WEALTH MANAGEMENT

TOP TRENDS 2024

CONTENTS

FOREWORD

Today's wealth management industry requires agility, insight, and digital prowess to best engage and retain its volatile customer base. With advancements in technologies including generative AI, the race is on for wealth management firms to leverage and capitalize on newer tools to streamline workflows and re-imagine customer journeys. As investors demand secure, diverse, and profitable assets, future-focused wealth managers seek to understand and respond to clients' behaviors and goals to deliver superior customer experience.

The wealth sector is experiencing uncertainty spurred by ongoing inflation and slow-to-recover stock markets. Interest-rate hikes by central banks have strained US and European banks. Now, more than ever, digital transformation, business model assessment, and consideration of new segments are essential to sustaining and growing assets under management. To anticipate the current and coming trends, we relied on a combination of model-based analytics, the expertise of our subject matter experts, and Capgemini's 27-year rich wealth management historical lens.

The industry is experiencing a leapfrogging of digital adoption and a fundamental shift in customer expectations. The new age of investors is increasingly digital-first, demands access to a wide array of asset classes, and is ESG-conscious. Investors today want to take charge of their wealth management journey and demand intelligent insights into their investments. The wealth continuum is significantly expanding, with the affluent segment becoming the next frontier for wealth management firms.

Wealth management firms are navigating competing global interests, an ever-growing permeance of technology, and shifting regulatory landscapes all the while seeking to deliver superior client portfolio performance. With investor sentiment biased towards wealth preservation, asset allocations are seeing a heavy weight of cash. Profitability is top of mind for wealth management executives, and optimization of the time and efficiency of relationship managers is becoming crucial.

The biggest challenges for wealth management firms in 2024 may be satisfying investors' ROI expectations within an uncertain economy, understanding the needs of new wealth segments within an expanding client base, and settling long-time technical debt. Wealth Management Top Trends 2024 offers insights about business topics likely to shape the industry in the near and long term.

Anirban Bose
Financial Services Strategic Business Unit CEO
Capgemini

INTRODUCTION

EMERGING TECHNOLOGIES ARE CRITICAL FOR WEALTH MANAGEMENT FIRMS

As economies were shrouded in a dampened investment environment, with disappointing equity returns and sky-high interest rates, in 2023 wealth preservation became the most important goal for HNWI investors. So, how is this going to shape 2024? Expect a renewed focus on emerging technologies, stable returns, and newer customer segments for wealth management firms. Clients will look to preserve their wealth by investing in fixed investing strategies and expand their portfolios to include emerging asset classes such as crypto, NFTs, and meme stocks. ESG considerations will guide investment decisions, and a wave of intergenerational wealth transfer will tip the scales across the wealth management industry.

LOOKING BACK AT 2023

Last year, Capgemini's Wealth Management Top Trends 2023 anticipated that wealth management firms would expand their digital capabilities and offerings to include digital assets; this trend has played out with wealth management firms pursuing rapid digital expansion. The report also highlighted the trend of firms expanding asset classes, with forays into ESG-focused assets, with improving ESG metrics becoming a key priority.

The report also foretold the growing importance of an expanding customer base for wealth management firms, with the affluent wealth band becoming a key area of focus in 2023. The report also anticipated the need for enhanced digital tool adoption for wealth advisors, and the Capgemini World Wealth Report 2023 showed that 55% of high-net-worth individuals (HNWIs) reported that their experience in digital channels is a critical factor for selecting a wealth management firm.

WHAT TO EXPECT THROUGHOUT THE MONTHS AHEAD

As wealth management firms navigate the post-pandemic era with highly connected clients, digital readiness will be a critical focus area. With generative AI taking industries across the globe by storm, wealth management firms will integrate this technology across their value chain, from client-facing chatbots to empowering relationship managers, with powerful insights and streamlined middle- and back-office workflows. The Capgemini World Wealth Report 2023 revealed that over 44% of wealth management executives said their firm already leverages AI and machine learning (ML) technologies across the value chain. However, the report found that only 41% of relationship managers feel they are equipped with tools and training to hyper-personalize client services. Client preferences and aspirations are also rapidly changing. The Capgemini World Wealth Report 2023 revealed that over 55% of HNWIs consider digital channel capabilities crucial when choosing a wealth management firm. However, over 47% were dissatisfied with their wealth management firm's digital interface.

Wealth managers will also expand to new customer bases, including an increasingly young client base, and initiate new ways of doing business. The affluent wealth segment (investable assets between USD 250k and USD 1 million) will be the next frontier for wealth management firms searching for sustainable revenue streams. Of the affluent segment customers interviewed as part of the Capgemini World Wealth Report 2023, 43% said they rely on independent wealth advisors, 17% turn to retail banks, and 5% to traditional wealth management firms; 20% said they manage their investments via self-service apps and 15% use WealthTech services. Wealth management firms will also experience intergenerational wealth transfer, which they must translate to an effective and successful intergenerational advisor transfer.

In addition, sustainability and environmental considerations will become increasingly prominent for wealth management firms as HNWIs become more sensitive to the ESG impacts of their investments. Capgemini's World Wealth Report 2023 says that 63% of HNWIs request reliable and traceable ESG scores for their assets. Firms must bridge the gap between the demands of the clients and organizational capabilities to capitalize on ESG investments, though over 30% of relationship managers said their firm lacks a standard framework to measure and score ESG impact.

With broad investor expectations and challenges ahead, strategic wealth management firms will need to leverage emerging technologies, expand client bases, and increase consideration of ESG assets to remain competitive in 2024.

TOP TRENDS FOR 2024

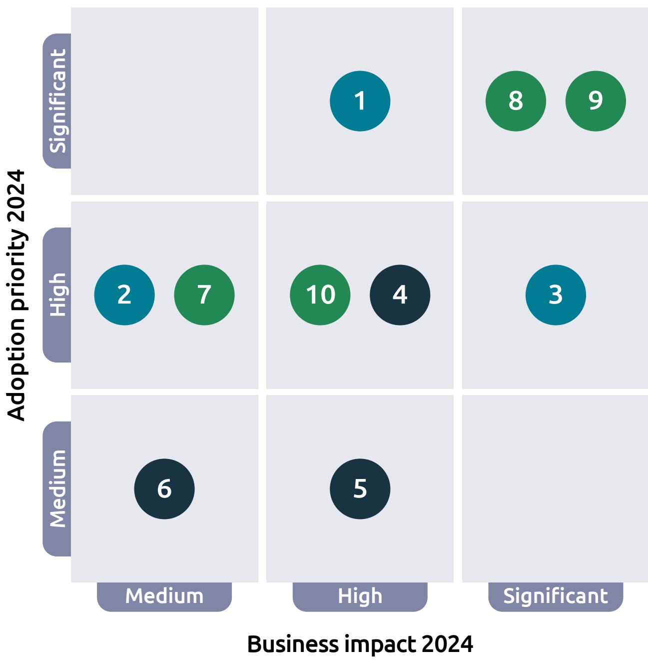
We based our 2024 wealth management trends on analysis across three broad themes:

- **Customer first:** Examines the impact of a rapidly changing market, and how wealth management firms are adopting strategic measures in response to shifting customer behaviors and demands.
- **Enterprise management:** Delves into organizational priorities for wealth management firms to capitalize on emerging opportunities in the sector.
- **Intelligent industry:** Explores how wealth management firms can leverage new technologies and adapt to evolving regulations to derive benefits across the value chain.

WEALTH MANAGEMENT TOP TRENDS 2024 – PRIORITY MATRIX

Customer first | Enterprise management | Intelligent industry

1. Increasingly influential affluent segment can boost the top line for wealth management firms
2. Fixed-income investing is back as a safe and profitable vehicle for wealth growth and stability
3. Generative AI-based client engagement enriches the client experience
4. Wealth management firms are capitalizing on the ongoing intergenerational wealth transfer
5. Wealth management firms are strategically embedding social equity and inclusion to drive business outcomes
6. After high-profile collapses, rebuilding trust is crucial for digital assets' next growth phase
7. Asset tokenization enables a more efficient financial system
8. Intelligent automation is a powerful efficiency enabler across the entire value chain
9. Digitalized client journeys are boosting productivity and streamlining operational costs
10. Reliable and traceable ESG metrics are now a must



Source: Capgemini Research Institute for Financial Services analysis, 2023.

The priority matrix above presents Capgemini's 2024 trend prioritization in an operating environment that includes:

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

Adoption priority – The criticality of adopting a 2024 trend to maximize value creation because of its sector importance.

