do I make that capital drive the income level I need for the next 30 or 40 years?’”

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1 Top 10 Trends in Wealth Management 2017, Capgemini, 2017
Innovation is another important differentiator mentioned by many participants, but appears to be limited among the larger or more traditional British firms. Moreover, according to research by Capgemini, only 14.8% and 14.7% of investment firms’ budgets are going to proposition development and business model respectively\(^4\).

A study by Roubini confirms that in future 62% of UK investment providers say that in their top priority is focusing on providing superior returns and advice, followed by 61% who say that building trust and brand reputation is their main focus\(^5\). It is this kind of client-centric thinking that will help firms to find a unique voice in the wealth management space and connect with clients. However, innovations rarely stay unique for long in the industry, so speed to market and the constant review and evolution of solutions for clients is imperative.

\(^4\) Top 10 Trends in Wealth Management 2017, Capgemini, 2017
\(^5\) Wealth & Asset management 2021: Preparing for Transformative Change, Roubini, Survey Results for the UK, 27/10/2017
Firms’ clients are currently undergoing a number of changes in their personal situation, ranging from long-term shifts in society to new legislation that is tainting the way they approach their wealth.

From pension reforms to new inheritance tax rules and potentially higher taxes on dividends, clients are having to rethink the way they manage their financial affairs. And with Brexit and a snap general election, further legislative changes may be just around the corner.

An additional financial concern for clients is that they are living longer, and therefore require more money to see them through retirement. Where the United Kingdom’s average life expectancy was 65 years in 1965, it is now 82 years[^6]. Furthermore, the longevity trend is only set to accelerate. A recent study by Imperial College London and the World Health Organisation found that men born in 2030 are expected to live to the age of 82.5 years, and women until they are 85.3[^7].

Living longer also increases the likelihood of requiring care in later life. In the UK an average residential care home costs in the region of £29,270 a year, with nursing care coming in at around £39,300 annually[^8]. This puts even more pressure on firms to grow clients’ assets – easier said than done in a low-yield environment.

In addition, as clients live longer, greater leakage from portfolios is likely to occur; respondents pointed to a noticeable increase in outflows caused by the financial pressures on the next generation, with many clients giving money to their children to get them on the housing ladder.

These challenges do have a small silver lining for firms, however, since clients are more likely to seek advice during periods of change and uncertainty. A study by Roubini highlighted the fact that 69% of clients expect firms to be highly responsive to their changing needs, but only 58% of firms feel prepared for this[^9]. This presents an opportunity for solutions not only to fill the gap, but to strengthen the client relationship and to suggest new products to clients who may previously have been fairly static in their choice of investment.

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[^6]: [http://data.worldbank.org/indicator/SP.DYN.LE00.IN](http://data.worldbank.org/indicator/SP.DYN.LE00.IN)
[^9]: Wealth & Asset management 2021: Preparing for Transformative Change, Roubini, Survey Results for the UK, 27/10/2017
Given the many challenges associated with an older client base, firms are aware of the need to tap into younger generations. Research by Roubini even states that 42% of investment providers say they are targeting clients across a broader range of wealth levels, and 47% say they are building on current client relationships to extend business (to family/friends etc.)\(^\text{10}\). This is not a new trend, but it is one that is becoming more prominent as wealth clients hand more money down to younger generations earlier, and as the rise of the millennial investor continues. That said, some firms still seem unsure about the levels of wealth that younger generations can realistically accumulate, or rather, how they can tap into that in a cost-effective way.

While it may be true that the average client of a traditional wealth management firm will remain largely the same, or perhaps be even older as clients are living longer, it is not a given that wealth management firms have to continue to only target these ‘mid-to-late-stage’ investors. One respondent spoke emphatically of the need to capture clients earlier in their savings careers. This is a strategy about which a good proportion of firms seem confident, in fact 46% of wealth executives are at least fairly confident of engaging younger prospects in the next 12 months\(^\text{11}\).

While the young investor may not have the size of portfolio a firm is inherently used to at inception, they can potentially help them to grow it to that level (hence why these investors are sometimes known as HENRYs – High Earning, Not Rich Yet). This requires firms to wind the asset gathering journey back several steps. Therein lies the challenge for most wealth managers, however, since they are unsure how to do that within the scope of their traditional business model.

Reaching down to younger generations also requires better technology; 40% of millennials say they would leave their financial services provider if their technological offering was insufficient\(^\text{12}\). In the digital age, it is no longer just the ultra-high net worth and high net worth individuals that can afford to access investment advice, or indeed, that wealth managers can profitably serve. Again, this is currently proving to be a hurdle for firms.

