Navigating Wealth Management in a Covid World

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Navigating Wealth Management in a Covid World
Despite the global pandemic, the past year has turned out to be productive for wealth managers. The industry thrived on strongly performing equity markets and a surge in high-net-worth and ultra-high-net-worth demand, in particular linked to the health and technology sectors. Amid pressure on operating models, WMs adapted to new ways of working and clients adjusted to the new normal of virtual and remote interactions.

As the pandemic continues to impact lives and economies around the world, WM decision makers are focused on where the industry goes next. In a comprehensive global survey, we asked senior executives to share their perspectives in three key areas: P&L impact and financial performance, product offerings, and service and operating models. Through these lenses, our respondents focused on how the pandemic has recalibrated client relationships and spurred new ways of thinking about analysis, profiling, communication, and performance. The consensus, presented alongside our own perspectives in this article, is that the future of advice will be different, with client services combining the best of humans and machines, amid shifting revenue models and an even sharper focus on costs and efficiency.

Almost universally, Covid-19 has sparked fresh thinking around the need for a new value proposition and efficiency front-to-back. At the center of that shift, decision makers see a more prominent role for automation, data and analytics. Managers say they are working out how to streamline processes while creating value for clients and enabling RMs to work to their potential spending more time with clients. We learned that the future will see more flexible offerings, with service models tailored to individuals and situations. As international travel recovers only slowly, digital protocols that have become more prominent over the past year are set to remain and evolve.

The good news is that many private banks have already taken steps to ramp up efficiency and reshape client services. These efforts have enabled many to offset some of the recent pressure on margins and to focus on attracting new clients – seen as a key driver of growth in the period ahead. Across the board, there is a sense of necessary change, but also renewal. Indeed, astute decision makers say that Covid presents a chance to modernize, adapt, and realize competitive gains.

We are grateful to all those in the industry across the globe who contributed either directly or indirectly to this work and who challenged our thinking.

We welcome your feedback and comments.

Anna Zakrzewski
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**Performance: COVID-19 and Beyond**

Amidst the tumultuous events of the past year, wealth managers have in aggregate maintained a positive performance. Revenue margins dropped by 5 basis points from 2019 to 2020, but business volumes grew by 11%. Against a background of soaring volatility (especially early in the pandemic) managers tightened their grip on costs, leading to a 4bps decline in cost margins. This, in turn, enabled them to maintain profit margins of 21bps, just 1bp less than the level in 2019.1 (See Exhibit 1).

Looking to the coming year, sentiment remains largely positive, amid expectations that new client relationships will drive revenue growth. Indeed, 71% of industry leaders expect that new business will be the number one growth driver in the year ahead. This holds true across markets, with 72% and 69% of respondents in developed and emerging markets respectively sharing this view.

The emphasis on new relationships is a departure from recent orthodoxies, in which the majority of wealth managers have seen existing relationships as the most critical driver of business performance. The change is a function of the view that there will be higher numbers of HNW (>1M investable wealth) and UHNW (>100M investable wealth) clients in future, amid strong capital markets performance, a surge in entrepreneurialism, and accelerating inter-generational wealth transfers. Based on these drivers, some 1.15 million individuals will likely join the top wealth segments every year over the next five years.

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1. Revenue and profit margins are defined as revenues and profits as a proportion of client business volume. Client business volume defined as AuM plus liabilities.
Revenue Models

WMs expect few major changes in sources of revenue following the Covid-19 pandemic, with fee-based mandates and trading remaining the primary drivers. Currently, 45-50% of revenues are generated by recurring fees. In addition, advisory and discretionary mandates are growing in popularity, especially in Asia-Pacific. Their share of total revenues is likely to expand.

Brokerage revenues were commonly higher over the past year, amid exceptional trading volumes. If volumes fall, revenues are likely to match those declines. On the other hand, many private banks struggled with declining interest margins in 2020. There is unlikely to be a fast turnaround on that front, survey respondents say.

Focus on Value for Money

An offsetting trend in the positive performance outlook is that most wealth managers expect increased price sensitivity, with even the wealthiest clients prioritizing value for money. In growth markets, three out of four respondents expect their clients to be more price sensitive. One reason is intensifying competition, for example from fintechs, which are associated with higher levels of transparency, easier switching, and lower barriers to entry. The transparency imperative is also being pushed by regulators, amid moves, for example, to beef up client protections against money laundering and mis-selling. Reassuringly, there is evidence that clients are willing to pay more for a premium service, but they need to see value for money, so transparency again is a differentiator.

