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WEALTH MANAGEMENT TRENDS IN THE WORLD

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ABSTRACT

Purpose- The purpose of this research is to explore and identify the prevailing trends in the wealth management sector on a global scale.
Methodology- As the main aim of the research is to identify the prevailing trends in the wealth management sector on a global scale, we have collected various statistical data sets regarding the various trends that are already established within the sector. Furthermore, we have also carried out interviews with two private bankers, one wealth management executive, and one wealth management client in order to get a substantial amount of insight on where the industry is headed.
Findings- The wealth management sector has seen a rapid growth over the course of the last two decades but is being heavily impacted by the COVID-19 crisis.
Conclusion- New trends look to impose new rules in the wealth management sector. COVID-19 and the existing economic troubles together may result in a significant slowdown in sectoral growth while a consolidation era for wealth management companies are commonly expected. Meanwhile, a dramatic change in most clients' mindset and rapid adoption of more technology in the sector helping firms to reduce operational costs are foreseen.

Keywords: Wealth management, assets under management, (ultra) high net worth individual, consolidation, Covid-19.
JEL Codes: M10, M20, M21

1. INTRODUCTION

Wealth management is an important part of the global financial services sector. Wealth managers are tasked with providing the client with a strategy that suits his or her specific needs and wants. Their main goal is to successfully manage, preserve, and/ or grow the client's wealth. Over this generalized aim, a wealth manager's specific targets include generating a sufficient income for the client, protecting and managing his or her assets, advising the client on financial decisions and planning for the future.

It should also be noted that the wealth management service is constituted of many different procedures. All starts during the client onboarding process during which the first meeting with the client takes place. If the first meeting is successful, the firms proceed with an anti-money laundering process to make sure that the client is not involved in any illegal activity as well as a getting to know your client meeting during which they collect the necessary information to open an account. If all goes well, the onboarding process ends with the opening a client account. Then comes the plan development and initiation phase in the duration of which further data is collected in order to set goals that are later used to develop a tailored strategy implemented at the end of the process. After that comes the monitoring and modifying process. This procedure along with the previous one can be described as a continuous cycle during which the strategy and its outcomes are constantly monitored and modified depending on the results.

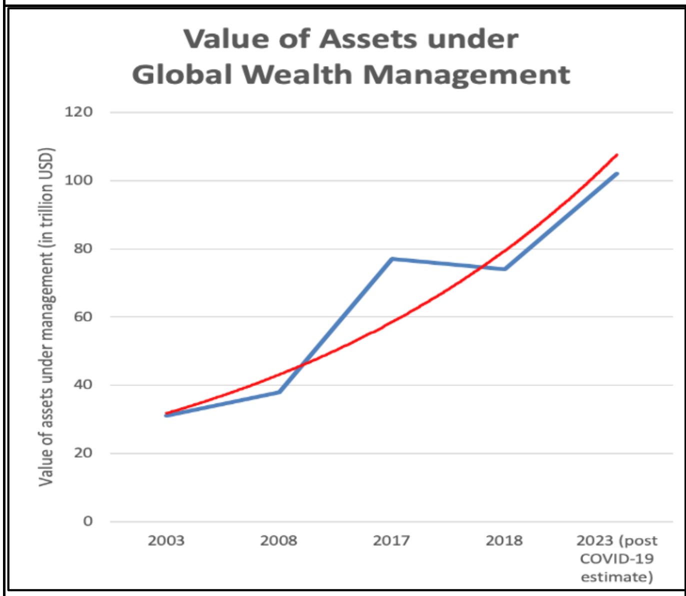
The wealth management industry serves two main classes of clients. The first one of those being ultra-high net worth individuals (UHNWI) who have a net worth of above 30 million USD. Within this category, there are two subcategories; those who have assets between 30 million to 500 million USD and those who have more than 500 million USD. The second category of clients is high net worth individuals (HNWI) who have a net worth above 1 million USD. In providing this service, wealth managers usually receive a certain percentage of the assets under management (the industry average being at 0.95%) plus a certain percentage of the increase in the value of those assets.

