When Clients Take the Lead

Global Wealth 2021

June 2021

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Preface

Sometimes, it takes having the world turned upside down to understand what it should look like right-side up.

After a year and a half of norm-busting events, individuals and businesses know what is essential and what is not. Having adapted to extraordinary challenges, we've all learned that it's possible to pivot in ways we couldn't have imagined before. And having lived through dizzying changes, we've seen firsthand the importance of client proximity, speed, and efficiency.

Wealth managers now have a chance to put that perspective into practice in their own work. For a long time, the typical industry model has operated in an inside-out fashion. It's time to correct that. Instead of following a corporate agenda, wealth managers must pursue a client agenda. Instead of sorting clients by their wallets, they must differentiate them by their needs and use behavioral insights to unlock new sources of value. And instead of letting complexity and cost dictate the pace of innovation, they must let clients set the tempo, employing digital platforms and cross-functional teams to speed go-to-market and to scale impact.

The next five years have the potential to usher in a wave of prosperity for individuals and wealth managers alike. But sizing and capturing that opportunity requires adopting a client's eye view and reorienting the entire business model accordingly.

For Boston Consulting Group's 21st annual Global Wealth Report, my colleagues and I sought to do just that. We started with a radically simple proposition—understanding what clients needs are at each step of the wealth management life cycle. By shifting focus from wallets to needs, our analysis revealed whole segments that wealth managers are either underserving or not serving at all. These include individuals with simple needs, the new ultras, and the "affluent retiree" market—a $90 trillion investable wealth pool today.

Through interviews, analysis, and detailed examples, we lay out what it takes to attract and retain these clients and serve them in a competitively sustainable way. Although these examples represent some of the largest opportunities for wealth managers, they are just a subset of the total number available for those willing to change or rethink their approach.

The pandemic may have turned the world upside down, but it has also created the opportunity to refocus on first principles and see what's truly important. Wealth managers have talked about being client-led for years. Now they have the chance—and the imperative—to deliver on it.

We hope that the ideas expressed here prompt stimulating conversation, and we look forward to continuing that dialogue with you.

