WHITE PAPER

At the Crossroads

Wealth Management in North America

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White Paper

At the Crossroads

Wealth Management in North America

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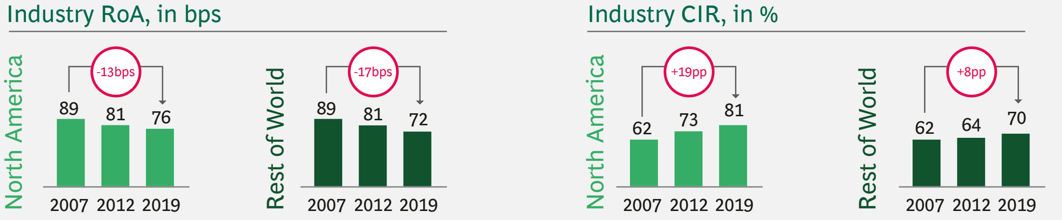
INTRODUCTION

The North American wealth management industry has reached a significant turning point. Competition has been heightened in recent years, with new operating models emerging and new entrants eager to gain a share of the largest investable assets market in the world. At the same time, clients are demanding more from their wealth management advisors: increasingly, they want both a state-of-the-art digital service and investment products tailored to their specific needs.

Digitization of the market is a major theme, and more technologically sophisticated advisors are now luring specific segments of the market with innovative ways of delivering tailored products and advice, while the more established players are doubling down on their traditional competitive position.

North American wealth managers entered the recent crisis in worse shape than they entered the Global Financial Crisis (GFC) of 2008/2009. This creates a pressing need for change, and a revitalized agenda is called for to establish strategic priorities and a winning game plan. (See Exhibit 1)

EXHIBIT 1 | North American wealth managers entered the COVID-19 crisis worse off than before the Global Financial Crisis



1. Mixed data for HNW in brokerage and banking business **2.** Before risk costs and tax
Notes: HNW wealth is defined as total personal financial wealth (excl. real estate) >$1M for adult individuals. Investable wealth includes deposits, debt and listed equity securities and managed funds; life insurance and pension assets are excluded. RoA = Revenues over average AuM
Source: BCG Global Market Sizing and Wealth Manager Performance Benchmarking Databases

The industry is set to transform in the near future, with novel pricing structures and fresh business models based on deeper client/advisor relationships and more personalized investment advice. These developments were in progress before the COVID-19 pandemic struck, and they have been accelerated by it. For example, moving forward firms will need to focus on the heightened potential for deeper client engagement, the increasing demand for digital services and the opportunity to better serve clients with a team of advisors and support staff within an expanded business model.

The current state of play

There might be challenges facing the wealth management industry in North America, but there are no shortages of opportunities either. We look at it with a "glass half full" perspective as North America has more investable assets than any other region in the world. At the end of 2019, North Americans held around $100 trillion in investable assets – a figure which has been growing at a rate of about 5% a year since 2014, with 2019 proving particularly robust as equity markets rallied significantly.

There are also more investors (~16 million individuals) worth more than $1 million than anywhere else in the world, and assets owned by investors in this group represent approximately two-thirds of total investable wealth in the region. However, investors worth less than $1 million still represent over 90% of the entire investor base in North America (~270 million individuals).

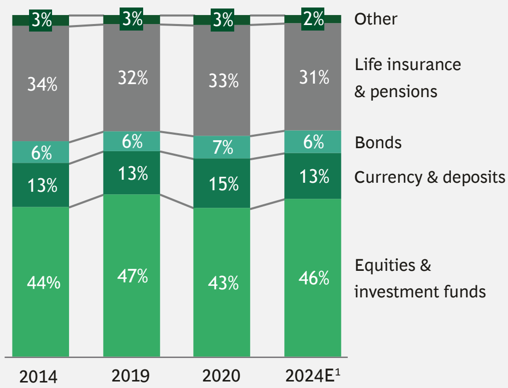
Using a forecast based on only modest growth, and adjusting for the effects of COVID-19, investors with more than $1 million are expected to build the value of their assets by slightly more than 2% per annum through 2024, while investors with assets below $1 million will build value at slightly less than 2% per annum in the same period. However, the pool of investors with less than $1 million has emerged as an intriguing potential avenue for growth, as more of them have become increasingly interested in financial markets and a new generation of wealth managers seeks to meet that need with digitally enabled and cost-effective offerings.