The wealth management industry has prospered during the last two decades, profiting from a very large increase in the number of wealthy individuals. During this period, it is noticeable that numerous trends have dominated the sector. However, many external factors are currently affecting the sector and changing it in a fundamental way. This research will thus be aiming to, first of all, identify the past trends and, then, focus on the ones that have recently surfaced. With this aim, we have collected a sizeable amount of statistical data in order to have a clear understanding of the past trends in the sector. Subsequently, we have carried out interviews with two private bankers, a wealth management executive and a wealth management client in order to get a substantial amount of information as to where the industry is headed in both the short and the long term as well as the new trends that are asserting themselves.

2. ANALYSIS OF WEALTH MANAGEMENT SECTOR

Initially, the amount of assets under wealth management (AUWM) are examined in the period of 2003 and 2018. The data which is depicted below on Figures 1 shows a substantial increase of 238.70% over a 16-year period. in the AUM of the global wealth management sector during our period of interest. The table above also shows us that there has been a decrease of about 4% in the AUM on a global scale in 2018. This can simply be explained by the fact that a stock market crash ravaged financial markets, causing a decline of 19.7% from September heights to Christmas eve in the popular S&P 500 index, and thus causing a decline in clients' invested assets. The AUWM was 31 trillion USD in 2003 and it increased to 74 trillion USD in 2018. Besides, it is estimated that the sector enlarged to 80 trillion USD in 2020 and is expected to reach to 102 trillion USD in 2023.

Figure 1: Value of Assets under Global Wealth Management

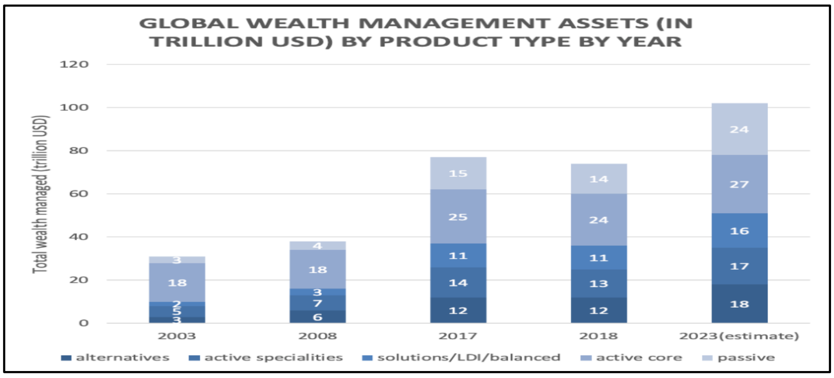


VALUE OF ASSETS UNDER GLOBAL WEALTH MANAGEMENT

Year	AUM in Trillion USD
2003	31
2008	38
2017	77
2018	74
2023 (post COVID-19 estimate)	102

Secondly, we have looked at the breakdown of those assets under wealth management as seen in Figure 2 below. Thus so, we have observed that all asset classes have experienced a certain degree of growth in the past but three of those namely; alternative, passive, and liquid direct investments (LDI) have outpaced the other products, respectively, growth by 400%, 467%, and 550% in the period of 2003-2018. It is also noticeable that the post-COVID-19 era forecast shows that all asset types were predicted to increase further in value overpassing the pandemic got hold of the sector.

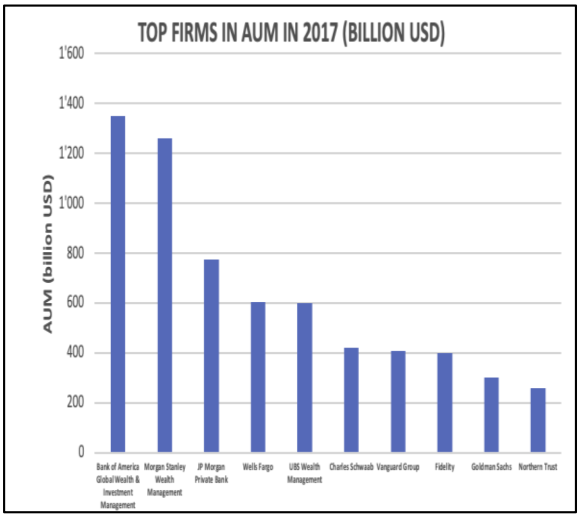
Figure 2: Global Wealth Management by Product Type