Business impact – The effects of a trend on the sector's 2024 business as it relates to customer experience, operational excellence, regulatory compliance, or profitability.

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

FROM 2023 TO 2024, WHAT HAS CHANGED AND WHAT HAS NOT?

#	TRENDS 2024	#	TRENDS 2023
1	Increasingly influential affluent segment can boost the top line for wealth management firms	1	ESG regulatory standards aim to curb corporate investment greenwashing
2	Fixed-income investing is back as a safe and profitable vehicle for wealth growth and stability	2	Demand for outsourced chief investment officer (OCIO) services is on the rise
3	Generative AI-based client engagement enriches the client experience	3	Investor appetite for digital assets drives wealth industry capabilities beyond cryptocurrencies
4	Wealth management firms are capitalizing on the ongoing intergenerational wealth transfer	4	Amid volatility, investors seek new portfolio strategies, such as direct indexing
5	Wealth management firms are strategically embedding social equity and inclusion to drive business outcomes	5	Wealth management firms refocus on the mass-affluent segment
6	After high-profile collapses, rebuilding trust is crucial for digital assets' next growth phase	6	Women increasingly control more wealth, yet many firms falter at winning their mindshare and share of wallet.
7	Asset tokenization enables a more efficient financial system	7	Evaluating cybersecurity for future readiness
8	Intelligent automation is a powerful efficiency enabler across the entire value chain	8	A digitalized core can bridge the gap between relationship managers' expectations and WM firms' automation capabilities
9	Digitalized client journeys are boosting productivity and streamlining operational costs	9	The wealth management industry is consolidating to achieve scale
10	Reliable and traceable ESG metrics are now a must	10	Family offices showcase bespoke services while facing regulatory dynamics

New trends

- Asset tokenization has emerged as a useful way to bolster the security and liquidity of financial assets.
- Digital client journeys and the development of generative AI are helping wealth management executives achieve profitability with a superior client experience.
- The great wealth transfer offers a strategic opportunity for wealth management firms to grow.

Trends evolution

- Affluents continue to be of significant interest for wealth management executives in their search for sustainable revenues.
- As ESG and social inclusion considerations take shape, wealth managers are looking for reliable metrics.
- In the face of prolonged market volatility, investors are turning towards fixed-income investing.

Deprioritized trends

- Chief investment officers have become a staple of the wealth management industry.
- Consolidation, digitalized core and cybersecurity measures have been well adopted by wealth management firms.
- Women have now become a proportionate part of the investor base of wealth management firms.

TREND 1

Increasingly influential affluent segment can boost the top line for wealth management firms

Wealth management firms that leverage personalization strategies can attract affluent investors to expand their client base and the wealth continuum.

CONTEXT

Capgemini's World Wealth Report 2023 defined the affluent wealth segment as individuals with investable assets between USD 250,000 and USD 1 million. In 2022, we estimated that the segment's total addressable market size for wealth management (WM) firms in fee revenue is up to USD 40 billion annually for 2022.[a] The affluent segment controls nearly USD 27 trillion in wealth (almost 32% of the total wealth in the next segment, the HNWIs) and a large population base of 53.8 million people.

- Despite a considerable revenue potential, wealth management firms are not actively targeting and serving the affluent segment: profitability is the primary concern. Despite its large population, the affluent slice of the wealth-management market has yet to prove growth and profit capacity on par with the HNWI wealth band.
- In addition, the lower end of the "millionaires next door" segment, defined as individuals with investable assets between USD 1 million and USD 5 million, is emerging as an important segment.

CATALYSTS

Of the 3,000+ affluents we surveyed as part of the World Wealth Report 2023, 43% said they rely on independent wealth advisors, 17% turn to retail banks, and 5% to traditional wealth management firms; 20% said they manage their investments via self-service apps and 15% use WealthTech services.

- Individuals in the segment face several difficulties while managing wealth, with 58% saying they lacked the knowledge to make astute investment decisions. Nearly 42% feel unfamiliar with investment risks and need advice regarding investment strategies aligned with their life goals.
- Nearly one in three affluents said they expect value-added services from their wealth managers, including tax planning and mortgage and portfolio management. Yet over 46% said their wealth management providers do not offer such services.
- Affluents' satisfaction with their existing wealth management provider is tepid: only 18% say they are pleased with their current provider. Hence, there is pent-up demand for top-notch financial advice and convenience.

IN A NUTSHELL

Affluent segment requirements for digital-only, cost-effective wealth management services are rising, prompting some wealth management firms to rethink their segment strategies.

- Swiss banking group UBS launched wealth management services in October 2022 for affluent wealth band clients in China via its WE.UBS digital platform. The quick-to-onboard, AI-intelligence-driven platform offers local and global investment products, investor education, and around-the-clock market activity tracking.[1]
- Merrill Wealth Management launched Merrill Advisor Match, a research-based digital platform that connects people seeking financial advice with a Merrill financial advisor who best fits their preferences and needs.[2]

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[a] To calculate the revenue, the average fees charged by robo-advisory firms and human wealth advisors are considered. A robo-advisory firm charges as low as 0.05% of assets under management (AUM), while a wealth advisor can charge from 0.25% to 1% of AUM. We used 0.15% as the optimal and conservative service fee wealth management firms can charge affluent investors as a percentage of AUM. Because affluents hold nearly USD 27 trillion in wealth, we calculated a revenue opportunity of USD 40 billion.

- Zürich-based investment firm Vontobel Holding AG launched a digital platform for affluents in 2019. Now, volt by Vontobel delivers private-banking-level service with personal advice options through a mobile investment app. Clients can access digital investment services typically available only to HNWI investors. The app offers personal investment advice, select pre-built portfolios, and access to exclusive benefits and alternative investments. The firm says that basic volt by Vontobel portfolios are also ESG-certified and sustainable.[3]

Figure 1. Three approaches (defined by scale and scope) to target the affluent investor segment

A highly digitalized setup	Build WaaS capabilities and leverage retail banking	Build/acquire a composable digital platform
• WM firms need to speed up digital transformation to boost productivity and RM efficiency, develop AI-driven digital tools, and orchestrate client-facing, omnichannel experiences • One third of wealth firm executives globally consider building out existing infrastructure and creating/leveraging in-house teams to target and serve affluents as the best way to pursue this new opportunity	• WaaS can enable WM firms to package core capabilities into modules and embed them with third-party partners, such as retail banks or independent advisors • 71% of Affluents said they will likely seek wealth advisory services from their retail banks in the next 12 months	• Build, partner, or acquire platforms that offer a one-stop-shop for affluents by consolidating wealth services, banking, and VAS offerings, augmented with self-service tools to improve client engagement • 47% of pure wealth management firms support establishing a dedicated affluent segment platform

Source: Capgemini Research Institute for Financial Services analysis, 2023.

IMPACT

We expect the affluent wealth population and investable income to grow in 2024, intensifying competition among banks, wealth management firms, and WealthTechs. The financial institutions that stand out will focus on client relevance – advising customers about what is best for them versus promoting certain products – and their ability to modify offers based on each client's lifecycle stage. Price will also be a very important ingredient in success as this population is logically highly price-sensitive.

WealthTechs, FinTech, and hybrid robo advisors – together with customers' insatiable appetite for digital and personalized services – position wealth managers to offer value to affluents. Incumbent wealth management firms can leverage WealthTechs by partnering with them or acquiring them to cater to affluents quickly and efficiently. Wealth management firms can prepare by leveraging leading technology innovations and investing in digital channels to hit the ground running and differentiate themselves. AI/ML solutions will be critical in understanding affluent segment behaviors and motivations to offer valuable, appropriate services.

TREND 2

Fixed-income investing is back as a safe and profitable vehicle for wealth growth and stability

Rising interest rates and uncertain equity returns prompt wealth managers to focus on fixed income to hedge risks and grow the wealth of their clients.