Anna Zakrzewski
Managing Director and Partner
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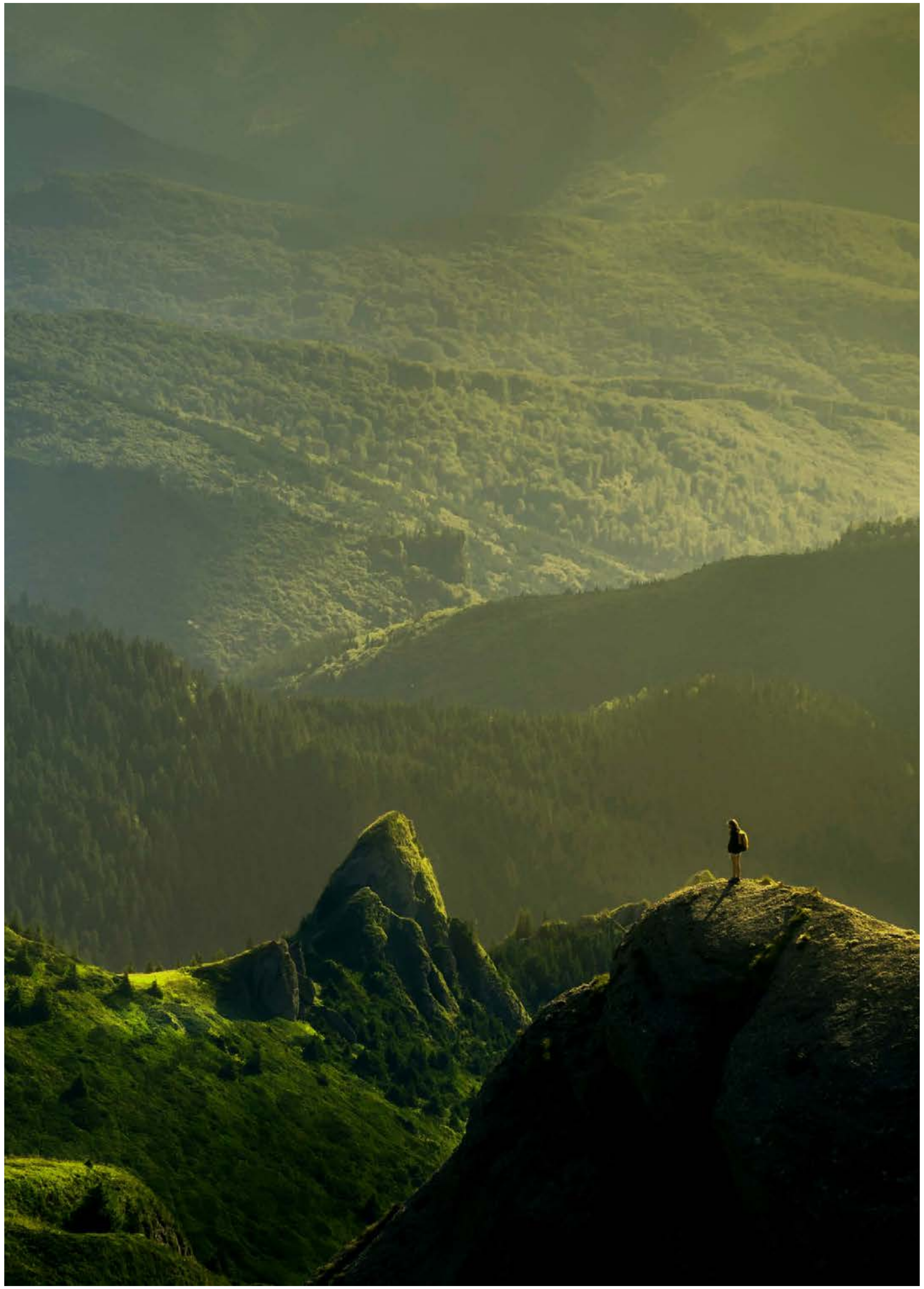
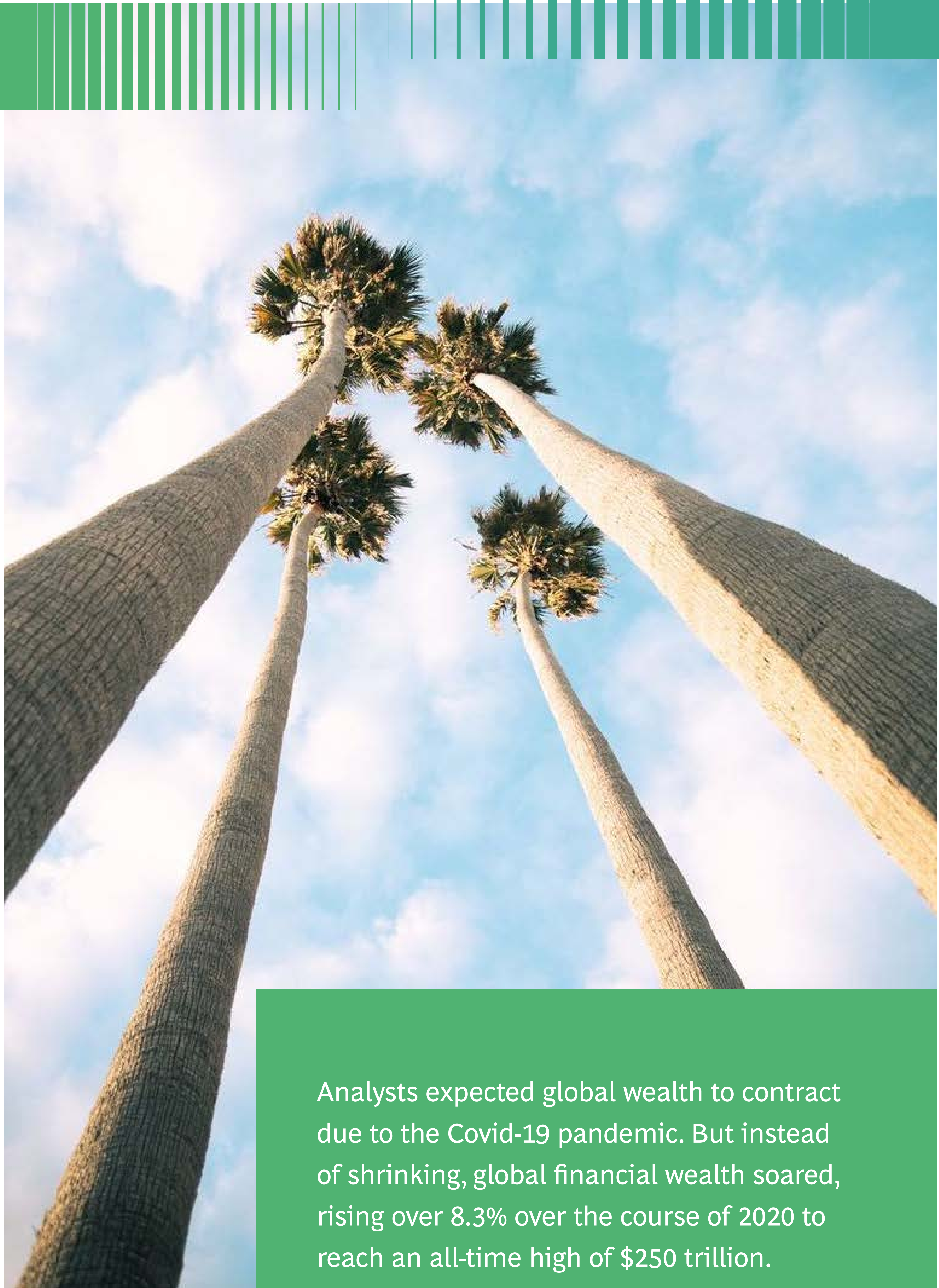