GLOBAL WEALTH MANAGEMENT ASSETS BY PRODUCT TYPE BY YEAR					
	AUM per product type per year (in Trillion USD)				
product type	**2003**	**2008**	**2017**	**2018**	**2023(E)**
alternatives	3	6	12	12	18
active specialities	5	7	14	13	17
solutions/LDI/balanced	2	3	11	11	16
active core	18	18	25	24	27
passive	3	4	15	14	24

Figure 3 show the ten biggest wealth management firms in the sector. The whole biggest wealth management firms are originated United States except UBS ranked in number five originated Switzerland. The biggest firm named Bank of America Global Wealth and Investment Management gets to manage a value of 13.5 trillion USD. Northern Trust ranked number ten manages a value of 260 billion USD. Top ten firms altogether manage a value of 63.75 trillion USD. Excluding UBS from Switzerland, the American firms control around assets of 63 trillion USD in wealth management.

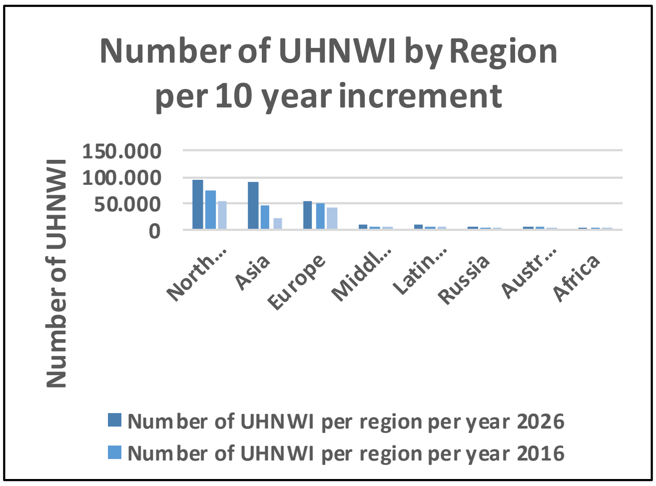
Figure 3: Top Ten Wealth Management Firms



TOP FIRMS IN AUM IN 2017 (BILLION USD)		
Firm name	AUM (Billion USD)	HQ location
Bank of America Global Wealth & Investment Management	1349	New York, USA
Morgan Stanley Wealth Management	1260	New York, USA
JP Morgan Private Bank	774	New York, USA
Wells Fargo	604	San Francisco, USA
UBS Wealth Management	601	Zürich, Switzerland
Charles Schwab	421	San Francisco, USA
Vanguard Group	406	Philadelphia, USA
Fidelity	400	Boston, USA
Goldman Sachs	300	New York, USA
Northern Trust	260	Chicago, USA

After examining the sectoral magnitudes, it may be good to analyze the wealthy individuals in terms regions and number of wealth people. Figure 4 presents the numbers and regions of ultra-high net worth individuals (a net worth of more than 30 million USD). The total number of UHNWIs is 136,200 in 2006, 193,490 in 2016 and 275,740 expected in 2026 showing an average increase of 42% for every other 10 years. Although the biggest share of wealthy individuals is belonged to the North America, it has been losing its share from 41% in 2006, 38% in 2016 to 35% in 2026. On the hand, the number of wealth individuals from Asia has been increasing its global share from 15% in 2006 to 32% in 2026.