CONTEXT

In 2023, the bond markets experienced a significant rebound after a historically poor performance in 2022. The fixed income markets impressive turnaround began right at the start of the year, buoyed by higher yields, falling inflation, and bonds' traditional role as recession havens. The Bloomberg Global Aggregate bond index rose 3.7% in January of 2023 after a 16% decline in 2022. The S&P US Aggregate Bond Index fell 12% in 2022 but was up 3.1% by the start of 2023. That compares with the 3.5% advance by the S&P 500 index and a rise of 6.4% for the Nasdaq in January of 2023.[4]

Another factor that exacerbated the temporary downfall of equities was that starting in March of 2022, central banks across the globe embarked on a campaign of raising interest rates in response to high and persistent inflation. With increased volatility in the equity markets and a regime of sustained high-interest rates, fixed-income instruments like bonds, deposits, and commercial papers increasingly became the assets of choice for investors to preserve and grow wealth. The broad Bloomberg US Aggregate Corporate Bond Index yield in August of 2023 was 50 basis points greater than the earnings yield on the S&P 500 Index. The situation starkly contrasts with 2010–2020, when equities' earnings exceeded corporate bonds by roughly 300 basis points.[5]

CATALYSTS

Evolving customer demands and preferences are prompting wealth management firms to re-think their asset allocations.

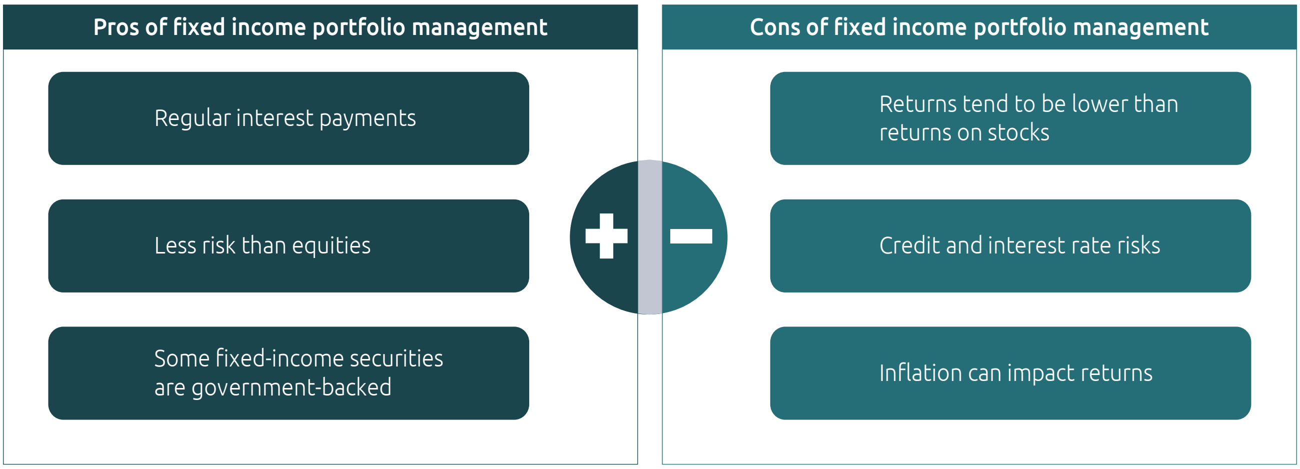
- The World Wealth Report 2023 revealed that 67% of HNWIs prioritized wealth preservation in 2022, leading them to shake up their portfolio asset mix and favor lower-risk investment avenues.
- The report also revealed that the share of equities in the 2023 portfolio mix declined by nearly six percentage points as compared to 2022, from 29% to 23%.
- Emphasizing the risk-averse climate in 2022, cash and cash equivalents, which made up around 25% of portfolios for the last five years (2018–2022), significantly increased by almost ten percentage points to 34% as of January 2023.

IN A NUTSHELL

Higher bond yields than in recent years and fluctuating markets are making fixed income investable again," reintroducing some investors to a USD 127 trillion asset class.[6]

- Schwab Asset Management launched three new Wasmer Schroeder™ bond ladder strategies as client appetite for fixed income grows. The firm believes investors are more interested in fixed income than in previous years, which has triggered new fixed-income products.[7]
- BlackRock launched a suite of fixed-income products, including UCITS (undertakings for collective investment in transferable securities) iBond ETFs in Europe and the United States. BlackRock said that since 2022, the favorable fixed-income investing environment is boosting adoption of fixed-income products.[8]
- HSBC and Capital Group have partnered to distribute Capital Group's Global Corporate Bond (GCB) fund to HSBC's private banking, wealth management, and retail clients. Capital Group believes the resurgence of interest rates in fixed income means that investors can benefit from investing in high-quality bonds with attractive yields for potential future income.[9]

Figure 2. Pros and cons of fixed-income investments



Source: Capgemini Research Institute for Financial Services analysis, 2023.

IMPACT

As the global economy appears that it will be mired in volatility in 2024, fixed-income markets are attractive additions to many investment portfolios. Helped by active management's potential for delivering excess returns, fixed income has experienced dramatic repricing, and valuations now hold appeal. Real yields of government and corporate bonds are at multi-decade highs, offering a dependable return on investment.

As investors and wealth managers look to fine-tune their risk-reward assessments to achieve required returns, they will increasingly find that allocations in fixed-income products provide a buffer against volatility, generate returns, and preserve wealth. Investors and wealth managers in the coming year will continue rebalancing their portfolios, rethinking and potentially bolstering their fixed income allocations to take advantage of interest rate regime and macroeconomic shifts.

TREND 3

Generative AI-based client engagement enriches the client experience

By generating insightful, personalized content, generative AI can help wealth managers better understand client needs, optimize their investment strategies, and deliver higher value.

CONTEXT

Generative artificial intelligence has made significant strides in the wealth management sector: its speed of development is phenomenal. Generative AI makes customized financial advice possible. Virtual assistants and chatbots powered by AI engage with customers to learn about their preferences, objectives, and risk tolerances to provide individualized advice and financial planning techniques. In addition to improving customer experiences, this level of personalization strengthens the bonds between wealth managers and their clients.

- Wealth management is undergoing a transformation that impacts everything from client interactions to investment strategy optimization. The ground-breaking technology boosts productivity and accuracy while opening the door to unmatched customer involvement and customization levels.
- The market for generative AI in wealth management is poised to expand significantly, with a value of roughly USD 2.5 trillion projected by 2032, up from USD 225 million in 2022 – a CAGR for the period of 27.9%, per research by Hubbis.[10] Deploying generative AI in wealth management could generate USD 200 billion to USD 340 billion annually, according to research by McKinsey.[11]

CATALYSTS

Technological advancements, changing client expectations, and the need for more efficient and personalized financial services drive AI adoption in wealth management. Addressing inefficiencies and productivity concerns across the WM value chain are motivators for generative AI implementation.

- The Capgemini World Wealth Report 2023 revealed that over 55% of HNWIs consider digital channel capabilities when choosing a wealth management firm. However, 47% were dissatisfied with their WM firm's digital interface.
- The Capgemini World Wealth Report 2023 also revealed that 55% of wealth management firms plan to leverage AI and ML.
- Our survey of 800 relationship managers across 10 markets determined that RMs spend 67% of their time engaged in non-client-related activities, supporting the value of AI-driven workflows to boost productivity. AI can deliver efficiency gains with automation of KYC and AML processes, deliver insights for RMs to make investment decisions, and enhance client experience by providing personalized content and recommendations.

IN A NUTSHELL

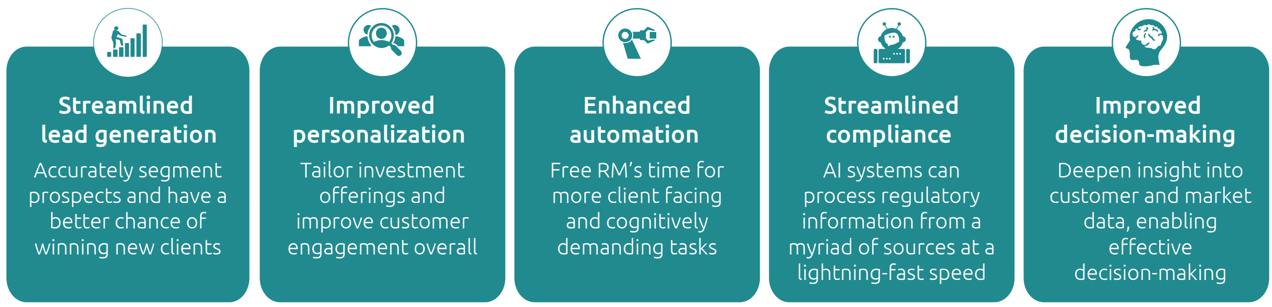
Leading wealth management firms are quickly embracing generative AI to improve wealth management services.