Investors

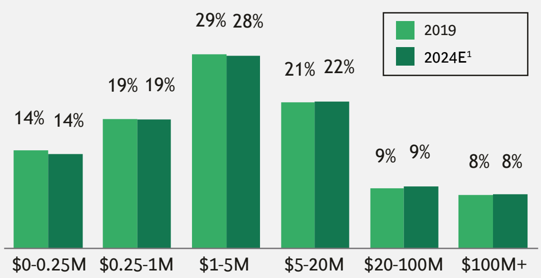
North American investors continue to exhibit a greater risk tolerance than those in other global regions. The former allocated almost half (47%) of its total wealth to the equity market in 2019, encouraged by and supporting what was until COVID-19 the longest bull run in US financial history. If the GFC is any indication of likely investor behavior following a market shock, portfolio allocation and other investment related actions are anticipated to shift only in the near term. While the pandemic has introduced considerable market uncertainty, we do not expect this allocation mix to alter much through 2024. (See Exhibit 2)

Exhibit 2 | North American wealth distribution and concentration projected to remain consistent

North America wealth: Minimal changes in asset allocation



Assets by segment (%): Top ~6% of HHs have 2/3rds of wealth



	$0-0.25M	$0.25-1M	$1-5M	$5-20M	$20-100M	$100M+
Total wealth growth (CAGR) 2019-2024E[1]	1%	2%	2%	2%	3%	2%
Number of individuals (2019)	80%	15%	5%	~1%	~0.1%	<0.1%

1. 2024E based on BCG 2020 Global Wealth Management Report's "slow recovery" post-COVID scenario where the North American market is estimated to grow from 2019-2024 at a 2.0% CAGR, other scenarios include "lasting damage" (-0.6% CAGR) & "quick rebound" (3.7% CAGR)
2. Non-investable wealth = life insurance & pensions, unlisted equity & other equity

Source: BCG Global Wealth Market Sizing Database; BCG analysis

To meet this demand, banks are making greater use of their balance sheets to serve customers with more than simply a range of investment products. There is also increasing evidence that wealth managers are differentiating investors more rigorously than before based on asset levels.

Mass retail (<$500,000): Providers are looking to serve this customer segment through greater use of digital and self-service channels, with targeted investments to both identify and meet the needs of high potential younger clients. However, there is a point of critical tension in this relationship, as customers often seek higher levels of personal service than firms can cost effectively provide. While this segment does not have the same complexities as those further upmarket, investments are used to fulfill basic personal goals and are best delivered in tandem with basic financial planning services.

Affluent and lower HNW ($500,000 - $5 million): Wealth managers still want to add scale to the relationship model in this segment and have outsourced certain select tasks to specialists. They also often offer incentives to deepen the client relationship in the form of competitive pricing, better access to special services and a more extensive product range. However, like the previous category, customers often want a higher level of personal service than wealth managers have historically provided to investors in this asset range. The winners are likely to be those wealth managers able to encourage greater client use of digital channels while also being able to add the personal touch these investors seek. This segment is currently often underserved by private banks and other traditional HNW/UHNW wealth managers.

HNW investors ($5-30 million): Increased competition has meant that providers have been obliged to offer an enhanced level of service to investors in the HNW category. The leading players now combine comprehensive digital capabilities with personal relationship services and have developed a range of new products such as direct indexing, portfolio customization and access to alternative investments. In addition, specialty lending products such as customized loans, liquidity management and fixed income investments designed for wealth preservation are integral to this segment. This helps firms differentiate and provides a client experience that previously was available only to the UHNW ($30 million +) investor.

UHNW investors ($30 million +): Meanwhile, the true UHNW client can have all this and more with greater access to advisor expertise, flexible investments, and unique opportunities. This is all accompanied by traditional, differentiated white glove service. Providers must continue to offer enhanced levels of service across all channels, particularly the digital ones, as customer tastes and priorities evolve.

Across these investor segments, the common theme is a shift from a traditional, product-oriented approach to more comprehensive financial management. As financial products and access become more commoditized, it will be important for players to continue to innovate with services like direct indexing, customized portfolios and tax harvesting. The best in class players offer a highly personalized financial planning service, tailored to a client's personal goals. They make comprehensive use of data and analytics to better identify client behavior, their habits, and their evolving needs. Analytical capabilities enable their relationship managers to interact effectively, helping them provide the right proposition at the right time through a preferred channel and fully integrated experience.

The next generation

Wealth management relationships with Generation X and millennial clients are becoming increasingly important. Indeed, Generation X clients will represent the highest value "relationships in motion" through the 2020s, with millennials expected to assume this position by 2030. In contrast, the wealth management relationship with baby boomers will become less important as the latter move out of the wealth accumulation phase and into retirement, transferring wealth to inheritors as they do so.

This development has important repercussions for digitization as the new clients expect more from technology and require more information than their predecessors. Wealth managers must stay abreast of these sea changes to establish trust with the new generation of investors. According to a Charles Schwab survey, 59% of millennials trust machines more than human beings when investments are involved. The same survey also revealed that 75% of millennials said technology had afforded them financial peace of mind.

