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Capgemini World Wealth Report 2017: Hybrid advice re-shapes the course of wealth management as BigTech[1] threat looms to disrupt the industry further

Today's High Net Worth clients value digitally-enabled hybrid advice models as much as wealth manager-led interaction

PARIS, NEW YORK, September 28, 2017 — The 21st edition of the 2017 World Wealth Report (WWR), released today by Capgemini, a global leader in technology, consulting and outsourcing, found that hybrid advice models that combine digital tools with some level of human interaction are as valued by High Net Worth Individuals[2] (HNWIs) as wealth manager-led offerings. With hybrid advice on the rise, the WWR also highlighted the impending industry threat of BigTech firms such as Google and Alibaba entering the industry, as more than half of HNWIs (56.2 percent) say they are open to using BigTechs for wealth management services. Respondents perceived BigTechs as offering increased efficiency, transparency, online excellence and innovation.

In the 2017 WWR, Capgemini outlines its Hybrid Advice Framework[3] which found that HNWIs are most likely to embrace hybrid advice once a wealth-management relationship is well established. At the early stages of a relationship, when financial goals are being outlined and risk tolerances set, nearly two-thirds of HNWIs (60.2 percent) prefer to work directly with a wealth manager. By the time the relationship matures to reporting on performance and making adjustments, the preference to interact with wealth managers falls to 37.5 percent (as compared to 42.7 percent for hybrid and 19.7 percent for automated).

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[1] 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

[2] HNWIs are defined as those having investable assets of US$1million or more, excluding primary residence, collectibles, consumables, and consumer durables.

[3] We define hybrid advice 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"

Executive Vice President Anirban Bose, Head of Global Banking and Capital Markets at Capgemini, said, "*With global wealth at record highs, the 2017 World Wealth Report findings are especially critical for wealth managers moving towards delivery of hybrid advice. Firms can jumpstart their hybrid journey by focusing on transformation related to people, processes, and propositions.*"

The WWR found that the specific areas that call for strategic transformation include the advisory model, talent sourcing, client segmentation, data and analytics, personalization of the client journey and fee structures, program execution, culture, and marketing.

Offering hybrid advice is the future

HNWI's acceptance of hybrid advice also varies by region and demographic. Those in Europe and Asia-Pacific (excl. Japan) are most inclined to embrace hybrid services (where the hybrid advice approach is preferred in four of the five client life cycle stages), while those in North America are the least likely. The youngest HNWIs (under 40 years), meanwhile, prefer a hybrid approach for all five lifecycle stages, especially for the "develop wealth strategy" (60.8 percent) and "manage ongoing advice and optimization" (60.0 percent) phases, indicating that the wave of hybrid advice sweeping the industry is here to stay.

While executives at wealth management firms express a high level of awareness of hybrid advice models, they have not made progress in delivering satisfactory solutions to clients. Research indicates that proficiency in delivering hybrid advice would be well worth the effort, however, as 71 percent of HNWIs globally identify hybrid advice as significant in their decision to consolidate assets with their primary wealth manager. At the same time, firms have not been effective at implementing hybrid advisory services, with analysts giving only an average score of 2.7[4] out of a possible 7 to firms on this aspect.

As firms re-orient their strategies to accommodate growing HNWI interest in hybrid advice, they will also have to plan for potentially serious alterations to their business models. The move toward hybrid advice could usher in compressed revenue margins for more commoditized offerings, for example, putting greater pressure on performance. In addition, the wealth manager role will likely evolve, requiring advisors to relinquish control to outside experts for input, as well as digital tools designed to aid them, such as Customer Relationship Management (CRM) and analytics.

Even as the industry moves towards hybrid advice, wealth managers must keep abreast of ongoing technological developments, WWR findings suggest. Some, including voice interaction and artificial intelligence, have the ability to dramatically alter the wealth management playing field.

Further major disruption is on the horizon. The possible entry of BigTechs into wealth management presents a potentially more serious risk, as HNWIs have high expectations of increased efficiency (64.2 percent of

[4] Measured in a Scale of 1-7 where 1 = "Not at all Effective" and 7 = "Highly Effective"

HNWIs) and transparency (54.4 percent) from BigTechs in wealth management. While wealth management firms are aware of the BigTech threat as 78.3 percent see BigTech entry as certainty or strong possibility, their perceptions on the extent of the impact on industry vary widely.

The WWR concludes that firms must continue to transform their businesses in order to tackle these technological and emerging disruptions and be relevant in the changing landscape.

World Wealth Report 2017 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 21st annual edition includes findings from an in-depth primary research on global HNWI perspectives and behavior. Based on responses from over 2,500 high net worth individuals across 19 major wealth markets in North America, Latin America, Europe, and Asia-Pacific, the 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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