- US wealth management firm Vanguard launched a digital advisor based on generative AI algorithms in June 2022. The firm says its Vanguard Digital Advisor platform improves the efficacy and efficiency of services by offering customers personalized portfolio suggestions and automated investment guidance.[12]
- In May 2023, JP Morgan Chase applied to trademark a product called IndexGPT, a ChatGPT-like software service that leverages AI to select client investments. IndexGPT taps cloud-computing software using artificial intelligence to analyze and choose securities tailored to customer needs.[13]
- Morgan Stanley launched a generative AI bot in September 2023, developed with open AI. The bot aims to offer insights and administrative support to the US bank's 16,000 wealth advisors. With client permission, the bot will create meeting summaries, draft follow-up next-step emails, update the bank's sales database, schedule a follow-up appointment, and – over time – learn to help advisors manage clients' taxes, retirement savings, and inheritances.[14,15]
- HSBC Global Private Banking clients in Asia can invest in a structured product linked to the bank's AI-driven multi-asset AiGO8 index (Artificial Intelligence Powered Global Opportunities). Developed through a partnership with San Francisco based investment advisor EquBot, a company that provides investment decisions leveraging the power of AI with Watson, AiGO8

is a rules-based investment strategy featuring IBM Watson's AI engine and other patented technologies to help turn data into actionable investment insights and forecast techniques that optimize asset allocation.[16]

Despite the benefits, building, piloting, and scaling AI at the enterprise level remains challenging for many wealth management firms. More than half (56%) of the wealth management executives we polled said their firm is in its early planning stages, and 22% of respondents said they didn't plan to implement AI soon.

Figure 3. Advantages of generative AI in the wealth management front office



Source: Capgemini Research Institute for Financial Services analysis, 2023.

IMPACT

By leveraging generative AI, wealth managers can generate realistic financial scenarios, optimize asset allocations, and provide personalized recommendations based on risk tolerance, expected returns, and investment horizons. Firms incorporating generative AI into wealth management processes can improve financial forecasting and planning accuracy, efficiency, and effectiveness.

The generative AI trend holds immense potential for wealth managers to revolutionize advisory services, offering efficient and personalized solutions. By harnessing AI-powered tools, organizations can optimize workflows, save time, enhance efficiency, and cut costs, gaining a competitive edge in the ever-evolving financial landscape. We anticipate positive influences on financial results and customer satisfaction as generative AI use matures throughout the industry.

TREND 4

Wealth management firms are capitalizing on the ongoing intergenerational wealth transfer

As an aging high-net-worth population transfers wealth to the next generation, firms must align with beneficiaries' aspirations.

CONTEXT

The wealth management industry is on the brink of a significant transformation, poised to experience a dynamic demographic shift. In the United States alone, USD 72.6 trillion in assets will likely be transferred to children and successors by 2045 as part of "the great wealth transfer."[17] In the UK, generational wealth transfer will likely impact GBP 5.5 trillion (more than USD 6.8 trillion) over the next 30 years.[18]

- This transfer of wealth will be highly concentrated, with over USD 53 trillion (63%) originating from the baby boomer generation. In comparison, high-net-worth and ultra-high-net-worth households will transfer USD 35.8 trillion (42%), representing only 1.5% of all households. Generation X, aged between 40 and 55, is poised to inherit nearly USD 30 trillion, while millennials, aged 24 to 39, are set to receive an inheritance surpassing USD 27 trillion.[19]

CATALYSTS

The current landscape presents an excellent opportunity for financial advisors and wealth management firms, with a burgeoning population of inheritors searching for guidance for managing their newfound wealth.

- A third of the average advisor's clientele are over 60, and only 20% are under 45; this landscape will change as the next generation receives their inheritances.[20] Younger segments prefer digital channels for financial advice but want assurance of personal involvement, show growing interest in alternative investments, and prioritize environmental and social concerns in their investment decisions.
- The next generation needs financial advice. Less than half (42%) of beneficiaries are confident in managing these assets.21 87% plan to seek advice from a financial advisor during wealth transfer, and 72% of millennials say they need financial advice but are unsure how to access it.[22,23]
- Most advisors do not typically connect with the beneficiaries of their existing clientele, and over 70% of heirs are inclined to change their financial advisors upon inheriting their parents' wealth.[24] Mirroring this sentiment, merely 39% of advisors report a successful track record in collaborating with their clients' adult children.[25]

IN A NUTSHELL

In response to the evolving preferences of this younger demographic, a fresh approach will help to bridge seamlessly the generational gap. The average age of US financial advisors is 56 and 20% will retire in five years or less.[26] Skilled, young advisors can offer next-gen investors relatable advice.

- UBS focuses on wealth transfer opportunities with an advisor workforce of diverse ages, races, and cultures.[27]
- Firms are upskilling advisors: Fidelity Institutional, a unit of Fidelity Investments, launched an educational program designed to help advisors better navigate intergenerational wealth planning.[28]

Establishing an early rapport with inheritors is pivotal.

- Research suggests that 64% of inheritors introduced early to their family's advisor continued working with that advisor.[29] Citi uses a tailored approach when dealing with client families. The oldest, most senior bankers work with the patriarch's generation, younger associates work with their children, and the most junior bankers support the grandchildren. This strategic alignment fosters stronger connections and expedites the growth of the junior bankers.[30]
- Post Covid-19, firms have resumed invitation-only events to engage the children of wealthy clients. The Bank of Singapore organized an entrepreneur boot camp as the first of several events. Citi Private Bank has resumed networking dinners in select cities, and Lombard Odier had planned to hold its first physical next-gen gathering in Singapore.[31]
- J.P. Morgan launched a new private banking unit, the US Family Office Practice, to help ultra-high-net-worth families – with USD100 million or more in net worth – with estate planning, life insurance, strategic wealth transfer techniques, and more.[32]

Figure 4. Steps for success during intergenerational wealth transfer

Diversify and upskill advisor workforce
to establish better connections with the next-generation of clients

Engage with the next-generation early
through targeted events and programs on financial literacy and leadership development

Utilize digital channels
to communicate effectively with the next-generation of digitally-savvy investors

Tailor investment strategies
to serve the dynamic preferences of the next-generation

Source: Capgemini Research Institute for Financial Services analysis, 2023.

IMPACT

The ongoing great wealth transfer is ushering in a transformative time within the wealth management industry. To transform this into an opportunity, wealth managers will need to focus on early engagement with their clients' heirs to have a higher likelihood of retaining them. Firms will tailor their services to meet the unique needs of younger generations, including providing digital advisory services with a human touch. Furthermore, the growing interest in ESG investments and alternative assets among younger investors calls for a deeper understanding of their values and preferences and, subsequently, a shift in investment strategies.

TREND 5

Wealth management firms are strategically embedding social equity and inclusion to drive business outcomes

Wealth management firms are increasingly focusing on creating, measuring, and communicating impact to meet the needs of socially conscious clients.

CONTEXT

Wealth management is moving from focusing exclusively on maximizing financial returns to also encompassing a strategic initiative centered on advancing social equity and inclusion. Increasingly, there is a call for investments that foster an inclusive and equitable society, enhancing economic opportunities and access to financial services.

- Impact investing across private and public markets exceeded USD 1.1 trillion in assets in 2022.[33] Moreover, most global institutional and professional investors (71%) intend to increase their allocation to impact-investing solutions over the next three years.[34]

CATALYSTS

While investors demand data and tools for impact measurement, wealth management firms are working towards building a more diverse workforce and complying with regulatory requirements.

- The non-profit Global Impact Investor Network (GIIN) announced a three-year Impact Lab program to develop analytic benchmarking tools for impact investing.[35] The program offers investors a data management platform with integrated standard metrics.
- The wealth management industry is making progress toward a more diverse workforce. The number of women and racially and ethnically diverse Certified Financial Planners (CFPs) increased in 2023.[36] Increased diversity may help firms improve outcomes and serve a more diverse and youthful clientele.
- In January 2023, the EU's Sustainable Finance Disclosures Regulation (SFDR) entered its Level 2 phase. The SFDR enhances investor clarity by standardizing disclosures and emphasizing transparency regarding financial products' environmental and social characteristics.

IN A NUTSHELL

Wealth management firms are driving social impact through education, mentoring and networking for minority and underserved groups, providing capital for entrepreneurs from diverse backgrounds, and investing in vital infrastructure for underserved communities.

