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Capgemini's World Wealth Report 2018: Wealth management firms need to accelerate hybrid transformation and transform budget approaches to deal with potential BigTech opportunity threat

Wealth management firms accelerate hybrid advice programs -with investments in emerging technologies, such as intelligent automation and artificial intelligence, to prepare for BigTech entrance

Paris, June 19, 2018 – The World Wealth Report 2018 (WWR), released today by Capgemini, reveals that high net worth individuals'[1] (HNWIs) satisfaction level with hybrid advice[2] fell 5.1 percent to 57.3 percent. Additionally, more than 50 percent of HNWIs expressed interest in wealth management services offered by BigTech[3] firms. To address the decline in HNWI hybrid satisfaction and prepare for BigTech's entry into the industry, wealth management firms are accelerating the transformation of their hybrid advice model and investing in innovative technologies such as intelligent automation and artificial intelligence (AI).

"We are seeing that returns alone cannot sustain a wealth management business. Hybrid models are gaining popularity because HNWIs can tap into financial planning services in a modular, pay-as-you-go manner and take control of their wealth management journey. Depending on their needs, they can choose from automated self-service delivery, a wealth manager-led approach, or a combination of the two," said Anirban Bose, member of the Group Executive Board and Head of Capgemini's Financial Services Strategic Business Unit.

Wealth management firms accelerate move to hybrid in anticipation of BigTech entry

According to the report, 68.7 percent of HNWIs globally said hybrid advice, which combines human wealth managers and online tools, would be a significant factor when consolidating assets with their primary wealth management firm over Q1 2018 to Q1 2020.

Regionally, hybrid advice was considered most important by HNWIs in Latin America (76.1 percent) and Asia-Pacific, excluding Japan (68 percent.) There was also strong importance place on hybrid advice by North American HNWIs (55.2 percent), while Europe and Japan were the only regions where fewer than 50

[1] HNWIs are defined as those having investable assets of US$1 million or more, excluding primary residence, collectibles, consumables, and consumer durables.
[2] Hybrid advice is defined as "Putting clients in the driver's seat by allowing them to tap into life-stage and need-based wealth management and financial planning capabilities in a modular, personalized pay-as-you-go manner. These capabilities will be delivered through: the amalgamation of (1) a cognitive-analytics-driven, automated/self-service delivery (such as for basic investment management); (2) a human-led delivery (such as for complex wealth structuring); or (3) a wealth manager-assisted hybrid approach – as preferred by the client."
[3] BigTech is a general term to cover data-driven technology firms not traditionally present in financial services, such as Google, Amazon, Alibaba, Apple, and Facebook.

percent of HNWIs cited hybrid advice as highly important (48.4 percent and 29.3 percent respectively), indicating that it is nonetheless a key element of the value proposition.

Wealth management firms must accelerate their transformation

Wealth management firms made progress in their hybrid business model transitions globally between Q2 2017 to Q1 2018, with 57.1 percent of firms reporting that they have a hybrid transformation program underway in 2018, a 3.4 percent jump over the previous year. But the report highlights that these advances are not fast enough, considering the decline of HNWI satisfaction with hybrid advice propositions and the potential entry of BigTechs into the wealth management industry.

There is broad consensus that the widespread global entry of BigTechs into the sector is likely to be a case of *when* rather than *if*. There is also consensus that Asia-Pacific will be the first region to see this development followed by North America and then Europe. According to the report, with more than 50 percent of HNWIs expressing an interest in wealth management services offered by BigTech firms, this could translate to an estimated US$12 trillion of potential asset flows based on the percentage of the portfolio that HNWIs would allocate to BigTech wealth propositions.

The interest in BigTech wealth management was highest among HNWIs in Latin America (87.8 percent), while interest in Asia-Pacific, excluding Japan (81.5 percent) jumped 9 percentage points from Q2 2017. Globally, younger HNWIs (under aged 40) continued to be the most open to BigTech wealth management services, with 75.8 percent indicating significant desire compared to 21.9 percent of HNWIs aged 60 and over.

To ensure flexibility and innovation in meeting the new business models that will emerge from BigTech entry, wealth management firms will need to move away from traditional budgeting approaches of "run the bank"[4] and "change the bank."[5] The current need is to move to a more dynamic, portfolio-based approach focused on four pillars of transformation: catching up; maintainenance; big bets on new initiatives; and ventures.[6] To transform and drive hybrid innovation, leading firms are heavily investing in technologies such as intelligent automation and AI, as they prepare for an industry landscape in which BigTech firms play a larger role.

BigTech entry most likely to be based on cooperation and competition

According to the report, the most likely approach for BigTech entry into wealth management will be based on either *collaboration* or *frenemy* co-opetition[7] models. White-labeling of an existing wealth management firm's products and services offers one route to a mutually beneficial collaborative partnership, whereas a frenemy relationship could arise when an existing wealth management firm leverages BigTech technology and operational scale with outsourced back- and middle-office processes, while at the same time competing with them in other areas of the financial services business – such as payments and consumer loans. Wealth management firms have a clear point of differentiation around investment expertise, value-added services and client intimacy, while collaboration, based on white-labeled distribution (especially relevant to asset

[4] "Run the bank" refers to catching up and maintenance related investments such as investment in legacy and new systems, tools, processes, talent, etc.
[5] "Change the bank" refers to big bets and ventures which involve investments in major new initiatives, platforms, experimental areas FinTechs, etc.
[6] Catching Up refers to investments into new tools, processes, and platforms deemed to be below par compared to the competition.
Maintenance refers to Ongoing investments into legacy systems, process improvement, training, and talent, etc.
Big Bets refers to investments into major new initiatives, such as M&A, new markets, new segments, new platforms, and new propositions.
Ventures refers to investments into experimental areas - tools, FinTechs, direct acquisitions, new models etc.
[7] The frenemy co-opetition model is one in which BigTechs both compete and collaborate, thus enabling a wealth incumbent to capitalize on BigTech's technology and operational scale to deliver enhanced back- and middle-office processes.

managers) or through selective areas of partnership, could drive client acquisition. However, the report concludes that the frenemy approach is most plausible, since the jump in required capability and resulting investment to enter wealth management may lead BigTech firms to both compete and collaborate with wealth firms.

Research Methodology

The World Wealth Report from Capgemini is the industry-leading benchmark for tracking high net worth individuals (HNWIs), their wealth and the global and economic conditions that drive change in the wealth management industry. This year's 22nd annual edition includes findings from in-depth primary research on global HNWIs' perspectives and behaviors. Based on responses from more than 2,600 HNWIs across 19 major wealth markets in North America, Latin America, Europe and Asia-Pacific, the 2018 Global HNW Insights Survey explores HNWI investment behavior including asset allocation, fee models and investment preferences. The survey also measured current HNWI investment behavioral patterns of global HNWIs, including their asset allocation, HNWI confidence levels and asset allocation decisions.
For more information or to download the report, visit www.worldwealthreport.com

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