Figure 4: Number of UHNWI by Region



NUMBER OF UHNWI BY REGION PER 10 YEAR INCREMENT

	2026	2016	2006
North America	95860	73100	55810
Asia	88180	46080	20820
Europe	55700	49650	42610
Middle East	10270	7370	4970
Latin America & Caribbean	10350	7570	5330
Russia	5170	3230	2380
Australasia	7180	4220	2270
Africa	3030	2270	2010

3. OUTLOOK FOR THE SECTOR: EXPERTS' VIEWS

To gain insights about the outlook for the wealth management sector, a number of face-to face interviews are conducted with the sector experts. Four interviews are carried out; two private banker executives, one wealth management executive and one wealth management client. These interviews provided us with different points of view as to the short and long term outlook for the sector. The interview questions had 3 main points of focus. First, the individuals were asked about their views as to where the industry is headed in the short term (1-2 years). The second inquired about their long-term views on the sector (5-10 years). Last set of questions were regarded what new trends appearing in the wealth management sector.

The first interview with the wealth manager provided us with a reasonably pessimistic short-term outlook for the sector. The interviewee pointed out that the current state of very high volatility of the financial markets along with the stock market crash caused by the COVID-19 crisis has made banks more reluctant to lend to the point where they recalled some loans and forced margin calls in the short term. According to the person, this has been very troublesome for highly leveraged clients who are having difficulties meeting their financial obligations. At the same time, it was also pointed out that the type of clients who have been hurt the most are the entrepreneurial ones who had to liquidate a certain portion of their assets to fund their businesses. This means that some of them will fall out of their wealth brackets and that the assets under management in the wealth management industry might also suffer from the downtrend. It was also forecasted by this individual that it will take between 3 to 5 years for developed economies and up to 10 years for less developed economies to recover. She also believed that the COVID-19 crisis triggered an important change in the clients' mindset which made them abandon income generation strategies that are no longer viable (due to many changes in the financial markets such as the suspension of dividend payments by many companies) and switch to capital growth strategies. Some clients who have suffered losses might also switch to more actively managed portfolios to recoup their losses according to the executive.

The second interview with the private banker proved to be much different from the first one. According to this banker, the unprecedented amount of money that has and is still being printed (forecasted to reach at least 10 trillion USD by the end of the crisis) is having a sizeable effect on the wealth management industry. First of all, it was pointed out that the cheap liquidity created by the quantitative easing policies around the world is benefiting the UHNWIs who are able to take advantage of cheap loans by levering their assets. This thus means that the assets under management for UHNWIs might increase. Nevertheless, this does not explicitly mean that the assets under management for the whole industry will rise as the HNWIs who do not have as many assets to leverage are not able to take advantage of the cheap borrowing opportunities. Thus, this also means that the number of UHNWI clients is set to stay stable. It was also mentioned that the clients' main goal is centered around wealth preservation meaning that their asset allocation is shifting more towards precious metals (such as gold and platinum) and real estate during this crisis. Though in the case of real estate, it should be noted that commercial real estate has really fallen out of favor with investors because of the way it was impacted by the pandemic meaning that clients will more likely concentrate their interest on residential real estate in "stable" countries such as Switzerland where interest rates are negative. In addition, the interviewee also believes that excessive money printing will have adverse effects on the sector. First of all, he pointed out that these events have no precedent and that it is therefore hard to make forecasts when we are in uncharted territory. But, he pointed out that a period of high inflation is very likely ahead of us meaning that the sector and its clients will have to adapt to the situation as it evolves. In the meantime, he also believes that the printing of money is very likely to decrease confidence in capital markets as it was said by governments after the 2008 crisis that it would not happen again; this might change clients' investment preferences.

The third interview with second private banker gave us a more generalized view as to where the sector is headed. According to the interviewee, clients with smaller sums (HNWIs) have started to realize that wealth management is expensive. This has caused a certain degree of client loss as more and more HNWIs have shifted to low-cost ETFs. It should be noted though that this phenomenon occurred mostly with HNWIs as wealth management still is a very good deal for many UHNWIs. At the same time, this banker pointed out that the COVID-19 crisis might turn out to be very beneficial for the sector in terms of assets under management as many wealthy individuals will realize that the world is not as safe a place as they thought and will thus seek the services of professionals. He also pointed out that there will be a very important increase in the number of developing economy clients as many of them will want to make sure that their assets will be out of reach for governments that may decide to increase marginal tax rates or introduce wealth taxes in order to compensate for a certain percentage of their expenditure during the COVID-19 crisis.