- Fidelity Investments launched its USD 250 million Invest in My Education program to provide education and support to underserved students.[37]
- Wells Fargo has established HOPE Inside centers, which were serving up to 150 branches at the end of 2023; these centers offer financial coaching and workshops.[38]
- Morgan Stanley launched JumpStart to provide youth from diverse backgrounds with financial literacy and career guidance.[39]
- Morgan Stanley launched the Next Level Fund to invest in early-stage companies with founders who are women or members of diverse communities.[40]
- Wells Fargo has backed a USD 70 million fund to enhance credit and capital access for underserved small-business owners.[41]
- Goldman Sachs has invested over USD 2.1 billion to support black women-owned businesses through its One Million Black Women program, which commits to investing USD 10 billion in capital by 2030.[42]

Figure 5. Four areas for financial institutions to drive social impact

Source: Capgemini Research Institute for Financial Services analysis, 2023.

IMPACT

There exists a sizeable demand for impactful investments. Survey results from the Capgemini World Wealth Report 2023 indicate that 56% of HNWIs in North America, 49% in Latin America, 47% in Asia-Pacific (excluding Japan), and 31% in Europe consider ESG impact as an important objective for managing their wealth. Wealth management firms are responding by allocating capital towards social causes. Investors are also focused on tools and data to inform their investment decisions. Fund managers and firms that exhibit robust governance, successfully leverage data, and communicate their investment impact will be positioned for success.

Investing in social equity initiatives aligns wealth management firms with broader societal goals, demonstrating their commitment to ethical and responsible business practices. Moreover, it fosters a positive brand image, helping to attract and retain both clients and employees.

TREND 6

After high-profile collapses, rebuilding trust is crucial for digital assets' next growth phase

Amid a prolonged bear market, investors and institutions remain optimistic about the future growth of digital assets and crypto as they await regulatory clarity.

CONTEXT

In late 2022, the cryptocurrency market crashed following a sustained period of record highs. The market capitalization of cryptocurrencies plummeted by nearly three-fourths, and trading volumes dropped by 50% after the unexpected decline of FTX.[43] Noteworthy crypto players such as Blockfi, Celsius, and Voyager also collapsed after filing for bankruptcy, resulting in a crypto winter.

However, investor interest continues to persist. Two-thirds (67%) of retail investors maintain a positive or neutral stance towards crypto investments, even amid the current bear market, and nearly half (48%) of institutional investors now actively manage digital assets.[44, 45] With regulations taking shape worldwide, uncertainty in crypto markets will decrease and drive more widespread adoption.

CATALYSTS

For investors, establishing trust emerges as the pivotal factor in expanding their exposure to cryptocurrencies, with a keen eye on regulatory guidance and offerings from trusted, established institutions in the traditional finance sector.

- 60% of institutional investors and 64% of investment managers identified a clear regulatory framework in the US as the most likely catalyst for heightened crypto investments.[46] In addition, around 90% of professional investors working for different wealth management firms – including pension funds, wealth managers, family offices, hedge funds, and investment funds – indicated that the backing of a large, traditional financial institution is essential for any digital asset fund or investment vehicle before they or their clients would consider putting money into it.[47]
- The US Securities and Exchange Commission (SEC) has approved the first-ever, exchange-traded funds (ETFs) based on Ether futures. This decision follows the SEC's move to allow a fund involving bitcoin futures contracts. Additionally, the Chicago Board Options Exchange has requested SEC approval to list two spot Ether ETF investment products.
- G20 leaders, representing two-thirds of the world's population, announced a push for a unified Crypto-Asset Reporting Framework (CARF) by 2027. This framework would streamline information exchange about crypto transactions between countries, granting tax authorities enhanced visibility into crypto transactions.[48]

IN A NUTSHELL

New products and service offerings related to crypto from established financial institutions and wealth management firms can enhance investor trust and foster greater market participation.

- Fidelity Investments will soon integrate crypto trading and reporting into its advisor workstation, becoming the first large advisor custodian to do so. With the introduction of Fidelity Crypto for Wealth Managers, the platform will enable direct access to crypto trading, execution, and reporting through its advisor workstation, Wealthscape.[49]
- Prominent institutional giants such as BlackRock, Fidelity, and Franklin Templeton have applied for bitcoin exchange-traded funds.[50] EDX Markets, an institutional crypto exchange backed by Citadel Securities, Fidelity, and Charles Schwab, has started operations.[51]
- In Dubai, private Swiss bank Julius Baer plans to offer advice and custodial services on digital assets like bitcoin, Ether, and other cryptocurrencies. Julius Baer recently began offering Lombard lending (a specialized form of personal lending in which banks grant secured credit to their private wealth management clients) in Switzerland, allowing customers to borrow against digital assets custodied with the bank.[52]

Figure 6. Increasing investor trust will be pivotal to growing crypto investments

The crypto winter impact	After a period of record highs, the crypto market crashed in late 2022 with both cryptocurrency market capitalization and trading volumes taking a nosedive.
Investor optimism	Despite the unexpected crash, retail investors, HNWIs, and institutional investors remain positive towards crypto investing and a majority expect their allocation towards digital assets to increase in the coming years.
Crypto in mainstream	Large banks and wealth management firms are increasingly providing crypto-custody advisory, and asset management services for crypto-backed assets, boosting investor confidence and acceptance.
Regulatory outlook	The MiCA Regulation will apply in the EU before the end of 2024. Similar regulatory frameworks across the globe will reduce market uncertainty, protect investors, and drive wider crypto adoption.

Source: Capgemini Research Institute for Financial Services analysis, 2023.

IMPACT

Investors remain resilient and maintain a level of optimism for the future growth of crypto. Nearly three-fourths (74%) of institutional investors affirmed their organizations' plans to increase investments in this sector over the coming year.[53] By the end of 2024, the landmark Markets in Crypto assets (MiCA) regulation will go into force in the EU, enhancing consumer protection and boosting transparency. The rule will mitigate crypto market regulatory uncertainty, thus bolstering investor confidence and catalyzing broader adoption of cryptocurrencies.

Increasing participation in crypto by incumbent financial institutions and wealth management firms will be transformative. Their expanding service offerings related to crypto will mark a crucial step toward mainstream acceptance of digital assets; it will enhance investor trust and diversify the range of investment opportunities available in the crypto market. These initiatives will collectively contribute to a more robust and dynamic crypto market, positioning digital assets as an integral component of diversified investment portfolios.

TREND 7

Asset tokenization enables a more efficient financial system

Asset tokenization is revolutionizing the global asset market via unprecedented financial and economic opportunities for investors and wealth managers.

CONTEXT

Asset tokenization transfers ownership rights of tangible or intangible assets into tokens based on blockchain technology. On blockchain-based platforms, these tokens may be purchased, sold, or exchanged; each one represents a portion of the asset. It leverages blockchain advantages, including efficiency, security, and transparency, to provide a new system to trade and own assets.

- Tokenized assets are traditional financial assets – stocks, bonds, real estate, or commodities – converted into digital tokens. Tokens are purchased, sold, and traded on blockchain-based platforms, providing liquidity, transparency, and accessibility to global investors.
- The total size of tokenized illiquid assets, including real estate and natural resources, could reach more than USD 16 trillion by 2030, composed of financial assets such as insurance policies, pensions, and alternative investments.[54] With financial and real-world assets tokenization expected to grow by 80 times in private markets to reach ~USD 4 trillion in value by 2030, it may be the use case that catapults the mainstream use of blockchain technology, according to a March 2023 Citi GPS study.[55] Forbes reported in Q2 2023 that only 0.01% of the market – USD 77 billion in assets – was tokenized. This minuscule percentage may indicate substantial market potential for investors when more tokenized assets become available.[56]

CATALYSTS

Tokenization holds the potential to transform financial services by opening investments to a larger global pool via electronic assets that previously were not traded.

- Asset managers and investors are experimenting with owning a portion of valuable assets. Blockchain makes it possible to keep a digital version of physical assets on a distributed ledger – bringing transparency, affordability, and immutability to asset ownership.
- Investors are showing increased interest in diverse asset selection in their portfolios. Once out of reach to many investors because of high costs, new types of assets have become as accessible as equity and fixed-income options.
- Incumbent financial institutions realize tokenization's enormous potential and efficiency, including increased liquidity, fractional ownership, and simplified trading procedures. As a result, many institutions are entering the tokenization market.

