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THE RISE OF BIONIC WEALTH

A HYBRID MODEL OF CUTTING-EDGE TECHNOLOGY AND ADVISOR EXPERTISE HERALDS THE FUTURE FOR WEALTH MANAGERS

IN ASSOCIATION WITH: TEMENOS The software specialist for banking and finance

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ABOUT THIS REPORT

The future of wealth management is about the successful use of technology. A great transfer in wealth from aging baby boomers to younger generations is under way, and it is reshaping the industry in ways that demand greater efficiency and adaptation by incumbent firms. The challenge: retain the loyalty of customers with changing demands in a world of greater choice.

The shift to new investors is happening against a backdrop of disruption—an explosion of data, the rise of digital generations and the robo-advisors to serve them, and secular headwinds in the global economy. Generations X and Y move effortlessly across both the analog world of face-to-face meetings and the virtual world of digital platforms that enable the fast and accurate service they expect. To move in lockstep with these young investors—to remain competitive as the future unfolds, with a burnished and tech-forward brand—wealth management firms must invest in a transformation built around a modern core banking system. And they must do it without alienating older clients, still the bedrock of their business.

The stakes are enormous. Each year about $1 trillion passes down to younger generations. Global High-Net-Worth Individual wealth is now over $56 trillion, and it is expected to grow at an average annual rate of 7.7% through 2017. By 2020, generations X and Y—those currently age 50 to 16—will control over half of all investable assets in the U.S., some US$35 trillion. Baby boomers will continue to be the wealthiest segment up to and even through 2030, a year after the youngest among them turn age 65. But their share of net household wealth will peak in 2020 at 50.2% and taper off to 44.4% by 2030.[1] After that, the older segment's percentage of the wealth pie will continue to drop off, and today's younger investors will be ever more important to wealth managers.

And herein lies the looming crisis for the industry: according to a 2015 report by PwC, asset attrition rates exceed 50% in intergenerational transfers of wealth.[2] Other estimates show retention rates going as low as 5% in some regions and segments. Success, even survival, for wealth managers will depend on giving rising client segments what they need in terms of service and, above all, financial performance.

METHODOLOGY: To gain a unique view into the experiences of both clients and advisors as the wealth management industry faces change, Forbes Insights, in partnership with Temenos, surveyed more than 60 wealth managers and 35 High-Net-Worth (HNW) clients about the evolving banking experience—how they communicate, their needs and the importance of technology. More than half of the executives surveyed are CEOs, and almost 30% are heads of asset management. Three-quarters of the executives are evenly split across Asia Pacific, Europe and North America. Almost 90% of clients surveyed have net worth between $1.4 million and $7 million.

This report outlines the key findings from the research, with commentary from executives at three leading investment and private banks.

[1] http://dupress.com/articles/us-generational-wealth-trends/

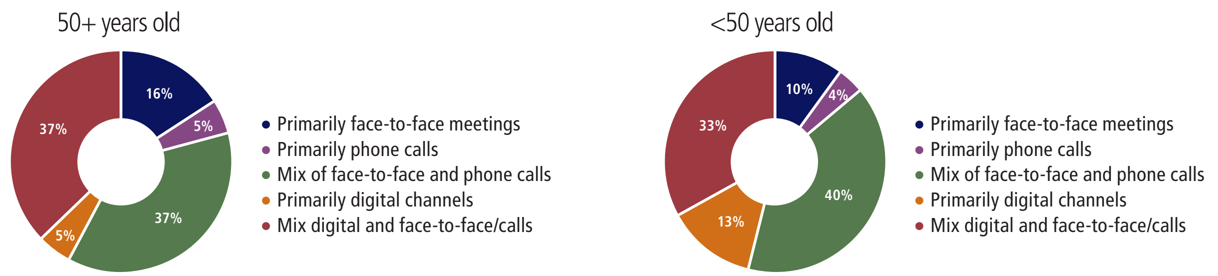
[2] http://www.strategyand.pwc.com/perspectives/2016-wealth-management-trends