The fourth and last interview with the wealth management client allowed us to have a clearer understanding of the clients' point of view. During the interview, we learned that the clients' mindset and goals were changing as the prior interviews suggested. The client pointed out that his main goal has become wealth preservation and that he is very pessimistic about the return on stocks and bonds in the future (he said that many other clients shared his views). This, in his case and according to him in the case of many other HNWIs and UHNWIs is creating a need to have access to more illiquid investments such as private equity, direct investments, and venture capital. This according to him will push many wealthy individuals to seek the services of wealth management firms that are able to give them access to the more illiquid investments. He also said that the portfolio allocation of clients (at least that of more risk-averse ones) is very likely to shift more towards precious metals and real estate as a means of protecting their assets.

After having finished the interviews with the sector experts, some emerging trends in the sector may be inclined as followings.

Firstly, it is noticeable that the COVID-19 crisis has and currently is changing the way wealth management firms and their employees operate. The pandemic has forced the majority of employees to work from home and sped up the already existing trend of digitalization in the workplace. Many major banks and wealth management firms have already announced that their employees would work 1 week from home and 1 from the office moving forward.

Secondly, our interviewees pointed out that the use of technology is increasing in importance for many aspects of the wealth management business. One important effect of technology can be seen in the trading aspect of wealth management. Technology in that case is leading to disintermediation, the process by which clients are increasingly using e-trade apps in order to bypass banks when carrying out simple trades (e.g. simple stock trade). This is mainly due to the fact that banks are subject to a very large quantity of regulations that decrease their time and cost efficiency when it comes to executing simpler trade and also due to the fact that younger clients want to be able to trade from anywhere using their mobile devices. Another important point where technology comes into play is cybersecurity which is becoming increasingly sophisticated in order to protect clients. Thirdly, many of our interviewees believe that big banks will use an increasing amount of automation to reduce their operational costs. Lastly, it is also clearly visible that many wealth management firms are digitalizing their platforms in order to allow clients who want to be updated daily and have direct, online access to their portfolios. Yet, although technology is becoming more and more developed, it clearly still is not at a level where it can provide all the unique needs and wants of each client. This can be illustrated in the case of disintermediation where e-trade apps can be used for simple trades but not for structure trades that still require a certain degree of human touch.

Thirdly, our interviewees pointed to the fact that bank profits are forecasted to be much lower in the future, especially looking at the low interest rate environment that we currently are in. This according to them means that smaller banks will look to downsize and cater only to a specific clientele while bigger banks who benefit from economies of scale will reduce their headcount and compensate for it employing automation.

Fourthly, all of our interviewees also agreed that a great deal of consolidation is going to happen in the sector. This means that bigger banks and wealth management firms will go on a buying spree, taking advantage of the crisis and buying smaller wealth management firms.

The last important trend for the wealth management industry is regarding Switzerland, the country known as the world's banking hotspot. Our interviewees assume that the loss of swiss banking secrecy which used to give Swiss banks a sizeable edge over their foreign counterparts will have a negative impact on the country's banking sector that will have to reduce their prices which were traditionally nearly twice that of non-swiss banks.

4. CONCLUSION

Our research shows us that there are many prevailing trends in the wealth management sector and that the COVID-19 crisis is giving rise to new ones. This study has shown us very clearly that COVID-19 has and will continue to have a very substantial impact on the industry, over the short and the long term. Thus, this evidently means that the growth that was experienced in the past will not be extrapolated into the future. We have also seen that COVID-19's ravaging effect on the financial markets as well as the economy itself planted seeds of doubt into clients' minds and completely changed their ways of investing as they navigate the crisis. Subsequently, we have seen that technology's role within the sector, be it cybersecurity, automation or disintermediation has gained in importance. Lastly, we have seen that the process of consolidation has been sped up by the pandemic.

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