IN A NUTSHELL

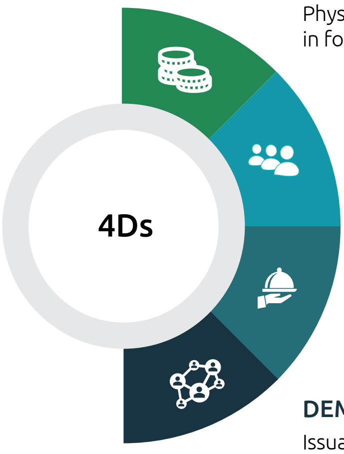
Institutions – including banks, financial intermediaries, and regulatory organizations – play a vital role in the asset tokenization ecosystem. Their involvement strengthens the burgeoning field's legitimacy, trust, and abundance of knowledge, creating the ideal conditions for its wide acceptance.

- J.P. Morgan's tokenization projects concentrate on conventional assets including US Treasury bonds and money market funds. The company's Onyx business unit creates networks and infrastructure for digital assets. Internal blockchain-based transactions use JPM Coin, a digital version of the US dollar. The bank's Link network, hosted on the Onyx platform, facilitates fast international transfers.[57]
- KKR, a US global investment company with USD 471 billion in assets, launched its first tokenized private equity feeder fund on the Avalanche blockchain. KKR's Health Care Strategic Growth Fund II, which provides exposure to the firm's health care growth equity investing strategy, will be tokenized on the layer-1 blockchain Avalanche by digital asset securities firm Securitize.[58]
- Franklin Templeton, an asset management firm with USD 1.4 trillion in assets, unveiled a mutual fund that utilizes a public blockchain for transaction processing and recording share ownership. BENJI tokens represent Franklin OnChain U.S. Government Money Fund shares. Token holders can gain exposure to the fund in digital wallets through the downloadable Benji Investments app.[59]

- Hamilton Lane, an investment management firm overseeing USD 824 billion in assets, has introduced a tokenized fund on the Polygon Blockchain. The tokenized version of the feeder fund drastically decreases the minimum investment requirement from the conventional USD 5 million to a mere USD 20,000 for the tokenized feeder fund. The expanded accessibility opens opportunities in private markets for a more diverse range of investors.[60]

While asset tokenization holds immense promise, it is essential to acknowledge and address the associated challenges and risks, such as a robust regulatory framework, security concerns, standardization, and interoperability.

Figure 7. 4 Ds of asset tokenization



Source: Capgemini Research Institute for Financial Services analysis, 2023.

IMPACT

Asset tokenization is trending thanks to the confluence of blockchain technology, legislative developments, and rising investor demand. Within the next decade, the worldwide market for tokenized assets might approach the trillion-dollar level.[61] As issuers increasingly tokenize assets, the potential for investment and wealth creation will likely expand, increasing liquidity.

While tokenization opens far-reaching possibilities, mainstream use is contingent upon uniform global standards and production-ready solutions. Financial institutions can prepare by determining the necessary infrastructure to support tokenization, such as onboarding, management, and integration with legacy systems. As tokenization technologies mature, the advantages of new assets become more apparent.

TREND 8

Intelligent automation is a powerful efficiency enabler across the entire value chain

AI-powered wealth management offers client benefits including lower costs, automated portfolio management, and timely insights and recommendations.

CONTEXT

AI is anticipated to make a staggering USD 15.7 trillion contribution to the global economy by 2030.[62] A wide range of industries anticipate enormous AI potential with the advent of advanced analytics, intelligent dashboards, and seamless customer journeys. Wealth management firms can leverage AI-based models for data-driven decision-making and hyperscale personalization capabilities. AI-based models maximize efficiencies and rationalize costs across the wealth management value chain.

- With the ability to analyze and generate insights from vast amounts of data, AI models will equip relationship managers with targeted insights mined from public sources including company filings, news reports, and social media sentiments.
- AI algorithms can detect patterns and anomalies in financial transactions and identify potentially fraudulent activities. AI can flag suspicious activities by analyzing historical data and real-time transactional information.

CATALYSTS

AI in sales can potentially boost leads and appointments by more than 50% while reducing costs between 40% and 60%.[63] AI can also improve the efficiency of low-impact but high-effort tasks, including regulatory reporting, monitoring, and data collection. Reports indicate that productivity could increase by 2.8% to 4.7% annually if innovation in AI for wealth management continues at pace.[64]

- 44% of wealth management executives interviewed for the World Wealth Report 2023 said their firm already leverages AI and ML technologies across the value chain.
- Yet, the report found that only 41% of relationship managers feel equipped with tools and training to hyper-personalize client services. Hyper-personalization tools leverage AI and ML models to augment efficiency and decision-making capabilities.
- Over 58% of relationship managers want their wealth management firm to prioritize intelligent automation, and only 39% are satisfied with the pace of implementation.

IN A NUTSHELL

Wealth management firms are starting to integrate intelligence automation and AI in their products to enrich client experience.

- The wealth management unit of Morgan Stanley developed a next-best-action system to help financial advisors match investment possibilities to client profiles.[65]
- California-based automated investment service Wealthfront reported a 68% growth in account sign-ups during the pandemic. Wealthfront's robo-advisory platform provides digital-first financial planning and investment management services.[66]
- In December 2022, Deutsche Bank announced a multiyear innovation partnership with Nvidia Corp. (NVDA) to embed AI into the bank's financial services and generate multiple AI-based applications, including intelligent avatars, speech AI, and financial fraud defense.[67]
- In July 2023, J.P. Morgan announced a strategic partnership with TIFIN that led to the creation of TIFIN. AI, which provides AI-based assistance solutions for wealth management companies seeking to deliver client portfolio insights and employee benefits.[68]

Figure 8. Potential AI use cases across the wealth management value chain are plentiful

Portfolio management and client enablement

Automated insight	Reading earnings transcripts to assess management sentiment
Relationship mapping	Identifying nonintuitive relationships between securities and market indicators
Alternative datasets	Alternative data can be compared with data that is traditionally used by investment companies
Growth opportunities	Using client data to gauge future growth along with clients' behavioural patterns
Client outreach	Smart client outreach and demand generation via analytics, using alternative data sources such as social media data

Front-, middle-, and back-office efficiency

Operations Intelligence	Using ML to automate function
Powering risk performance	AI-based algorithms and ML to monitor for suspicious transactions, and trigger response protocols
Reporting and servicing	Generating reporting for clients, portfolio and risk commentary, and marketing material using natural language processing
On-demand reporting	Chatbots and ML are used to respond to employee or investor queries, generating management reporting on-demand
Employee insights	Monitor employee conduct risk and employee morale

Source: Capgemini Research Institute for Financial Services analysis, 2023.

IMPACT

The impact of AI on wealth management firms will be more visible and impactful as we progress into 2024; with advancements in analytics and optimization algorithms, the wealth management industry will see greater adoption of these technologies in their existing processes. AI will be integrated in different parts of the value chain, with chatbots and intelligent analytics embedded in customer-facing processes, making client interactions more effective. Process optimization algorithms will be embedded in reporting and accounting to leverage gains in efficiencies.

Automation in the middle- and back-office pays huge dividends. It raises efficiency and customer happiness, lowers error rates, and ensures compliance. The jobs that are manual, extensive, repetitive, and call for ongoing analysis and feedback are the best candidates for AI application. Because of this, implementing AI, ML, and NLP in middle- and back-office operations and processes is a safe bet.

TREND 9

Digitalized client journeys are boosting productivity and streamlining operational costs

Developing strategic plans to maximize productivity, improve client engagement and experience, and unlock value streams is now essential to sustain long-term business growth.

CONTEXT

With constrained revenue sources, the typical cost-to-income ratio for wealth management firms ranges between 65% and 70%, according to Capgemini's World Wealth Report 2023. For wealth management firms in 2024 and beyond, reducing costs while attempting to boost margins will remain a top priority.

- Developing strategies to maximize productivity, enhance client engagement and experience, and uncover value streams is increasingly crucial to sustaining long-term business success. Rising operational expenses, client churn, and diminishing earnings are prime concerns for wealth management executives.

CATALYSTS

Tedious, time-consuming, and error-prone manual operations fill the wealth management value chain. These inefficiencies impact the high-net-worth client life cycle, from acquisition to service and relationship building.

- The World Wealth Report 2023 found that one in three wealth management executives said critical tasks – such as client account opening, know-your-customer (KYC) processes, and other due diligence – require significant and intense manual intervention. Therefore, client onboarding requires relationship managers (RMs) to devote excessive time to coordination among departments. Not surprisingly, 45% of surveyed wealth firm executives say the cost per RM is up, driven by pervasive value-chain inefficiencies.
- In the post-pandemic world, clients want to reach RMs through various channels, including self-managed digital apps. However, 58% of the RMs surveyed said managing clients' 24/7 availability expectations is challenging. Lagging digital readiness and poor omnichannel platforms drag down RM efficacy. RMs spend two-thirds of their time on non-commercial/ non-core activities and only the remainder on pre-sales and client interaction.
- 50% of surveyed RMs said that personalizing HNWI client engagement is challenging: poor personalization and inability to deliver value-added services limit up-sell and cross-sell opportunities.