However, we expect that the most powerful platform in the future will offer an alliance of human and digital interaction. This hybrid, or 'phygital', model will be best positioned to capture a commanding share of the market as it offers an improved digital experience with reassuring and critical human support.

Younger investors have also tended to show greater interest in so-called socially responsible or sustainable investment. Wealth managers are showing increasing awareness of this trend by offering ESG (environmental, societal and corporate governance) investment while at the same time eschewing certain sectors. ESG also represents a different risk category in the overall offering, as firms that are more sustainable perform better, eliminating the need to compromise between sustainability and performance.

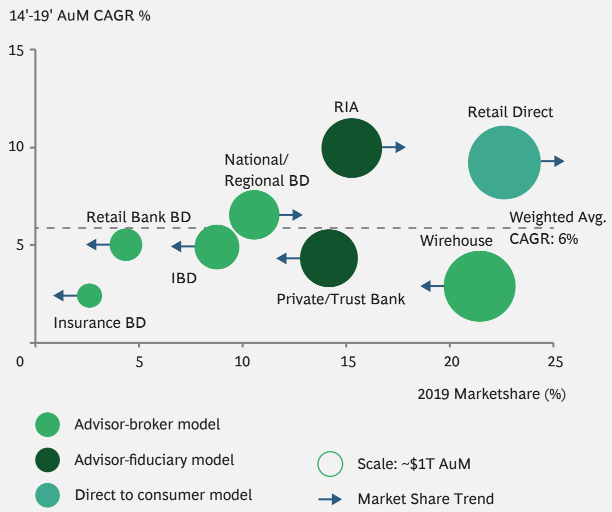
Women are managing a higher percentage of global wealth than ever before as well, and some newer firms are focusing their efforts towards women. The more established firms seem slower to adapt to this change, but an awareness of the growing importance of female wealth represents a meaningful opportunity for providers to grow their businesses.

The source of investors' wealth is increasingly being scrutinized by firms as they seek to differentiate their offering and build closer relationships with their clients. For example, some providers will differentiate service if the client is an entrepreneur or the inheritor of wealth. There has been a sizable influx of new UHNW investors from the Technology sector and these investors typically have higher expectations, particularly around digital capabilities and engagement, than historic UHNW investors. Although this trend is currently more visible in the more elevated echelons of the industry, it may shift down the curve to clients with lower levels of investable capital over time. This concept is particularly important as wealth managers increasingly aim to extend their efforts beyond simple asset segmentation and consider socially-linked efforts such as joining the broader financial services industry in breaking the cycle of inequality in North America.

The current and future competitive landscape

The industry is currently in a state of flux as wealth management firms shift away from their traditional target customers and move across the asset spectrum to gain market share. For example, direct to retail players historically focused on the mass retail and affluent segments but now they are looking to attract wealthier clients through enhanced digital and customized offerings. By the same token, firms with an established footprint in the HNW/UHNW segment are attempting to secure a presence in the affluent market. Across North America, firms are fighting to defend market share while at the same time looking to expand to drive growth through new investor segments. (See Exhibit 3)

EXHIBIT 3 | In the US wealth management market, a range of operating model archetypes exist with winners and losers emerging



Model type	Drivers of future growth
Retail Direct	• Scale and reputable branding • Top-tier digital capabilities
Wirehouse	• Advisor attrition challenges • Impaired by legacy technologies
RIA	• Robust advisory/fiduciary model • Growth via independence trend
Private / Trust Bank	• Defensive, high-touch model • Slight lag in digital innovation
National / Regional BD	• Scale growth via strategic M&A • Strong recruiting, often hiring ex-Wirehouse teams
IBD	• Appeals to independent advisors • Closing tech/product gaps with Wirehouses
Retail Bank BD	• Advisor headcount declining • Limited services to meet future client demands
Insurance BD	• Lack of wealth brand presence • Limited, insurance-led products

Note: RIA includes hybrid & independent RIAs; future growth trend comments based on historical growth, expert interviews, & BCG experience; RIA = registered investment advisor, BD = broker dealer; IBD = independent BD
Source: Cerulli; BCG analysis

DIRECT TO RETAIL BROKERS

Direct to retail brokers have almost doubled their AUM since 2014. They own the largest slice of investable assets thanks to their established market presence and competitive digital offering. This group includes household names like Charles Schwab, Fidelity and Vanguard who have been able to reach a widespread and plentiful investor base thanks to advanced digital capabilities, superior in-house asset management skills and substantial scale. These shops dominate the lower reaches of the market but are seeking to move up the curve and capture increasing numbers of wealthier clients by combining cutting edge technological capabilities and growing brand power.

WIREHOUSES

Four well-known banks dominate this category: Morgan Stanley, Merrill Lynch, Wells Fargo and UBS. They command large numbers of advisors, sophisticated affiliations with other banks and advanced investment capabilities. These components have allowed these four banks to capture the largest slice of the advisor-led market. Indeed, it is estimated that they control over 20% of US wealth management total assets.