**“While we know that younger people do make money, I just have a gut feeling that in 20 years’ time the average client will still be in their 50s or 60s.”**

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10 Wealth & Asset management 2021: Preparing for Transformative Change, Roubini, Survey Results for the UK, 27/10/2017
11 Top 10 Technology Initiatives for Wealth Management in 2017, CEB Wealth Management Leadership Council, Webinar, 15/02/2017
12 Serving Nextgen Investors: Innovative technologies and platforms, Ashley Globerman, Celent, March 2017
TREND 5: Upgrading digital infrastructures and capabilities

Communicating with clients in the smartest way possible

With the exception of ultra-high net worth and charity clients, there is a widespread acknowledgement among wealth management firms that many clients are looking for vastly improved digital access to their financial information. Clients now have far higher expectations around transparency and delivery of information; speed of access, and ease of use of digital systems. And research from Capgemini suggests that the majority of wealth management firms are not yet able to fulfill the digital demands of wealth clients, with 54.6% of them not fully satisfied with their firms' digital capabilities.

These clients are looking for portfolio information on a daily transactional basis and even in some cases for online tools for scenario modelling/projections. All of which is leading firms to invest in their online portals for clients – and some are now partnering with fintechs to ensure they get a leg up on the competition. Partnerships may be especially attractive to firms, as it would allow traditional financial organisations to leverage fintechs’ expertise without having to engage in expensive in-house development.

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“Technology is a complete threat, but it’s also an opportunity if you get it right, and if you do something exciting and new with it.”

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One interviewee went as far as to comment that the one biggest threat to firms is to settle for the status quo— the suggestion being that with the disruptive impact of technology only likely to grow, standing still is not an option if businesses want to survive. Most respondents acknowledged this, either in terms of existing technological investment or a strong commitment to technology in future plans.

Firms are not only looking at technology investment from a front-end perspective, however, as efficiencies in IT infrastructure are important too. Not all firms are at this stage in their technology journey, though. Those with higher net worth clients see it as less of an imperative, as many believe their clients “don’t want to look at it every day, or they’ve paid someone else to worry about it.”

Overall, firms appear to be at differing stages in their journey towards upgrading, investing in, or outsourcing technology. That said, the vast majority acknowledge that technology will be integral to their proposition going forward. The increasing need for effective digital solutions is compounded by research from CEB, which states that for 55% of wealth managers, extracting data from diverse and uncoordinated systems was the main bottleneck they encountered in 201615.

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15 Serving Nextgen Investors: Innovative technologies and platforms, Ashley Globerman, Celent, March 2017
Just a few years ago, the prospect of algorithms giving investment advice directly to the public may have seemed a little fantastic. Today, robo-advice is a harsh reality for many private wealth managers. Forecasts suggest that robo-advisers will manage around 10% of total global assets under management by 2020. This equates to around $8 trillion – with the US market leading the way16.

The reasons for the popularity of the robo-model are clear: where a human investment adviser may cost around 1-2% annually, or much more in the case of a discretionary manager, robo-advisers’ fees are typically well under the 1% mark17, and they typically have a far lower minimum investment level. Research by CEB confirms that the primary reasons HNWIs are interested in working with a robo-adviser are that the cost savings seem significant, and the online and mobile capabilities are better than what they get currently18.

To compound this, many large asset managers, including Charles Schwab, Vanguard, and BlackRock, have either bought or built robo-advisers to add to their client offering, putting additional pressure on wealth management firms.

That said, firms do not see relationships dwindling or face-to-face client interactions going away. However, they also understand the growing need for digital self-service models whereby the client can execute transactions online without the need to interact with a human. Celent research suggests that as clients become more accustomed to dealing with digital offerings, they will become more tolerant of managing their financial affairs with less and less human involvement19.

In short, wealth managers will need to have an omni-channel strategy in order to serve a range of customer needs. When it comes to significant investment decisions around matters such as pensions, face-to-face will still be required. For more everyday transactions, smaller amounts of money, or younger investors, digital advice will be the order of the day, particularly among the mass affluent.

It appears therefore that the new winners in the digital age of investment advice will ultimately be defined by their ability to adapt their business and customer engagement models sooner rather than later, whilst still retaining the service levels that their existing customers expect and appreciate.

“Artificial intelligence will change FS interaction, but within the world of private banking, there has to be a monetary threshold above which tech is not the first solution.”