All of these factors will play out against a background in which wealth managers need to provide more diverse and tailored propositions. As they do so, they will need to communicate clearly and deliver consistently on promises, which will justify fees while boosting client satisfaction.

Costs Fell Despite New Investment Needs

Covid-19 led to significant new costs, particularly for managers unable to switch easily to digital service provision and client access. Indeed, many clients were not very digitally engaged ahead of the crisis and wealth managers admit they did not have sufficient digital capabilities—even to ensure business continuity. Still, among firms that reported significant spending to manage through the crisis, 77% were able to offset costs by cutting spending on items such as travel and offices.

Global WM cost margins, defined as costs divided by client assets and liabilities, dropped by 7.3% in 2020, to 46.1 basis points. The decline was driven by a 4.7% and 9.7% decrease in front-office and back-office margins respectively. WMs in Asia-Pacific and North America were the most aggressive cost cutters, amid higher levels of digital adoption. They saw cost margins decline by 8.6% and 8.5%. That said, firms in these geographies were able to more smoothly transition to remote working, and saw more than 10% drops in front office cost margins.

Efficiency to Increase Further

Looking forward, we expect the cost factor to play an increasingly vital role in performance, with managers that best control costs and boost efficiencies seeing the biggest impacts. A key lever will be to embrace digital front-to-back, which will require significant capital outlays but enable leaner, more efficient operating models. In the short to medium term, we expect managers to review FTE and real estate spending. In the longer term, operational efficiencies will be a key focus.
Post-Covid, more than 9 in 10 wealth managers expect remote work to become more common, bringing a reduction in physical footprints. As a result, there will be fewer front-office support staff. In addition, remaining staff will have more time to for face-to-face interactions, creating the potential for higher levels of productivity.
Client investment appetite has shifted over the past year, with demand for equities rising in reflection of soaring markets and low interest rates. Most managers don’t expect a significant change anytime soon. However, in the quest for ever-higher yields, managers have seen increasing demand for private equity and alternative investments. Another strong theme has been interest in sustainable investments, with 78% saying this has become a secular trend, driven by shifting client attitudes.

The demand landscape in services is also changing, with clients putting more emphasis on estate planning, insurance, and trust/fiduciary services. This may be due to the higher levels of uncertainty associated with the pandemic, which is fueling appetite for long-term security. (See Exhibit 2).

Exhibit 2 | Wealth clients are demanding more protection...and the trend is likely to last

Top 3 growing services

- **Estate Planning**: 75% of respondents
- **Insurance**: 56% of respondents
- **Trust and fiduciaries**: 40% of respondents

*Helping clients* protect their personal and family wealth at all stages of their lives (education, work age, retirement, succession, etc.) becomes key for WMs


**Future Delivery**

It is not just what you do, it’s how you do it. Some 82% of WMs identify a move toward deeper relationships and personalization as being priorities—with digital informing both. Relationship managers will leverage data and analytics to aid decision making, while client segmentation will delve more deeply into client motivations, reflecting detailed and diverse data sets. Some managers are excited about client nudges and outreach; conveying the right message at the right moment, and backed by RMs with detailed knowledge.
Still, not all geographies are reading from the same playbook. APAC is relatively more focused on product and service offerings than delivery. This doesn’t come as a surprise: APAC is already one of the most digitally-advanced markets. As a group, Asian WMS are at the vanguard of social media marketing (and client communities), next-generation sales - through cutting edge prospecting, conversion and retention - and agile ecosystems that compress delivery cycles and provide access to different revenue and client pools.

With the benefit of these advancements, some APAC-based managers are refocusing on the product and service suite. In particular, they are democratizing access to “haute investments”, including fractional shares of private equity and venture capital funds and pre-IPO shares—offered to lower wealth bands. This trend is also growing across Europe as well as North America.

Clients’ Living Arrangements Steady

WMs did not see any major shift in client living arrangements since the Covid-19 outbreak. The vast majority of clients have not changed or reevaluated domiciles. Despite temporary relocations in light of the smart or home-working set-up (e.g., expats returning to their home country for a few months), there hasn’t been any general strategic reassessment. Similarly, we have not seen significant demand for additional citizenships.
Covid-19 represents a point of no-return for service and operating models. Wealth managers are shifting away from siloed set-ups and face-to-face interactions and toward omnichannel engagement, virtual meetings, and more collaborative ways of working. That means less client site visits and more phone, SMS, and video. Furthermore, the frequency and nature of interactions is changing. Clients now prefer more frequent, ad-hoc, and informal contacts, through WhatsApp or Zoom, and multi-channel interactions. The shift is playing out across geographies, but is particularly evident in APAC and European cross-border markets.