Despite this enviable position, wirehouses also currently face notable risks primarily as a result of significant advisor attrition. Independent operators which qualify as registered investment advisors (RIAs) and independent broker-dealers (IBDs) can offer advisors greater autonomy than the wirehouses. The traditional assets possessed by wirehouses – office space, infrastructure, technology and a brand name – have become less important over time as changing preferences and easier access to technology have made it increasingly possible for smaller players to attract advisors. The wirehouses will need to innovate to compete with the RIAs, and they also need to take a hard look at how they can add value to the offering advisors take to prospective clients, such as better sales tools, products and services.

Although the wirehouses still possess powerful built-in advantages, including good home office schemes and the ability to connect investors to attractive opportunities, poor legacy technology and persistent advisor attrition are expected to undermine their position in the market. Indeed, wirehouses will likely be one of the slowest growing business models in the near and medium term.

Registered investment advisors (RIAs)

This is a rapidly growing area of the market and is estimated to manage approximately $5 trillion in assets in the US. In the past five years, RIA assets have grown by over 10% per annum, making this sector the fastest growing business model in the wealth management industry.

The future looks good too. As a fiduciary provider free of internal conflicts, the RIA model is well positioned to exploit the increasing demand for fee-based advice in the US. RIAs have also benefitted from the influx of advisors leaving wirehouses and are expected to maintain double digit growth over the next three to five years.

The surge of entrants to the RIA space has also brought its share of problems. Smaller providers do face difficulties like finding cost effective technology, establishing back and middle office functions and building a reputation. As a result, there have been a series of acquisitions and mergers as aggregators like High Tower Advisors, Focus Financial Partners and United Capital have swallowed RIAs to continue to gain scale and acquire more clients.

Certain asset managers and non-wealth management players have also acquired RIAs in recent years to build distribution channels and establish closer points of contact with retail and HNW customers. The private equity industry has found opportunities in M&A among wealth management providers. Many of the nation's top private equity firms are leading the strategic charge toward increased scale and continued growth by acquiring both RIAs and broker-dealers.

Private banks and trust banks

Private banks and trust banks are estimated to manage around 15% of all US household assets. They serve the upper end of the market and provide a highly personal, high touch resource that is difficult to replicate. In addition, they often have access to rare and unique investment opportunities.

These banks have generally lagged other providers in digital capabilities, but they are currently seeking to solve that through in-house development and partnerships with technology providers. The need for greater investment in technology is expected to be heightened by the retirement of older, less tech-savvy advisors and by the migration of capital to younger generations. Trust and private banks will need a more technologically sophisticated offering to attract both new clients and new advisors.

Broker dealers

National and regional broker dealers (BDs) manage over 10% of total US household wealth, while independent brokers dealers (IBDs) manage just under 10%. Retail bank BDs and insurance company BDs each manage about 5% of total wealth.

The national and regional BDs have achieved impressive scale and reach as a result of strategic M&A, industry consolidation and persistent efforts to recruit new advisors. Acquisitions of mid-sized national and regional firms by larger banks have contributed to this process and this trend is expected to continue as the BDs seek to emulate the scale of the wirehouses.

The IBDs have directed their recruitment efforts at those advisors who were seeking independence. They can also offer advisors more useful technology, such as advisor dashboards, client-facing platforms and better middle/back office tools.

Retail bank BDs and insurance BDs are in a difficult position. They face advisor attrition on the one hand while on the other have only a limited capacity to adapt their business model to address the changing needs of wealth management clients. The retail bank BDs lack the ability to provide personalized and detailed financial planning while insurance BDs are limited by their insurance-based products. Consequently, both these archetypes are expected to experience limited growth in the future.

We expect continued investments, divestments and acquisitions in the BD space. The smaller affiliated bank and insurance providers may face divestitures, and while the larger BDs will probably continue to grow, high payout ratios, the shift to a fee-based advice model and competition will continue to serve as headwinds for the segment.

The supporting wealth ecosystem

In recent times, the development of an increasingly sophisticated network of new providers has allowed wealth management firms to outsource a range of activities that were previously considered central to the business model. Functions like advice and portfolio management, daily servicing, relationship formation and channel enhancements can now be supplied by third-party digital providers at a fraction of the cost.

This has allowed smaller regional banks, BDs and RIAs to compete with the wirehouses and the larger players on their own turf. Moreover, the development of this new wealth management ecosystem of third-party providers has lowered the cost of entry to the market more broadly.

It also allows established players to accelerate growth, but in the longer term there is potential for the larger digital players to unify the third-party providers into a one-stop shop for all wealth management services. Today's providers need to be cognizant of the possibility for this kind of large-scale market disruption within wealth management.