Analysts expected global wealth to contract due to the Covid-19 pandemic. But instead of shrinking, global financial wealth soared, rising over 8.3% over the course of 2020 to reach an all-time high of $250 trillion.

The Evolution of Wealth

NOT EVEN A PANDEMIC COULD BREAK GLOBAL WEALTH'S RESILIENCE IN 2020.

When we issued our report last year, the pandemic had just plunged the world's economy into its worst recession since World War II. Analysts expected global wealth to contract, and perhaps severely. Following the 2008 financial crisis, financial wealth declined by 8%, and the economic impacts of the pandemic looked to be every bit as punishing, if not worse.

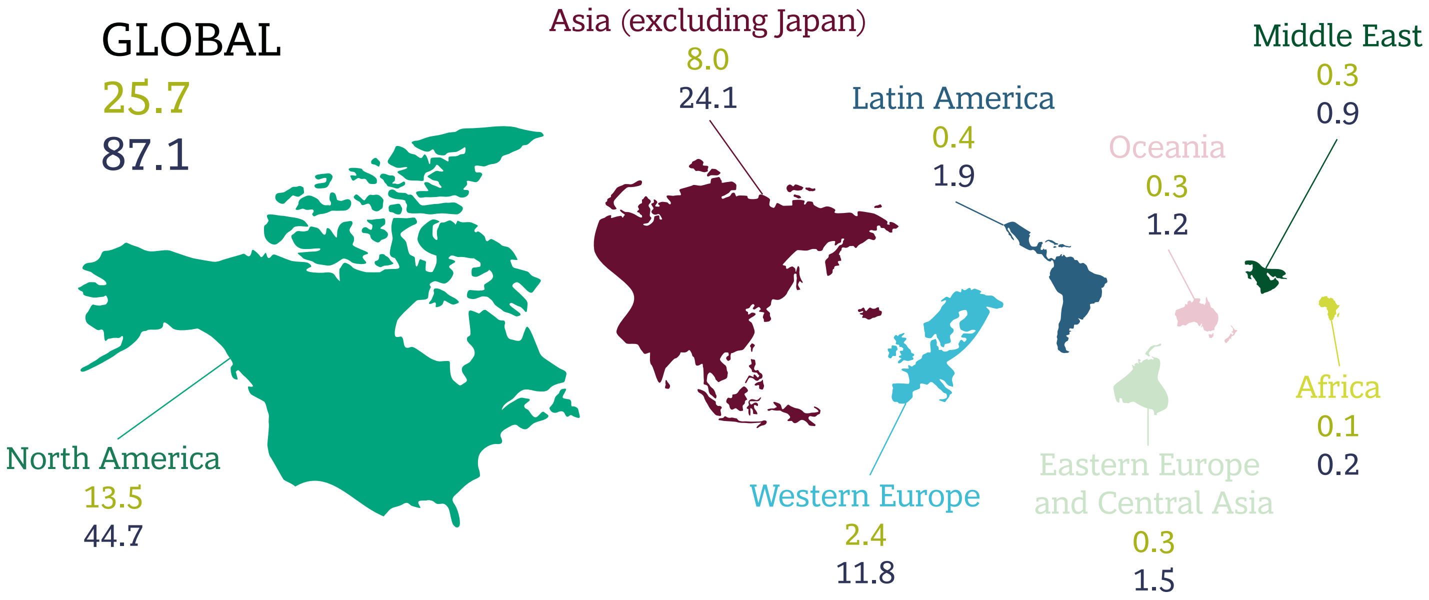
Last year was anything but typical, however. Instead of shrinking, global financial wealth soared, rising 8.3% over the course of 2020 to reach an all-time high of $250 trillion. Behind the boom was a spike in net new savings and strong stock market performance fueled by highly supportive central banks. Cash and deposits grew by 10.6% over the previous year's numbers, marking the largest annual increase in 20 years. Markets shrugged off early jitters and sent many indices and equities to record highs by the year's end.

Flush with cash and encouraged by the prospect of robust returns, individuals directed more wealth into equities and investment funds and away from lower-yielding debt securities, continuing precrisis trends. Many also embraced alternative investments such as private equity, private debt, and real estate in the quest for even higher yields.

The next five years may be stronger still. We see signs of an emerging economic recovery that could significantly expand prosperity and wealth between now and 2025. This growth will create extraordinary opportunities for wealth managers (WMs), but it will require them to look at the market through a new set of lenses.

Exhibit 1 - Absolute HNWI Investable Assets and Revenue Growth, 2020–2025

Absolute Δ in HNWI investable wealth 2020–2025[1] ($trillions)
Absolute Δ in WM revenues 2020–2025[2] ($billions)



Sources: Global Wealth Report 2021; BCG global wealth market sizing and benchmarking database.

Note: Wealth in local currency was converted to US dollars at the 2020 year-end exchange rate across all time periods.
[1] Absolute Δ in HNWI investable onshore wealth 2020–2025 is the change in HNWI investable onshore wealth from 2020 to 2025, excluding currency effects. [2] The WM channel comprises players and business units that provide wealth management services to HNWI customers (with financial wealth of more than $1 million), via WMs or as standalone units of universal banks. For the US, wirehouses, bank trusts, registered investment advisors, and additional smaller WM providers are also included.