KEY FINDINGS

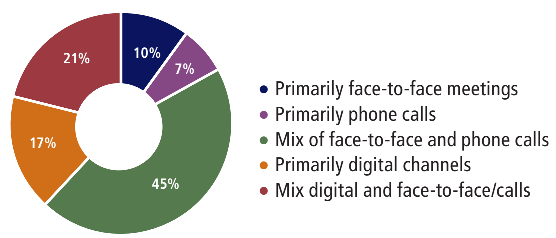
- Forty-two percent of wealth managers believe that a mix of digital and offline ways of communicating is ideal.
- Thirty-four percent of HNW clients want either digital-only or a mix of digital and offline communication.
- Sixty-two percent of HNW clients say that the digitization of wealth management services is good overall, but they still want to meet often with an advisor.
- Seventeen percent of HNW clients say technology is essential.
- Forty-eight percent of HNW clients rate cyber risk and hacking as a top concern related to the use of technology.
- Forty-five percent of wealth managers believe detailed analysis of financial results and performance is the best way to build trust with clients.

THE WEALTH MANAGEMENT LANDSCAPE

WEALTH MANAGERS: HOW DO YOU COMMUNICATE WITH CLIENTS?



CLIENTS: HOW DO YOU COMMUNICATE WITH YOUR WEALTH MANAGER?



One way or another, humans will always want to communicate. Amid all that is said and written about the great wealth transfer and the digital culture of young generations, one simple truth stands: the instinct to talk and write—to exchange ideas, to question and learn, to be guided—remains the foundation of financial services even as seismic change roils the industry.

"Much more of our client interactions are through technology media," says Gregory F. Gatesman, chief operating officer of Julius Baer Group, a Zurich-based wealth manager. "Face-to-face meetings are becoming less frequent. Everything from secure email to chatting through secure channels, the use of video conferencing, is becoming more and more prevalent."

But Gatesman sees the trend adding efficiency—continuing and deepening wealth management's core offering: personal attention and expert guidance. "Where we still see the desire for in-person interaction even in the younger generation is on the planning level," he says. "When clients are ready to sit down and talk about three-, five- and 10-year time horizons, the face-to-face meeting is still often very valued."

CLIENTS. The results of the Forbes/Temenos survey confirm Gatesman's bird's-eye view and reveal the nuances among generations about how they communicate, while confirming the broad-stroke trends underlying the disruption. **This survey confirms that it is largely a myth that wealthy young investors are entirely self-sufficient and that they communicate primarily through virtual channels, with little or no interest in face-to-face relationships with advisors.** True, they want to make their own decisions, and they are certainly at home in the digital world; but they also want to work with one or more financial advisors to get second options and to validate their views, on the go, across any available channel.

Sixty-two percent of clients surveyed say that the digitization of wealth management services is good overall, but they still want to meet often with their advisor. About a fifth say that

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digitization is essential and that they want 24/7 access and a real-time view of investments. About the same percentage feel that a mix of digital interaction with face-to-face meetings and phone calls is the ideal way for them to communicate with their advisors—and 14% favor primarily digital media such as email, WebEx, texting, screenshare and video.

Interestingly, a significant percentage of clients surveyed (21%) are unaware of robo-advisors, but overall they are accepting of this new breed of investment service. Almost a third of them say that robo-advisors are "essential because technology is the best way to manage a portfolio." A third (34%) say that robo-advisors are good overall, but that some human involvement is important in investing.

THE FUTURE OF ROBO-ADVISORS. Riding the rising wave of young investors are automated investing platforms that give clients access to the same portfolio management software programs used by professional advisors—algorithms that produce personalized financial planning, asset allocation and rebalancing.

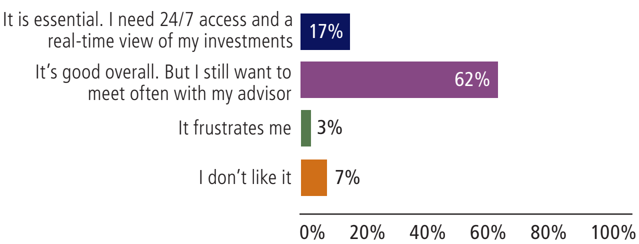
The robo business is being built on the assumption that young investors, set to become an increasingly significant and dominant client base, will embrace a wealth management environment that appeals to their data-driven sense of independence and their distrust of financial markets. But the results of the Forbes/Temenos survey suggest that the human element will remain strong—and the views of both clients and wealth managers suggest that the most effective path forward for wealth managers is a hybrid approach that blends powerful technology with the guidance and perspective of an advisor.