We predict a number of developments in the future:

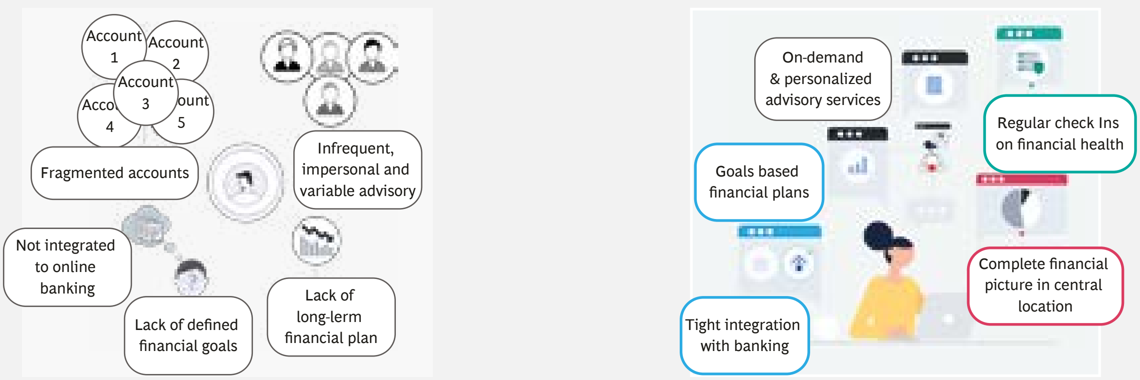
- The direct to retail brokers and the RIAs will continue to gain market share. The former will be supported by their scale and digital capabilities to remain ahead of their peers. The RIAs will be assisted by the burgeoning wealth management ecosystem, which reduces costs and allows advisors to concentrate on their client relationships and provide differentiated service.

- In contrast, we expect challenges to continue to mount for the wirehouses, BDs and private/trust banks. These traditional models will feel competitive pressure, particularly on digital services. It seems likely that some investors will migrate from one bank or broker dealer to another, as they look to remain in the same type of banking relationship but seek providers with more sophisticated digital offerings. However, these traditionally strong players do have inherent advantages including established and relatively sticky customer bases, physical office presence, and significant scale. Leveraging these legacy assets while building, acquiring or partnering to enhance digital capabilities may help bridge the gap between them and other players. (See Exhibit 4)

EXHIBIT 4 | Next Gen Digital Platforms have multiple challenges to overcome

Current state of fragmented finances

Next gen digital platforms



Source: BCG Global Wealth 2020

Trends accelerated by COVID-19

Demographic differences

We conducted a series of interviews and surveys with investors to ascertain sentiment around COVID-19 and its perceived impact upon their personal wealth. In doing so we discovered certain differences of perspective by generation.

Gen X and Gen Z customers felt more worried about the effect of the pandemic upon their personal finances than millennials or boomers. However, younger generations – Gen X, Gen Z and millennials - all expressed greater concern about the resilience of their savings compared with boomers.

This might lead to the suggestion that COVID-19 will be the impetus for some clients, particularly younger ones, to move money to different investments, but this was not the lesson learned after the GFC. As mentioned before, younger investors have also already demonstrated interest in criteria beyond strict risk and returns and are constructing portfolios with a concern for impact investments (e.g., ESG). This highlights differences in priorities for different demographics.

Sales

The entire relationship between client and advisor has been transformed by COVID-19. Wealth managers were forced to deliver online service and sales, almost overnight, and some were better prepared than others.

We found that 87% of retail investors were satisfied by the support provided by advisors during the crisis. Over 90% of investors that had video conferences with their advisor found the experience superior or the same as meeting in-person.

Around 30% of investors plan to move to an entirely remote model in the future. Approximately 13% percent of investors with $250,000 or more considered moving an average of an additional $650,000 to their advisors as a result of their interactions during the COVID-19 pandemic.

COVID-19 has forced wealth managers to rethink their entire approach to physical branches and paper-based processes. Those that respond quickly to these significant changes will be best positioned for the future. However, most face considerable challenges before they can create a seamless digital experience for their clients and advisors.

Virtual meetings, multi-platform communications and e-newsletters are quickly becoming table stakes. Select firms also do more by providing peer to peer connectivity, virtual education sessions and digital presentations with high profile market experts. But, digital-led client experiences are not enough without an enhanced relationship manager toolkit. A sales force with advanced digital tools and systematic split team capabilities will be best placed to deliver the wealth management service of the future.

Pressures

The stress to the financial system caused by the pandemic has heightened pressures that existed before COVID-19. Wealth managers entered the crisis in a less secure financial position than they entered the 2008/2009 crisis, in terms of having a lower overall return on assets (ROA) and a higher cost income ratio.