Framing the Revenue Opportunity

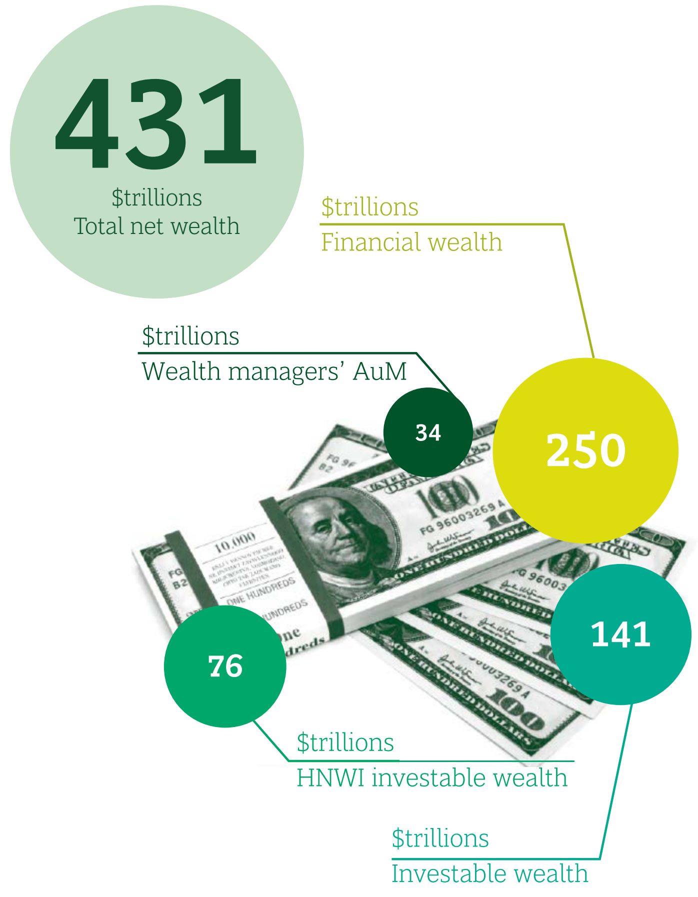
Total global financial wealth reached a record high in 2020 of $250 trillion. Over the next five years, North America and Asia (excluding Japan) will be the leading financial wealth generators in absolute terms, followed by Western Europe. (See Exhibit 1.) Together, these three regions will account for 87% of new financial wealth growth worldwide between now and 2025. Of the $65 trillion in global financial wealth that we expect to see generated over this period, $25 trillion will come from North America, $22 trillion from Asia, and $10 trillion from Western Europe. The remaining regions of the world will have only a marginal impact on new wealth generation, especially when viewed individually.

As promising as that outlook is, WMs need to view global wealth through a revenue lens in order to see the true opportunity for banks and advisors. Today, Asia has low levels of WM penetration. North America dominates, with WMs in the region having generated $150 billion in revenues in 2020, nearly two-thirds (64%) of the global total ($235 billion.) Western Europe remains firmly entrenched in second place ($43 billion in revenues, 18%), and Asia comes in a distant third, at $28 billion (12%).

> Tomorrow will be a different story. Asia's WM revenue pools will soar faster than any other market's worldwide, almost doubling over the next five years to $52 billion. The key driver? Greater WM penetration.

Our modeling suggests that WM assets under management (AuM) in Asia will expand at a compound annual growth rate of 11.6% from now until 2025, outpacing the growth in investable onshore wealth of high net worth individuals (HNWIs), which will be approximately 10.4%. Asia is also becoming a larger hub for cross-border wealth. By 2023, Hong Kong will be the biggest booking center worldwide. (See the sidebar "A Change of Leadership in Global Cross-Border Wealth.")

Lenses for Looking at Wealth



Total net wealth = Financial wealth + Real assets – Liabilities

Key Insights About 2020 Market Sizing

Source: BCG Global Wealth 2021.

Real Assets Double the Wealth Pool

Financial wealth accounted for $250 trillion (52%) of global wealth in 2020. But real assets effectively doubled the size of the pool. Led primarily by real estate ownership, these assets generated $235 trillion, or 48% of total global wealth.

Asia (excluding Japan) has the largest concentration of wealth in real assets, which comprise 64% of the regional total ($84 trillion), followed by Western Europe (55%, $64 trillion). In North America, real assets account for just 28% of the region's wealth, with the remaining 72%, or $111 trillion, in financial assets.

Real assets tend to make up the preponderance of overall wealth (63%) in growth markets.[1] The reverse is true in mature markets.[2] There, financial assets are responsible for a larger share of wealth (59%). This is due to several factors: mature countries have well-established financial markets that are easier for individuals to access, and they also have stable currencies that encourage wealthy people to maintain holdings in cash, deposits, securities, and other liquid assets. Growth markets that lack these elements often see individuals place a greater share of their wealth in physical assets.