> *"We're really trying to build a holistic, robust advisory process for our relationship managers."*
>
> —GREGORY F. GATESMAN
> Chief Operating Officer,
> Julius Baer Group

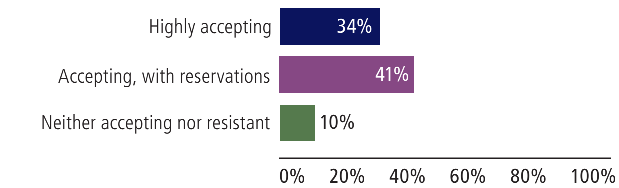
"The robo-advisor is giving transparency to the investor and will ultimately make the industry better," says Gatesman, who sees the power of installing robo-advisors into established organizations to make clients better prepared and the wealth managers better at delivering information. "When you think of the amount of effort a bank and an advisor put in to prepare for an asset allocation discussion with a client, you can imagine the power and efficiency a robo-advisor can bring to an organization," he says. "We're really trying to build a holistic, robust advisory process for our relationship managers."

Peter Thüring, chief operating officer at Schroders, a Zurich-based wealth manager, points out that the value of robo-advisors relates to asset size. "If you are a company like us, in the highest wealth segment, your clients want to speak to you," he says. "They want you to add value, for you to do the work. This is why they are going to pay you. They don't want you sending emails. In a more retail market, you would most likely do that—and over time one can assume that the services of robo-advisors and relationship managers will converge into a hybrid model, depending on the portfolio size of your client base."

CLIENTS: WHICH STATEMENT BEST DESCRIBES HOW YOU FEEL ABOUT THE DIGITIZATION OF WEALTH MANAGEMENT SERVICES?



CLIENTS: HOW WOULD YOU CHARACTERIZE YOUR ACCEPTANCE OF TECHNOLOGY IN YOUR PRIVATE BANKING EXPERIENCE?



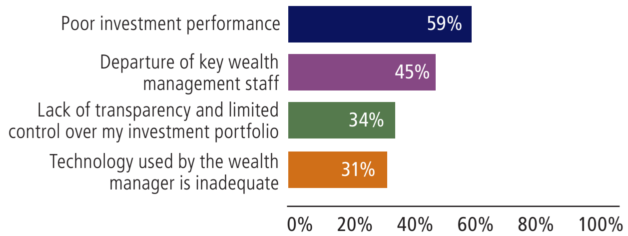
WHAT THE NEW WEALTH WANTS

The changes occurring in wealth management can be likened to the shift to streaming in the movie business. Streaming is now a big part of the industry, but Netflix's DVD business is still thriving.[3] People still go to the movies in droves. A pure play on bricks-and-mortar that failed to alter its business model, continuing to charge fees and thus alienating its customers, Blockbuster went bankrupt.[4]

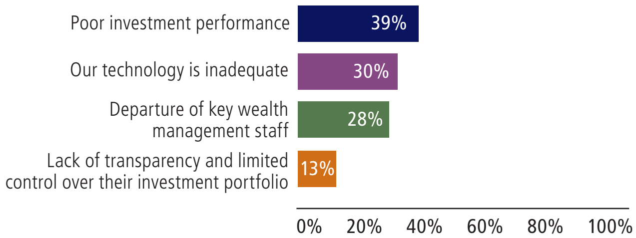
The lesson for wealth management is channel diversification—and services diversification. It is critical to understand the power of networks and how to employ them, which means knowing what your clients and prospects want. Well, what do wealthy investors want?

WEALTH MANAGEMENT QUALITIES. **Clients surveyed value wealth managers' ability to educate them on financial matters more highly than other characteristics.** A third feel it is highly important for wealth managers to have a global perspective. And they highly value insights on markets and financial solutions. Even more telling is the importance of an advisor's social media presence—a quarter of these young investors rate that quality as highly important.