Wealth managers have been forced to confront the digital conundrum. On the one hand, digital transformation is costly and customer expectations are always rising. On the other, these costs can be offset by savings derived from a reduced physical footprint.

Low rates, and the prospect of low rates for the foreseeable future, have damaged and will continue to damage the ability to earn spread revenue on client cash. Moreover, the extreme market volatility of March and April 2020 caused losses for some players, and the economic outlook continues to be uncertain.

All these factors mean that wealth managers are experiencing acute pressure on profitability, and the need to create lean and scalable businesses is more pressing than ever. Wealth managers can no longer sit on the sidelines content with their existing business models. The global pandemic has highlighted the need for business model evolution. Those adapting alongside the industry will secure a position in the future while laggards will likely struggle to maintain profitability.

Looking ahead

Innovative pricing and service models

The tactics and practices used today by the most innovative and forward-looking wealth managers will become increasingly widespread in the future. The continuing shift to fee-based pricing is likely to be maintained, which is a surprise to no-one in the industry. However, this model presents difficulties in terms of revenue compression, and we expect alternative pricing models to also be explored.

For example, a subscription-based pricing model could be used effectively by players with a large client base. The regular revenue format appeals to price sensitive clients and fosters stickier relationships. Customers are familiar with this model outside of wealth management, with companies like Netflix and Amazon having significant penetration in North America.

The offer of significant price discounts at the product level constitutes another possible pricing format. For example, Fidelity has removed management fees in select mutual funds and ETFs in the hope that client assets will be first attracted to the platform and then diverted to other revenue earning products. Such creative pricing structures have been common in other industries for years, but more and more wealth managers may now consider similar schemes to establish and deepen client relationships. This is now particularly viable as investment products become more commoditized, the shift from active to passive investing becomes more entrenched and firms increasingly examine the value of an entire client relationship rather than revenue derived from a single product.

Recent changes in technology and industry dynamics also enable service model innovation across customer segments. Technology advancements facilitating things like fractional share trading, direct indexing and portfolio customization are opening new strategies to a broader population of investors. These advancements coupled with the shift to $0 commissions and enhanced market interest during the COVID-19 pandemic are engaging investors. Firms that can successfully build on this momentum and adapt service models will be able to grow share.

Sales and relationship management

Today, many wealth management advisors tend to sell products rather than financial guidance and wealth planning. This model will become increasingly redundant as the successful players of the future provide a holistic wealth management service, with financial planning, personalized service and round-the-clock availability of advisors at its core. In this model, the advisor is not simply the provider of investment alternatives but a relationship manager providing a goals-oriented service, with emphasis on clear communication and a sympathetic understanding of the personal circumstances of every client.

There is also likely to be a shift from the current model in which every advisor is personally responsible for the relationship with the client, often operating independently with ad hoc support provided only when needed, to one in which the relationship is supported by a team.

This means that a constellation of different experts from fields like accounting, law, trust and estate planning, and philanthropy be on hand, ready to provide support to the advisor and the client. This team-based service is already visible at some of the leading private and trust banks and is likely to become increasingly common across the industry.

The nature and extent of client/advisor communication will also change, moving from a model in which interaction is infrequent and limited to, say, intermittent emails and a semi-annual review to one in which there is much more regular and detailed communication sometimes involving a client's family and inheritors. Clients will have 24/7 access to their advisor and their teams, along with real-time account information. We regard these as table stakes for the future wealth management client.

Winning in the future

The optimum model of the future will be a hybrid of humans and machines. Flesh and blood advisors are needed for the irreplaceable human touch, but they will be backed up by new and richer data and an array of digital tools to improve the customer experience.