Over the next five years, however, a combination of greater financial inclusion and growing capital market sophistication will change the wealth composition in growth markets. In Asia, for example, financial asset growth is likely to exceed real asset growth (7.9% versus 6.7%). In particular, investment funds will become the fastest-growing financial asset class, with a projected CAGR of 11.6% through 2025. This spike comes as more individuals embrace viable alternatives to investments in traditional real assets.

1. Growth markets consist of the regions Latin America, Africa, Eastern Europe, Middle East and Asia (excluding Japan).
2. Mature markets consist of the regions North America, Western Europe, Japan, and Oceania.

Significant Differences in Wealth Allocation Among Regions

Financial assets, real assets, and liabilities ($trillions)

Global

Financial assets consist of cash and deposits; bonds, equities, and investment fund shares; life insurance and pensions; and other small asset classes

Real assets consist of real estate (including land owned by individuals), consumer durables, and valuables (such as nonmonetary gold and other metals valued at current prices)

Liabilities include credit card loans, mortgage loans, and other short-term and long-term loans

Global	2015	2020	2025
Growth		+6.7%	+4.8%
Total	312	431	544
Financial assets	183	250	315
Real assets	170	235	296
Liabilities	–41	–53	–67

North America

North America	2015	2020	2025
Growth		+7.2%	+4.4%
Total	95.9	136.0	168.4
Financial assets	78.7	110.6	135.3
Real assets	32.5	43.7	53.8
Liabilities	–15.4	–18.3	–20.8

Asia (excluding Japan)

Asia (excluding Japan)	2015	2020	2025
Growth		+9.5%	+6.8%
Total	74.1	116.9	162.7
Financial assets	29.2	46.8	68.4
Real assets	51.9	83.6	115.4
Liabilities	–7.0	–13.5	–21.1

Western Europe

Western Europe	2015	2020	2025
Growth		+4.1%	+3.0%
Total	84.4	103.0	119.2
Financial assets	42.9	52.6	62.5
Real assets	53.1	63.8	71.8
Liabilities	–11.6	–13.4	–15.0

Japan

Japan	2015	2020	2025
Growth		+1.4%	+0.8%
Total	25.8	27.6	28.7
Financial assets	16.8	18.3	19.3
Real assets	11.8	12.5	12.7
Liabilities	–2.7	–3.1	–3.3

Latin America

Latin America	2015	2020	2025
Growth		+10.0%	+7.8%
Total	8.0	12.9	18.8
Financial assets	3.9	5.7	8.0
Real assets	4.9	8.3	12.2
Liabilities	–0.8	–1.1	–1.4

Middle East

Middle East	2015	2020	2025
Growth		+7.7%	+6.4%
Total	7.7	11.1	15.1
Financial assets	3.5	4.8	6.3
Real assets	4.8	7.1	10.0
Liabilities	–0.6	–0.8	–1.1

Oceania

Oceania	2015	2020	2025
Growth		+6.1%	+4.5%
Total	7.7	10.4	12.9
Financial assets	3.8	5.3	7.1
Real assets	5.5	7.1	8.2
Liabilities	–1.6	–2.0	–2.4

Eastern Europe and Central Asia

Eastern Europe and Central Asia	2015	2020	2025
Growth		+8.4%	+5.8%
Total	6.2	9.3	12.4
Financial assets	2.6	4.1	5.7
Real assets	4.2	6.1	7.8
Liabilities	–0.6	–0.9	–1.1

Africa

Africa	2015	2020	2025
Growth		+10.3%	+7.1%
Total	2.1	4.1	5.8
Financial assets	1.2	1.9	2.5
Real assets	1.5	2.6	3.7
Liabilities	–0.2	–0.3	–0.4

Sources: Global Wealth Report 2021; BCG global wealth market sizing and benchmarking database.