17 http://www.investopedia.com/terms/r/roboadvisor-roboadviser.asp
18 Top 10 Technology Initiatives for Wealth Management in 2017, CEB Wealth Management Leadership Council, Webinar, 15/02/2017
19 Outsourcing in Wealth Management: The drivers and strategies, Kelley Byrnes, Celent, November 2016
Like every niche within the broader financial services sector, wealth managers continue to be affected by regulatory change.

The most frequently mentioned set of regulations was MiFID II, which was even referred to by one respondent as their firm’s number one pressure in 2017. Firms are therefore looking for technology solutions to help them deal with the increased transparency and reporting requirements that MiFID II brings, as well as reducing the cost of complying with these. However, regulation is constantly evolving – so much so that some firms are simply resigned to the fact that today’s regulation will be tomorrow’s legacy.

MiFID II is by no means the only regulation on firms to do lists, though. FIDLEG, CRS, FATCA, AML monitoring, available for sale accounting, global data protection regulation, IFRS 9, email and voice mail monitoring, and the conduct risk framework were also mentioned. While large firms can usually find the resources to manage these requirements, smaller firms can find it harder to cope. And with regulation constantly evolving some firms are simply resigned to the fact that today’s regulation will be tomorrow’s legacy.

One thing all firms agree on, however, is the need for regulation – for the good of clients, firms and the wider economy – and the need to comply with it. Firms are therefore open to the idea of technology that can help them comply with evolving regulatory requirements. In fact, there is a growing trend towards so-called ‘regtech’, which is a sub-set of fintech that aims to use new technologies to help firms meet their regulatory compliance obligations in a smart, cost-effective way.

“We are all impacted massively by regulatory change, but there are very different levels of preparedness across the industry”
The hunt for cost efficiencies continues

Are investment companies too profitable? This was the uncomfortable question raised by the Financial Conduct Authority in 2015 and the industry has since been feeling the downward pressure on margins and fees. Today, 73% of HNWIs assign high importance to fee transparency, according to Capgemini, and they expect fair pricing across the board. Regulations such as MiFID II and trends like robo-advice are only compounding this.

Many firms are already preparing themselves for this squeeze. Aware that margin pressure is going to be significantly greater in the future than it is today, some firms are moving away from third-party funds and instead focusing on direct equity, direct fixed income solutions and passives where required. However, active management still has an important role to play, as clients could see beyond fees to the value provided by managers.

As well as scale, several interviewees pointed to the added value provided by the quality of their advice as giving the potential to provide some protection from the impact of fee pressure. The quality of service provided by firms is also a focal point for clients; of HNWIs interviewed by Capgemini, 28.1% would prefer their fees to be tied to performance.

Moreover, there is a view that wealth management firms will not bear the brunt of the pressure, with one respondent suggesting that the threat is much more to people further back in the value chain, which is the product providers and the custodians.

In spite of their relative optimism, it is likely that firms will still be looking for cost efficiencies to offset any potential fall in margin or fee revenue. Technology is likely to be one source of such efficiencies.

“There’s a need for scale to combat the increasing move towards passive vehicles rather than active. But that’s not percolated down to the wealth management space and one could argue that because of our high quality offering, we’re relatively insulated.”
Brexit looms large but confidence remains

The backdrop of political uncertainty is understandably playing on firms’ minds.

With a nod to the election of Donald Trump in the US, there are a number of markets around the world where wealth has been encouraged to be returned to its home geography. Where that’s happening, it shifts the dynamic somewhat in terms of how firms are able to service those clients.

Closer to home, while most believe it is too early to tell what the true impact of Brexit will be, there is concern that it will have a “corrosive effect” over the longer term. According to the London School of Economics and Political Science (LSE), about £6 billion, or 25%, of UK asset management revenues that come from EU-related business will be directly affected by Brexit. This view was, however, tempered by confidence that the UK, and markets generally, have weathered crises of a similar magnitude in the past and come out fighting.

In terms of the UK government’s support for the sector, views were mixed. Some firms felt that “government policy will remain extremely supportive and cognisant of market levels to not cause disruption.” Others, meanwhile, questioned whether the government was doing enough to encourage people to invest. For example, “does the government get the need for greater saving, are they encouraging people to save through pensions, ISAs, LISAs, are they making giving advice as easy and safe as possible?”.

Of course, June’s general election may have caused these views to shift – and will certainly add to the challenging geopolitical environment in the short term. For now, though, it is very much a waiting game.