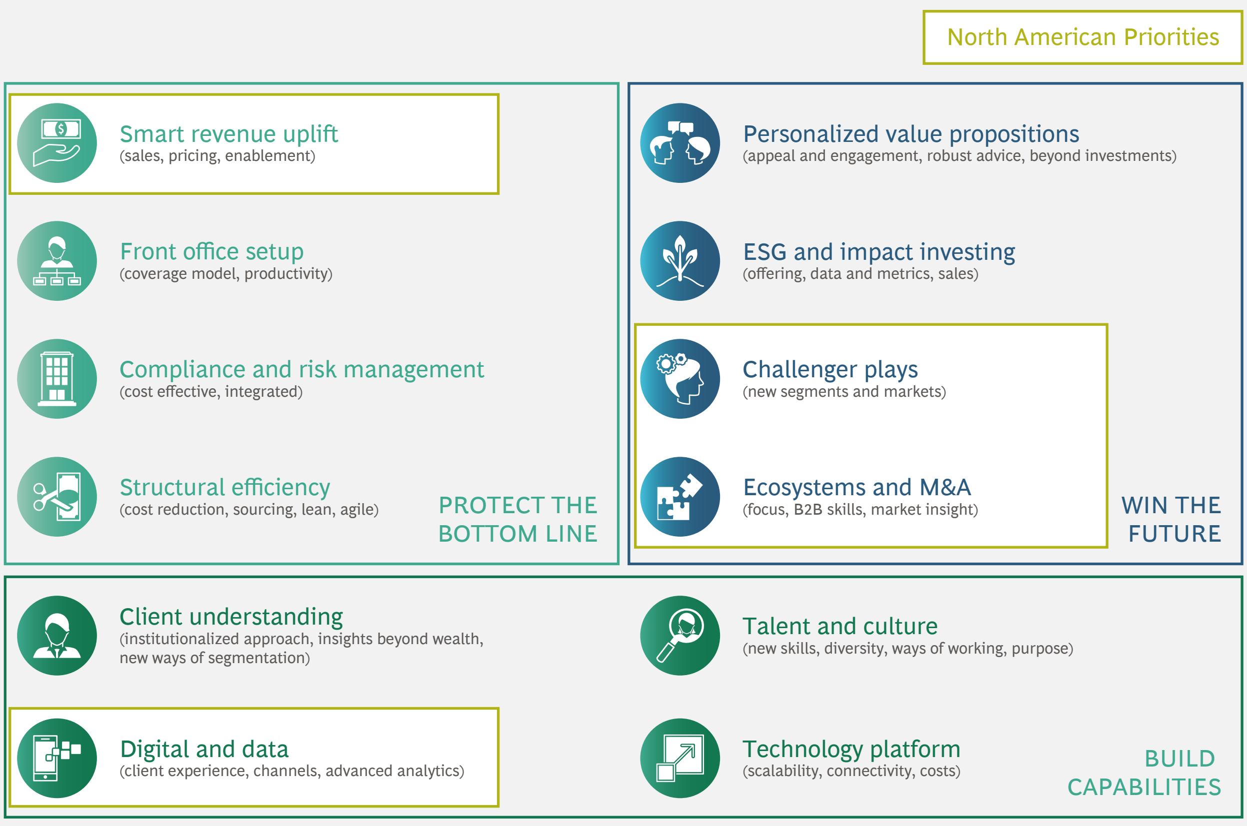
This technology now allows a higher degree of personally tailored investment options than was available in the past, bringing a level of customized service that was previously only available for the HNW client.

At the moment, however, digital platforms at most wealth management firms have significant challenges to overcome. All too often there is limited digital integration across the entire firm, a lack of central planning and connectivity, and fragmented assets. Firms need to adopt thorough business-wide integration of systems while installing and improving application programming interfaces (APIs) for better external connections.

The agenda for North American wealth management CEOs

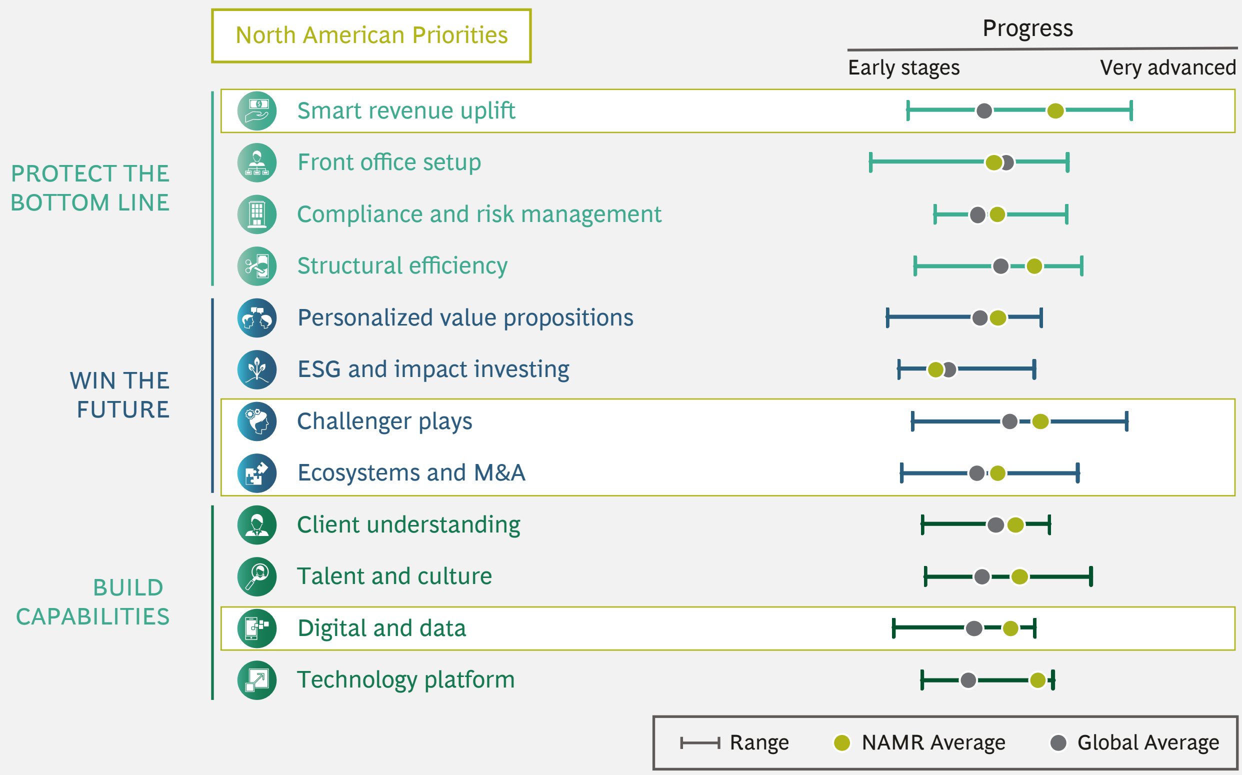
As noted, COVID-19 has accelerated long-term trends within the wealth management industry in North America. There are several key points that CEOs of firms in this space should consider, and additional global perspective can be found in [BCG's 2020 Global Wealth Report.] (See Exhibits 5 and 6)