In digitally-mature regions such as APAC, digital models are likely to become more pervasive in the next year, especially in the service of lower wealth bands. This will also help firms cut cost-to-serve to the minimum. That said, client demand for increased RM availability (at the same or a lower price) will increase the burden on RMs. Managing RM capacity more effectively will therefore be key to performance, and, again, digital will play a crucial role. With analytics and digital tools doing the heavy lifting, RMs will devote more time to client handholding, being more present in the client journey, and adding value at moments of truth. These “supercharged” RMs will be able to serve a larger client portfolio and generate higher client satisfaction and net promoter scores.

Of course, change comes in waves, and the rise of digital does not mean the demise of face to face. In the service of some sophisticated clients, the most likely trajectory will be a hybrid model: face-to-face for key moments (e.g., conversion, onboarding, profiling, and goal setting) and digital for the rest. Wealthier segments are likely to continue to favor face-to-face interactions. (See Exhibit 3).

Digital Confidence
While many wealth managers are still getting up to speed on digital, particularly for internal operations, around 60% of survey respondents consider themselves to be sufficiently advanced. Members of the majority cohort say they had omnichannel strategies in place before the pandemic, alongside toolkits for...
internal collaboration and external client engagement—including secure document transfer, client account aggregation, scenario simulators, and interactive dashboards. However, WMs admit there are still challenges in core service areas, including client acquisition, onboarding, profiling and goal setting, investment, and reporting and administration. These are likely to be the focus in the next wave of digital deployment.

In particular, client acquisition has been a challenge, with just 21% of wealth managers reporting an improvement over the past year; amid a dearth of networking events and touch points. In a future in which face to face will be less common, WMs will need to find new ways to acquire clients. Tech company use of influencer marketing and competitive referral programs may be the way to go.

Despite being among items earmarked for further action, respondents report some recent efficiency improvements in investment, as well as reporting and administration, with a majority of respondents in Switzerland and APAC seeing gains. Investment processes have been boosted by automation, for example to support portfolio construction and rebalancing. In reporting and administration, digital solutions such as interactive dashboards and back-office innovations have helped improve performance.

What's Next?

If social distancing requirements persist, a priority for many firms will be to work on employee engagement and teaming (55% of respondents). Given the limitations of virtual interactions, and entrenched operational siloes, leading firms will promote agile ways of working (collaborative, experimental, flexible). Decision makers tell us they are concerned about onboarding, talent management, and knowledge transfer. As a result, many will look to provide new hires with broader access to people and knowledge networks. Some are redesigning their training programs and accelerating development of digital one-stop knowledge shops. (See Exhibit 4).
In conclusion, the pandemic has demonstrated the resilience of the wealth management industry. Despite increased price competition, most players have been able to achieve significant cost efficiencies and maintain margins. Looking to the future, many are focused on digital and remote/hybrid set-ups as a potential route to improved performance. In the meantime, firms will need to respond to rising demand for wealth protection strategies, including retirement planning, multi-generational wealth transfers, insurance, and trust and fiduciary services—all delivered seamlessly through hybrid digital and face to face. Clients will expect faster, slicker, and more personalized services, and RMs will play a critical role. Given these dynamics, WMs that design service models to boost RMs and put clients in the driving seat are most likely to outperform.

**METHODODOLOGY**

In research for this report, we conducted a survey with more than 50 senior executives and CEOs at leading wealth managers globally.

This survey was structured in three main sections:

- **Covid-19 and WM P&L**: aiming to uncover the past and future effects of Covid-19 on profits in WM
- **Covid-19 and WM Product and Service Offering**: focusing on the impact of Covid-19 on clients’ demands and concerns
- **Covid-19 and WM service model and ways of working**: addressing the changes in service channels and operating models related to the pandemic

We used the following nomenclature when referring to Covid-19 periods:

- **Pre-Covid-19**: period before March 2020
- **During Covid-19**: period since March 2020
- **Post-Covid-19**: a future period when restrictions are lifted

In preparing this report we also incorporated our project experience and leveraged BCG Global Wealth Manager Benchmarking (data set as of H1 2021).
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