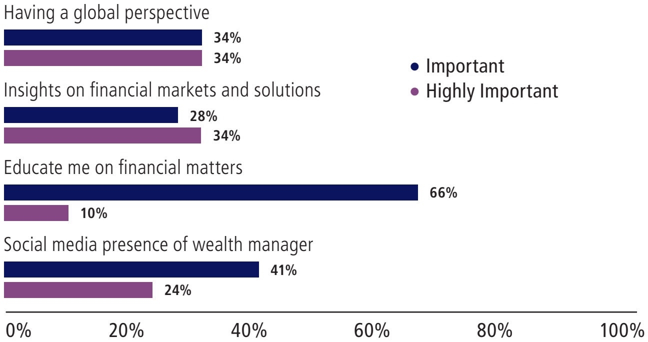
<50 YEARS OLD CLIENTS: WHAT WOULD PROMPT YOU TO LEAVE YOUR WEALTH MANAGER? (MULTIPLE CHOICE)



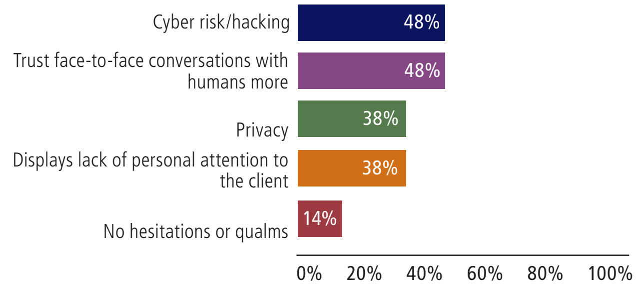
WEALTH MANAGERS: WHY DO CLIENTS LEAVE YOUR FIRM? (MULTIPLE CHOICE)



<50 YEARS OLD CLIENTS: HOW IMPORTANT ARE THE FOLLOWING ABILITIES IN A WEALTH MANAGER?



CLIENTS: WHAT ARE YOUR TOP HESITATIONS OR QUALMS ABOUT THE USE OF TECHNOLOGY IN YOUR PRIVATE BANKING EXPERIENCE? (MULTIPLE CHOICE)



[3] http://www.nytimes.com/2015/07/27/business/while-its-streaming-service-booms-netflix-streamlines-old-business.html?_r=0

[4] http://www.forbes.com/sites/gregsatell/2014/09/05/a-look-back-at-why-blockbuster-really-failed-and-why-it-didnt-have-to/#305c2982261a

"For wealth management, it's important to keep the client engaged and empowered—and we strongly believe that when it comes to serving our clients, the combination of having our wealth managers work with clients in tandem with technology is a winning proposition."

—CHRISTIAN HUBER
Chief Operating Officer,
Private Banking Asia Pacific, Credit Suisse

And they are right. A 2012 report by Forrester showed that client-advisor interaction through digital channels correlated with higher fees paid to advisors than traditional methods of communications—phone calls and in-person meetings.[5] And a 2012 trial by a major investment bank revealed that, of the 600 advisors it allowed to use LinkedIn and Twitter, 40% brought in new clients through those channels—and 60% of those 240 advisors acquired new clients with $1 million or more in assets.

TRUST AND SECURITY. Trust is the lifeblood of wealth management. But the nature of that bond—how it's acquired and kept—is changing and divergent along generational lines. Much of client trust today is formed around the use and handling of data. Younger investors in particular want to understand data about markets and their portfolios. For them, insight and performance breed trust. "Traditional clients rely much more on their trust about data—that it was there, that it was studied," Gatesman says. "But the newer generation actually wants to see the data points and digest them a bit."

Investors over age 50 tend to be more focused on the security of data. "In wealth management, privacy is one of the most important values," Thüring says. He talks of client on-boarding, still mostly done by hand in the industry. Some firms are using Skype-similar software to identify clients, he says, but the documentation still needs to be delivered in print or scanned form—and many clients don't use security email infrastructure that enables security certificates or encryption. "I would rather invest in strong process and protection so our clients can see their data is safe and secure and private; then I would go to the Internet and open platforms, but not the other way around."

RETENTION. Understanding the feelings and preferences of clients on a deeply personal level—with the nuance revealed by the Forbes/Temenos survey—is at the core of retention, the underpinning business objective for the industry. Which begs a question: why do clients leave—and how aligned are wealth managers with the sentiments of their clients?

Consider where the perspectives of wealth managers and clients diverge: poor investment performance is the dominant reason clients leave (59%)—more than imagined by surveyed wealth managers. Almost 40% of them believe clients leave over investment results. A third of clients say they leave over a lack of transparency or control over their investment portfolio; but only about 13% of wealth managers see it that way.

The alignment between wealth managers and clients might be most telling: both parties in nearly equal percentages—about a third of both—see recommendations by the friends and peers of clients as a factor in attrition, which speaks to the importance of wealth managers' social presence. About a third of managers and clients cite the inadequacy of a firm's technology, which speaks to the impact of legacy systems. And a quarter of both clients and wealth managers believe that clashes over investment approach fuel departures.