EXHIBIT 5 | Wealth Management CEO Agenda



Source: BCG Global Wealth 2020

Exhibit 6 | North America shows higher levels of progress, particularly around capabilities



Note: Ranges and averages are based on values for North America, Latin America, Europe, Middle East and Africa, and Asia-Pacific
Source: BCG Global Wealth 2020

Protect the Bottom Line: Smart Revenue Uplift

Flexible pricing structures allow firms to realize more value from each client relationship. Models based on a subscription fee or payment per transaction are already beginning to gain traction, particularly among digitally sophisticated providers.

Sales based on comprehensive and more granular data are also proving a winner. This includes tools like recommendation engines, which are calibrated to identify the best offers and can drive successful cross-selling. There are also tools which identify specific life events or possible turning points for each client, alerting advisors to the best times to make contact.

Build Capabilities: Digital and Data

The opportunities afforded by rapid digital change are enormous. Wealth managers have the chance to not only completely redesign customer journeys but also rationalize middle/back office processes to enhance the client experience and reduce costs at the same time. Redesigning key customer journeys within wealth management (e.g., onboarding, moving money, advisor interactions) will help drive differentiation in the client experience. Smart processing and automation enhancements are simultaneously enabling wealth managers to reduce processing time and costs, as well as improve accuracy by removing manual processes and leveraging new data sources.

But it is critical that the wealth manager thinks of these two aspects in tandem rather than isolation. The capacity of technology to reduce costs should not be the end goal, but rather a tool which fuels continued and deeper investment in the client.

Win the Future: Ecosystems and M&A, Challenger Plays

Looking ahead, it also seems likely that there will be consolidation in the industry and the formation of partnerships across different channels partly as a result of the need for digital scale.

The formation of partnerships is twofold: it refers to not only building relationships with external vendors for selected tasks, but also the breaking down of internal silos to allow different areas of the same firm to work together.

For example, in the brokerage world Charles Schwab merged with TD Ameritrade to create the scale needed to compete effectively while moving upmarket, while Morgan Stanley and E*Trade found the opportunity to reduce costs while gaining access to a broader set of clients.

Meanwhile, the obvious benefits of consolidation in the RIA industry continue to be clear. Separately, banking mergers had also picked up pace before COVID-19, and the advantages of shoring up credit, improving financial position and diversification of business models means that this is also a trend likely to continue post COVID-19.

North America also offers unrivalled opportunities for challenger players looking to develop new propositions. At the moment, established businesses are looking to form partnerships with challenger firms to outsource certain functions, but over time these challengers may well grow to become an established and larger presence themselves. A challenger that figures out how to serve clients in the $500,000 - $5 million category through an integrated, personalized and cost-effective model will be a force to be reckoned with; incumbents cannot afford to be complacent.

Players able to create a targeted, differentiated and personalized proposition with expertise in areas like ESG investing, real assets and private markets may also be able to establish a scalable foothold in today's market.

Conclusion

The North American wealth management industry has reached a meaningful inflection point. Heightened competition and the need for digital transformation have been accelerated by COVID-19. Today's clients expect more from their wealth management providers, and firms able to effectively serve those needs will be the winners in the future. The industry is on the precipice of transformation, and leaders need to make the right decisions now to successfully position their firms for the future. While many are still thinking about where and how to transform, others have already started to invest in the changes needed to win in this rapidly changing environment.

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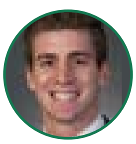

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