IN A NUTSHELL

Wealth management firms are shifting from the status quo in which RMs do everything alone to a supportive situation to help them get through complex regulatory, product, and competitive issues. Equipped with the right advisor dashboard linked to all internal teams, the RM should be able to mobilize and orchestrate the right experts at the right times and life moments to serve the client.

- Deutsche Bank partnered with a US supplier of artificial intelligence hardware and software, NVIDIA, to embed AI and ML in financial services by developing risk management and customer service applications. The partnership supports Deutsche Bank's cloud transformation journey using AI and ML to simplify and accelerate cloud migration decisions.[69]
- Charles Schwab leverages AI to build, monitor, and automatically rebalance diversified portfolios based on a client's goals.[70]
- Alliance Bank Malaysia partnered with software and IT services provider Comarch in Q3 2023 to develop a digital wealth platform with 24/7 client portfolio access. The system will give customers 24/7 viewing access to their financial information, including investment portfolios, insurance policies, loans, and other financial products, through the Allianceonline mobile app. Chat and video-conferencing capabilities will support digital communication and engagement between relationship managers and clients, enhancing customer satisfaction.[71]

Figure 9. Advisor workstations help integrate disparate functions providing seamless access for RMs

HNWIs ⟷ RMs ⟷ DIGITAL WORKSTATION

Disparate functionalities integrated as modules to a digital workstation for seamless access

Access to market	**Real time market data** • Industry updates • Economy/market news • Analyst briefings	**Events** • Industry events • Corporate events	**Market research** • Proprietary research • Third-party research	**Visualization tools** • Market charts • Stock trackers	**Capital market scanner** • Performance of equities, bonds, etc.
Access to client servicing teams	**Client management** • HNW client profile • Key client data	**Financial planning tools** • Financial modelling • Portfolio optimization	**Client financials** • Account activity • Client holdings	**Client Reporting** • Forecast statements • Compliance reports	
Access to operations team	Order entry	Account management	Client communication	Access to ERP system	
Access to business teams (cross and up-selling)	Banking	Cards	Insurance	Credit advisor	
Access for administrative tasks	Training	Procurement	Product information	Service information	Document repository
Access to third-party specialists	Tax-planning	Concierge services	Account aggregation	Legal advice	Event planning

* Digital advisor workstation is a one-stop-shop for RM to consolidate daily activities across the entire WM value chain and bring clients' overall experience in line with new levels of digital expectations.

Source: Capgemini Research Institute for Financial Services analysis, 2023.

IMPACT

Digitalization can impact the entire wealth management value chain – from modeling data to assisting in portfolio building to personalizing offerings. As part of the digitalization trend, firms will orchestrate ecosystems, build AI/ML tools, and automate tasks across the value chain. Firms that expand value can potentially shift their advisory model – from transactional relationships to life partnerships.

We anticipate that wealth management firms will increasingly offer relationship managers a one-stop-shop digital workstation as an integrated interface to access disparate functionalities and orchestrate superior client experiences: digital workstations will integrate processes, systems, data, and advisory tools within a single desktop interface. As a result, RMs can seamlessly access relevant client information and functions to expedite service delivery.

TREND 10

Reliable and traceable ESG metrics are now a must

Currently lacking, standardization and reliable ESG scoring metrics are essential to building high-net-worth individuals' trust.

CONTEXT

As ESG gains significance among HNWIs, wealth management firms consider ESG criteria in their portfolio strategies and develop ESG products and portfolios.

- According to the World Wealth Report 2023, wealth management executives said ESG-linked assets comprise 29% of their firm's AUM.
- Over USD 500 billion flowed into ESG-integrated funds in 2021, contributing to a 55% growth in AUM inESG-integrated products.[72]

Regulations around ESG traceability and scoring are finally catching up to the demands of HNWI investors. The EU introduced over a dozen ESG regulations, including the Sustainable Finance Disclosure Regulation) and Corporate Sustainability Reporting Directive. In Q3 2023, the European Union adopted the new European Sustainability Reporting Standards to support the EU's corporate sustainability reporting directive; these standards cover the full range of environmental, social, and governance issues including climate change, biodiversity, and human rights. They also provide information for investors to understand the sustainability impact of the companies in which they invest.

CATALYSTS

As ESG assets are increasingly highly desired by HNWIs, they are increasingly keen on measuring the impact of their ESG investments.

- 63% of surveyed HNWIs said they had requested reliable and traceable ESG scores for their assets.
- The demand for ESG scoring is particularly evident with the younger generation, with 69% of HNWIs younger than 40 years in age demanding an ESG score before investing, whereas only 46% of HNWIs aged over 60 asked for the same.

Wealth management firms have begun to equip themselves to better tackle current challenges with ESG reporting and impact investing standards. According to the World Wealth Report 2023:

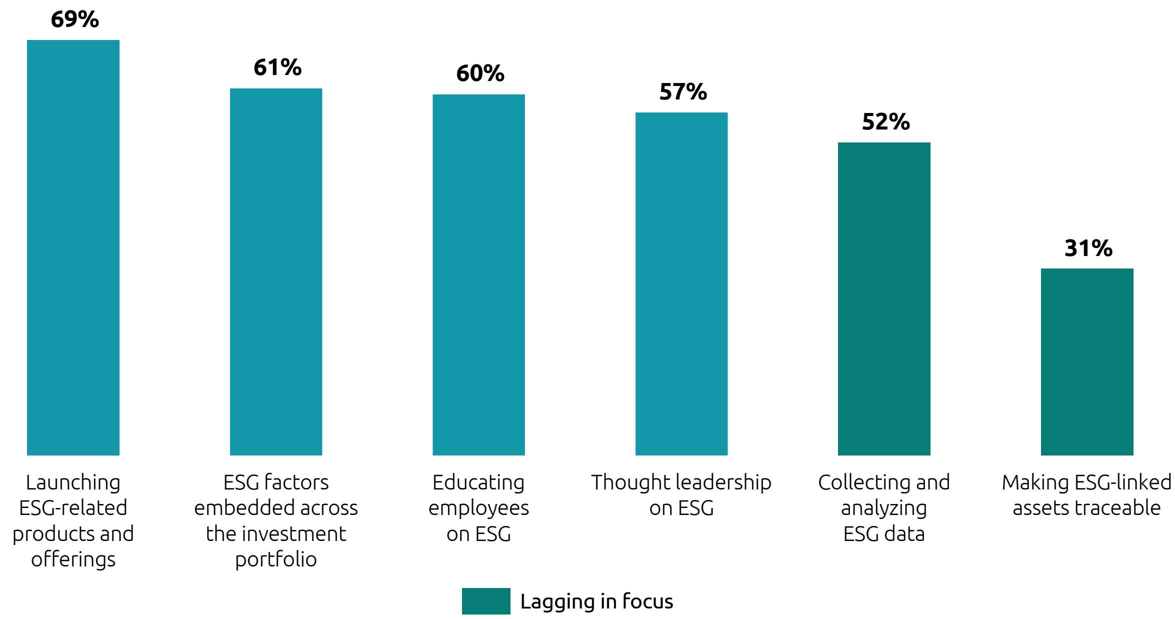
- 31% of wealth management executives prioritize strategies that make ESG-linked assets traceable.
- Yet over 30% of the relationship managers said their firm lacks a standard framework to measure and score ESG impact.

IN A NUTSHELL

Wealth management firms are meeting the increased demand from clients for ESG-linked assets by launching new ESG products and services.

- Even as the demand for ESG investing and reliable ESG scores is increasing, the World Wealth Report 2023 has found that only 52% of firms prioritize collecting and analyzing ESG data, and only 31% prioritize making ESG-linked assets traceable.
- Franklin Templeton and ClearBridge Investments announced in October of 2023 the launch of a global value equity fund named the FTGF ClearBridge Global Sustainability Improvers Fund. This fund aims to facilitate investments in entities that are on a discernible path towards bettering their sustainability approaches.[73]
- In 2023, BlackRock launched two broad ESG ETFs with a total of about USD 9 million of assets, an environmental solutions ETF with about USD 3.7 million, and a sustainable global equity mutual fund with about USD 10 million in assets.[74]
- In Q2 2023, J.P. Morgan launched a data solution for ESG-related data aimed at institutional investors that seeks to bolster ESG scoring and make ESG-linked investment information more readily available.[75]

Figure 10. Wealth management executives support ESG investments, but there is still work to do



Source: Capgemini Research Institute for Financial Services analysis, 2023.