Indeed, the human factor is at the core of a retention strategy, according to Gatesman. "The single biggest factor is the use of family planning while the first generation is still alive," he says. "The greatest tool for wealth managers to keep the wealth as it passes from generation to generation is doing multigenerational planning with the whole family. Otherwise, you risk disagreements on investment philosophy with the younger generation that could cause you to lose the relationship."

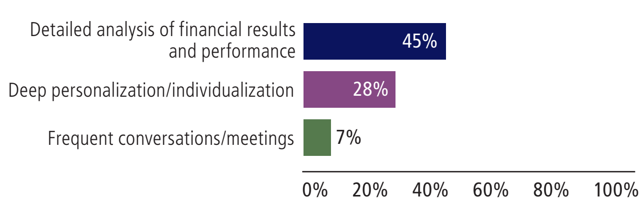
[5] https://www.forrester.com/report/Collaborative+Advice/-/E-RES78181
http://www.ft.com/cms/s/0/2c6b0008-be00-11e1-9abf-00144feabdc0.html

TECHNOLOGY

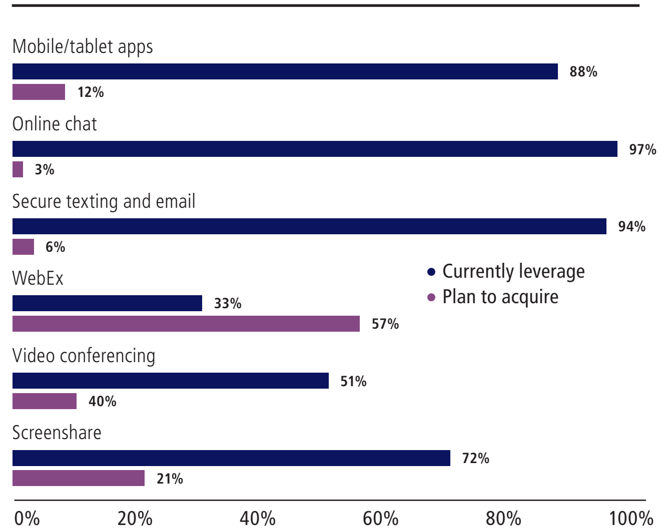
What are the chances of a customer leaving a wealth manager? On the surface, it seems the answer might be guesswork based on a vague sense of that investor's complex history. With data—the analytics to make sense of information collected from customers' digital footprints across their banking experience—the answer can be precise. Even more significant, the loss of the business can be predicted, action can be taken and attrition prevented.

Consider the viewpoint of wealth managers about trust (at right). **A little over a quarter of all wealth managers surveyed say that deep personalization is the best way to build trust with clients.** Almost half (45%) say that detailed analysis of financial results and performance is the dominant driver of trust, an underestimation of the value placed on performance by clients. But all the data in the world won't bring value without the right tools.

WEALTH MANAGERS: HOW DO YOU BEST BUILD TRUST WITH YOUR CLIENT?



WEALTH MANAGERS: DO YOU LEVERAGE THE FOLLOWING?



BEYOND LEGACY SYSTEMS. Many banks are running on technology built in the last century.[6] A catastrophic IT systems failure froze the accounts of 12 million customers of a major bank in 2012. Legacy systems are typically unable to manage the risk and complexity of a banking environment that is becoming more complex every year; they can't scale with the growth of data. Failures and breaches of varying magnitude are the cost of complacency. **Indeed, a significant number (42%) of wealth managers surveyed believe that legacy systems are "somewhat of a problem."**

In fact, they underestimate the harm behind legacy systems. "Legacy systems are a huge issue in the industry, a significant hurdle to innovation," says François Monnet, head of private banking for Greater China at Credit Suisse and the sponsor of its digital private banking project in Asia Pacific. "A lot of banking systems have been built in silos where the credit system is not fully integrated with the front end, and developing a platform that hand-builds data in near real time to provide insights to clients is a multiyear investment of the highest possible complexity."