“Geopolitics impacts us, not necessarily directly but certainly through its effect on economies and on the wealth of our clients”

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Trend 10: Inorganic growth triumphs

Meaningful acquisitions need comprehensive strategies

In order to tackle the headwinds facing the sector, firms are looking to leverage economies of scale. More firms may now aim to own the whole of the value chain in order to get back the margin erosion they’ve lost on their core business, and to bring connectivity with clients.

To achieve this scale, the majority see M&A playing a part in their growth strategies, alongside organic growth plans aimed at retaining existing customers. Many also see M&A as playing a necessary role in bolstering the outlook for the sector and bringing it into the 21st century.

Not all firms have the capacity for inorganic growth, however – in part because of the appetite of the larger players in the sector. In these cases, they may aim to make strategic acquisitions of smaller teams rather than businesses or books of businesses.

Of course, M&A isn’t one-sided – it’s not all about acquisitions, it’s about divestments too. Used as a means for firms to hone their business models, divestment is an effective way to avoid confusion about a firm’s strategic aims, and to shed divisions which are no longer core to their operations.

Regardless of the reasons behind it, more M&A is expected in the sector going forward – which will give rise to the typical integration challenges faced by firms. This will require a great deal of planning and action on everything from culture to technology.

“Scale is important, especially when faced with pressure on fees or an identified need to invest in new technology. The bigger firms can withstand the buffeting”
Doing what is best for the client

Where will profit and growth come from in the years ahead? The answer, according to the majority of firms, is from within. They believe that the secret to success is upholding the quality of their own proposition by focusing on their core skills.

Outsourcing is done by firms at varying degrees, with some outsourcing everything but their investment division. As well as offering significant cost efficiencies, it allows firms to focus on what they do best, which naturally helps in boosting productivity.

Pull quote “Our core focus as a business has to be on supporting our clients, managing their money and advising them on their wealth. By partnering with SEI we’re saying ‘okay you’re good at that, now we need to be better at what we want to focus on’. The combination of the two, once we get there, should be a very powerful one.”

Alongside outsourcing and using technology to boost productivity, staff training and investing in people were also seen as key to future growth and profitability. Of course, firms will also be looking to find opportunities outside their own walls to complement their internal efforts. According to research by Celent, wealth managers’ primary motives for outsourcing are: entering new markets easily; adapting to fast changing technology without spending on a dedicated IT team; improving efficiency; regulatory compliance and transparency; reducing costs; and the ability to quickly scale up operations.

As well as considering outsourcing, firms are also looking to identify emerging client segments which may require advice, such as the mass affluent. Underlying all of these potential sources of profit and growth, however, is the fundamental need of the client. After all, it is fulfilling client needs that will lead to long-term and sustained profit and growth. Whichever strategies firms look to deploy to boost growth and profits – from outsourcing to digital channels – there should be a clear link back to how it will help create wealth for the client.

“If you want to be the leading wealth manager, you’d better be the leading wealth creator. So are you really creating wealth for your clients?”

21Outsourcing in Wealth Management: The drivers and strategies, Kelley Byrnes, Celent, November 2016
Conclusion

Adapting to the Operating Model for the Future

The research provides a snapshot of the challenges and opportunities faced by wealth managers across the four key themes they feel are having the most significant impact. Firms are tackling the impact of change in different ways and it is clear that many have important decisions to make to strike the right balance of priorities for their business in the months and years ahead. The stand out conclusion is that change is needed to enable firms to deliver a sustainable, profitable business whilst controlling the cost base and delivering high quality service. In the word of Stephen Hawkings ‘Intelligence is the ability to adapt to change’.

Firms need to be simultaneously pulling multiple levers in their business models to meet client expectations, while keeping costs down and seizing opportunities for growth. If firms are able to focus on controlling their cost base, delivering high-quality products and services, and doing so as cost-efficient and commercially viable a way as possible, then they have a fighting chance of sustaining a profitable business in an ever-changing environment.

Speak to Kevin Russell, Proposition Director, SEI Wealth Platform, to learn more about how SEI can help power the future of wealth management in the UK.

About the SEI Wealth Platform SM

The SEI Wealth Platform (the Platform) is an outsourcing solution for wealth managers encompassing wealth processing services and wealth management programs, combined with business process expertise. With the Platform, SEI provides wealth management organisations with the infrastructure, operations, and administrative support necessary to capitalise on their strategic objectives in a constantly shifting market. The SEI Wealth Platform supports trading and transactions on 144 stock exchanges in 56 countries and 41 currencies, through the use of straight-through processing and a single operating infrastructure environment.

For more information, visit: seic.com/wealthplatform.

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