IMPACT

ESG scoring and metrics will gain greater prominence in the coming years as investors continue to diversify their portfolios again. In addition to investors' portfolios, wealth management firms will also leverage standardized ESG metrics to gauge and mitigate ESG-specific risks across their investments and financial exposures. Readily available ESG metrics will also enable wealth management firms to offer highly tailored ESG-linked funds and enhance their portfolio of offerings.

As the regulatory environment around ESG scoring and metrics becomes clearer, we will see increased appetite for ESG-linked investments and an improvement in the trust of investors that their ESG investments are being executed as intended.

CONCLUSION

It goes without saying that 2024 presents a unique set of challenges and opportunities for wealth management firms. As many investors look beyond prioritizing wealth preservation, wealth managers must get creative to address client anxiety and expectations. Maintaining profitability and adding value to clients will be challenging in a still recovering equity market and a high interest rate environment, along with the continuing impacts of inflation and global geo-political instability.

Wealth managers must look to new frontiers to develop business, including expanding the wealth continuum to the affluent segment and capitalizing on the intergenerational wealth transfer. As new segments and customers enter wealth management firms' client base, leveraging emerging technologies, including generative AI and intelligent automation, is imperative to streamline workflows. As clients become younger and more diverse, digital channel experience is an essential tool to improve customer experience.

To capitalize on new demands, wealth management firms must navigate client-advisor relationships and be malleable in a rapidly changing environment. Wealth management firms must also cater to the changing demands of their clients, from sustainability and inclusivity considerations to more transparent ESG metrics. With the shifting priorities of their clients, wealth managers need to adapt to preserving wealth, growing it, and refining and deepening their proficiency in digital offerings as incumbents and challengers adopt these technologies.

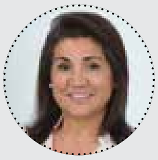
Ask the experts

Nilesh Vaidya

Global Head of Banking and Capital Markets

nilesh.vaidya@capgemini.com

Nilesh has been with Capgemini for 20+ years and is an expert in managing digital journeys for clients in the areas of core banking transformation, payments, and wealth management. He works with clients to help them launch new banking products and their underlying technology.



Marie Wattez

Global Head of Private Banking & Wealth Management

marie.wattez@capgemini.com

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

Maxime Gaudin

Head, Wealth & Asset Management Practice

maxime.gaudin@capgemini.com

Maxime leads the Wealth & Asset Management practice at Capgemini Invent – France. He has 20 years' experience in advising major institutional investors, investment managers, and private banks in their business strategy, target operating models, and IT strategy from front- to back-office functions.

James Aylen

Head of Wealth Management Consulting, Asia

james.aylen@capgemini.com

With publication in the future of wealth, James is a recognized thought leader in the APAC region. He has over 20 years experience in financial services, and has designed and built some of the latest cutting-edge digital solutions in the market.

Abhishek Singh

Wealth Management Practice Head, North America

abhishekh.singh@capgemini.com

Abhishek provides Wealth Management industry leadership for clients and brings Capgemini collaboration with industry-leading partners to provide innovative wealth management solutions for clients. He has over 20 years of financial services experience, working primarily in wealth management and corporate banking.

Tej Vakta

Global Wealth Management Leader & Head of ESG Solutions

tej.vakta@capgemini.com

Tej is a global Wealth Management industry leader and head of ESG solutions, with over 25 years of diverse FSI experience as a transformation leader and business-driven tech executive. He partners with CxO's to establish innovation-driven growth strategy and execute enterprise-wide transformation while empowering organizations to integrate sustainability.

Sandeep Kurne

Digital Strategy & Transformation Lead

sandeep.kurne@capgemini.com

Sandeep Kurne is a Digital Strategy & Business Transformation executive with 22 years of global experience in building, re-engineering, and positioning firms for profitability, growth, and shareholder value creation in the digital age. His forte lies in collaborating with traditional and FinTech firms across banking, wealth management, and capital markets to drive strategic, complex digital core initiatives leveraging global alliances.

Elias Ghanem

Global Head of Capgemini Research Institute for FS,
Financial Services

elias.ghanem@capgemini.com

Elias is responsible for Capgemini's global portfolio of financial services thought leadership. He has more than 20 years of experience in FS, focusing on effective collaboration between banks and the startup ecosystem. models, and technology platforms across HNWIs, mass affluent and family offices.

Vivek Kumar Singh

Head of Banking & Capital Markets,
Capgemini Research Institute for FS

vivek-kumar.singh@capgemini.com

Vivek leads the Wealth Management, Banking, FinTech, and Payment sectors in Capgemini Research Institute for FS and has over 12 years of digital, consulting, and business strategy experience. He is a tech enthusiast who tracks industry disruptions, thought leadership programs, and business development.

Aranya Adak

Project Manager, Banking & Capital Markets
Capgemini Research Institute for FS

aranya.adak@capgemini.com

Aranya supports the Wealth Management sector in Capgemini Research Institute for FS. He comes with experience in consulting and program management across banking and wealth management domains. In his role, he supports FS practice with strategic industry and business insights.

Key contacts

Global

Ian Campos
ian.campos@capgemini.com

Nilesh Vaidya
nilesh.vaidya@capgemini.com

Nathan Summers
nathan.summers@capgemini.com

Asia (China, Hong Kong, India, Singapore)

Ravi Makhija
ravi.makhija@capgemini.com

Devendra Tripathi
devendra.tripathi@capgemini.com

James Aylen
james.aylen@capgemini.com

Kamal Misra
kamal.mishra@capgemini.com

Australia

Roy Crociani
roy.crociani@capgemini.com

Manoj Khera
manoj.khera@capgemini.com

Belgium and the Netherlands

Stefan van Alen
stefan.van.alen@capgemini.com

Alexander Eerdmans (Netherlands)
alexander.eerdmans@capgemini.com

Martine Klutz (Belgium)
martine.klutz@capgemini.com

France

Maxime Gaudin
maxime.gaudin@capgemini.com

Austria and Germany

Joachim von Puttkamer
joachim.von.puttkamer@capgemini.com

Carina Leidig
carina.leidig@capgemini.com

Switzerland

Marie Wattez
marie.wattez@capgemini.com

Loïc Paquotte
loic.paquotte@capgemini.com

Italy

Dario Patrizi
dario.patrizi@capgemini.com

Michele Inglese
michele.inglese@capgemini.com

Lorenzo Busca
lorenzo.busca@capgemini.com

Japan

Ajoy Bhavnani
ajoy.bhavnani@capgemini.com

Nishikawa Hideo
hideo.nishikawa@capgemini.com

Laurent Liotard-Vogt
laurent.liotard-vogt@capgemini.com

Middle East

Bilel Guedhami
bilel.guedhami@capgemini.com

Vincent Sahagian
vincent.sahagian@capgemini.com

Nordics (Finland, Norway, Sweden)

Saumitra Srivastava
saumitra.srivastava@capgemini.com

Emilie M. Flaate
emilie.flaate@capgemini.com

Johan Meregan
johan.meregan@capgemini.com

Spain

Isaac Francisco Gimeno Sanz
isaac-francisco.gimeno-sanz@capgemini.com

United Kingdom

Carlos Salta
carlos.salta@capgemini.com

Geetha Ramakrishnan
geetha.ramakrishnan@capgemini.com

North America

Tej Vakta
tej.vakta@capgemini.com

Abhishek Singh
abhishekh.singh@capgemini.com

Louis Forteguerre
louis.forteguerre@capgemini.com

Latin America

David Cortada Gras
david.cortada@capgemini.com

Lucio Tomas Pegasano
lucio.pegasano@capgemini.com

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LEAD ANALYSTS

Abhishek Gurajala

Abhishek leverages his experience to support thought leadership projects and the Wealth Management practice in producing influential business insights.

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For more information, please contact:

Capgemini
wealth@capgemini.com

For press inquiries, please contact:

Fahd Pasha
Capgemini Financial Services
Tel.: +1 647 860 3777
fahd.pasha@capgemini.com