For its digital private banking platform, Credit Suisse used a buy-and-build strategy that combined in-house systems it owns with technology from a selection of vendors, including a core banking system. The result is an app that gives clients access to account information, personalized insights and tools to respond to the markets and collaborate with advisors. Says Christian Huber, chief operating officer of the firm's Asia Pacific private banking operation and Monnet's colleague, "Our digital private banking platform is built around the empowerment of a segment we call validators—clients who want to be engaged and prefer to retain control of their investments. But we didn't build it for our clients; we built it with our clients, through many iterations, based on feedback from them and our relationship managers."

Huber points to one of the key questions for the industry:

[6] http://www.computerweekly.com/news/2240212567/Big-banks-legacy-IT-systems-could-kill-them

"Legacy systems are a huge issue, a significant hurdle to innovation."

—FRANÇOIS MONNET
Head of Private Banking Greater China,
Sponsor of the Digital Private
Banking Project Asia Pacific,
Credit Suisse

how comfortable banks feel about having client data on mobile devices in the effort to build closer working relationships with wealth managers. "At Credit Suisse, maintaining client and data confidentiality and security are our priorities—and we invested a lot of money on security to ensure mobile client data in a secure environment," he says. "For wealth management, it's important to keep the client engaged and empowered—and we strongly believe that when it comes to serving our clients, the combination of having our wealth managers work with clients in tandem with technology is a winning proposition."

Yet many wealth managers surveyed feel ill-equipped to handle the varied needs of their clients. Almost 40% say it's challenging for them to balance the different investing and communication styles of their different clients. An equal number of advisors say they are challenged by the amount of time they have to spend with older clients overall and that technology is a factor. **A telling result: 40% say they are more comfortable with technology to communicate and find it challenging to meet in person with clients. This is where the digitization of information and service can give wealth managers the time to deepen relationships.**

DATA BUILDS TRUST. Delivering personalized service and results is all about analytics and channels. Business intelligence software can capture financial and customer data and offer predictive modeling that determines the "next best product" from a world of complex options, targeted to the client. The future value and profitability of that client—each client—can be assessed. The right product gets presented to the right client, at the right time. Putting those capabilities on top of a mobile platform gives wealth managers the ability to make decisions on the go, while clients are on the go. A significant percentage of clients surveyed (62%) say they want wealth managers to send information about their investments and financial solutions to any of their devices, wherever they are.

"Information is delivered quicker, with less detail, but to some extent it is more substantive," Gatesman says about digital platforms. "Advisors can distill advice to three or four major points and give clients the core why to recommendations versus broader, elaborate explanations. It becomes a pointed delivery through a smartphone or Skype or Facetime with the next generation of investor."

Banks have to deliver information in an experience-driven way. Having all the channels available to respond to individual preferences is essential. Calls are certainly effective in certain circumstances, not necessarily to educate clients on complex matters. A video conference with screensharing, for example, is efficient and rewarding. So is an online conference with an expert. Technology enhances the intimacy and immediacy of the client relationship. After all, video is a face-to-face experience.

"I'm a strong believer in automation—making your processes more scalable so you can grow and take part in the consolidation process in the industry....For me digitization is not only a window into the bank through the client's mobile, it's about the electronic or digital end-to-end management of the entire value chain. Those who can manage data properly will win."

—PETER THÜRING
Chief Operating Officer,
Schroders

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CONCLUSION

Technology is the only way forward for wealth managers in a competitive financial landscape. But communication should not be limited to virtual channels, and digitization should not be seen as a replacement for the bonds of trust formed by human relationships. Clients will not choose wealth managers for the communication platform, and—as revealed by the survey—they likely will not leave because of its inadequacy. They want performance; they want insight and education. With that aim front and forward, firms must invest in technology to enhance their relationships with clients through secure platforms that deliver the right products, at the right time, driving efficiency. In the words of Schroders's Thüring, "Those who can manage data properly will win."

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ABOUT TEMENOS

Temenos Group AG (SIX: TEMN), headquartered in Geneva, is a market leading software provider, partnering with banks and other financial institutions to transform their businesses and stay ahead of a changing marketplace. Over 2,000 firms across the globe, including 38 of the top 50 banks, rely on Temenos to process the daily transactions of more than 500 million banking customers. Temenos customers are proven to be more profitable than their peers: in the period 2008-2014, they enjoyed on average a 31% higher return on assets, a 36% higher return on equity and an 8.6 percentage point lower cost/income ratio than banks running legacy applications.

For more information please visit **www.temenos.com**

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