Note: Wealth in local currency converted to US dollars at the 2020 year-end exchange rate across all time periods. Financial assets are per the SNA 2008 reporting standard, in $trillions. Growth percentages for the period 2015–2020 and 2020–2025 represent the relevant compound annual growth rates over the period. Because of rounding, not all totals exactly match the sum of the component numbers listed.

Liabilities Represent an Unfulfilled Opportunity

Now totaling $53 trillion globally, the liabilities market is growing at a rate comparable to that of financial wealth, making it an attractive—though still largely untapped—area for WMs. HNWIs and ultra high net worth individuals (UHNWIs) hold $9.4 trillion in liabilities worldwide, but WMs service only 41% of these loans. The remaining $5.6 trillion is in the hands of retail and wholesale banks, insurers, and other lenders.

WMs that persist in their current approach to the liabilities market will lose out on significant revenue potential. In addition to their attractive growth, liability products have been more resilient to margin compression than either deposits or invested assets. WMs have several advantages that can help them boost their share of the HNWI and UHNWI wallet. These include their close and often long-standing client relationships, their specialized expertise, and their distinctive lending products. But WMs that want to grow their market share must professionalize their approach to credit risk management, bundle liabilities with traditional banking services (such as savings accounts, credit cards, and overdrafts), bring an integrated perspective to clients' balance sheet planning and product engineering by advising on products such as Lombard loans and structured loans, and speed-up credit approval processes and procedures.

From Total HNWIs' and Ultras' Investable Wealth to Wealth Management Revenues

Wealth management stake (I)
HNWIs' and ultras' wealth, and wealth manager penetration

	North America	Asia (excluding Japan)	Western Europe	Japan	Oceania	Latin America	Eastern Europe and Central Asia	Middle East	Africa
Wealth, 2020 ($trillions)	47.2	12.4	10.3	3.0	0.8	0.8	0.7	0.7	0.2
Absolute growth, 2020-2025 ($trillions)	13.5	8.0	2.4	0.4	0.3	0.4	0.3	0.3	0.1
Wealth manager penetration, 2020 (%)	44	39	63	26	43	58	47	37	20

Wealth management stake (II)
Wealth manager revenues on HNWIs and ultras

	North America	Asia (excluding Japan)	Western Europe	Japan	Oceania	Latin America	Eastern Europe and Central Asia	Middle East	Africa
Wealth, 2020 ($billions)	149.7	27.7	43.1	4.3	2.0	3.2	2.7	1.7	0.3
Absolute growth, 2020–2025 ($billions)	44.7	24.1	11.8	0.8	1.2	1.9	1.5	0.9	0.2

Source: BCG Global Wealth 2021.

A Change of Leadership in Global Cross-Border Financial Centers

Switzerland was the largest cross-border booking center in 2020. But we expect Hong Kong to take the lead in 2023 by overall size, with strong inflows from mainland China driving AuMs to a staggering $3.2 trillion by 2025, a CAGR of 8.5%. (See the exhibit.)

Over the next five years, Singapore will remain the third-largest booking center in size and the fastest-growing one overall, with AuMs anticipated to climb by a CAGR of 9.1% and reach $1.9 trillion by 2025. Some of this surge will come from investors who bypass Hong Kong out of concern for political and social instability as well as from rapidly rising sourcing markets such as Taiwan.

The US will see cross-border AuMs grow at a CAGR of 6.9% during this period, reaching $1.3 trillion by 2025. Latin America will drive 72% of this growth, propelled by individuals seeking state-of-the-art investing capabilities and an investor-friendly environment. An additional 18% of US cross-border wealth growth is likely to come from Asia.

Switzerland will experience modest AuM growth of just 3.2%. Flows from Germany, France, and Italy will remain low, but declines in these areas will be partially offset by rising inflows from growth markets. New growth market flows represented 59% of Switzerland's cross-border AuMs in 2020, and they are expected to represent 61% by 2025.

Leading Global Cross-Border Financial Centers

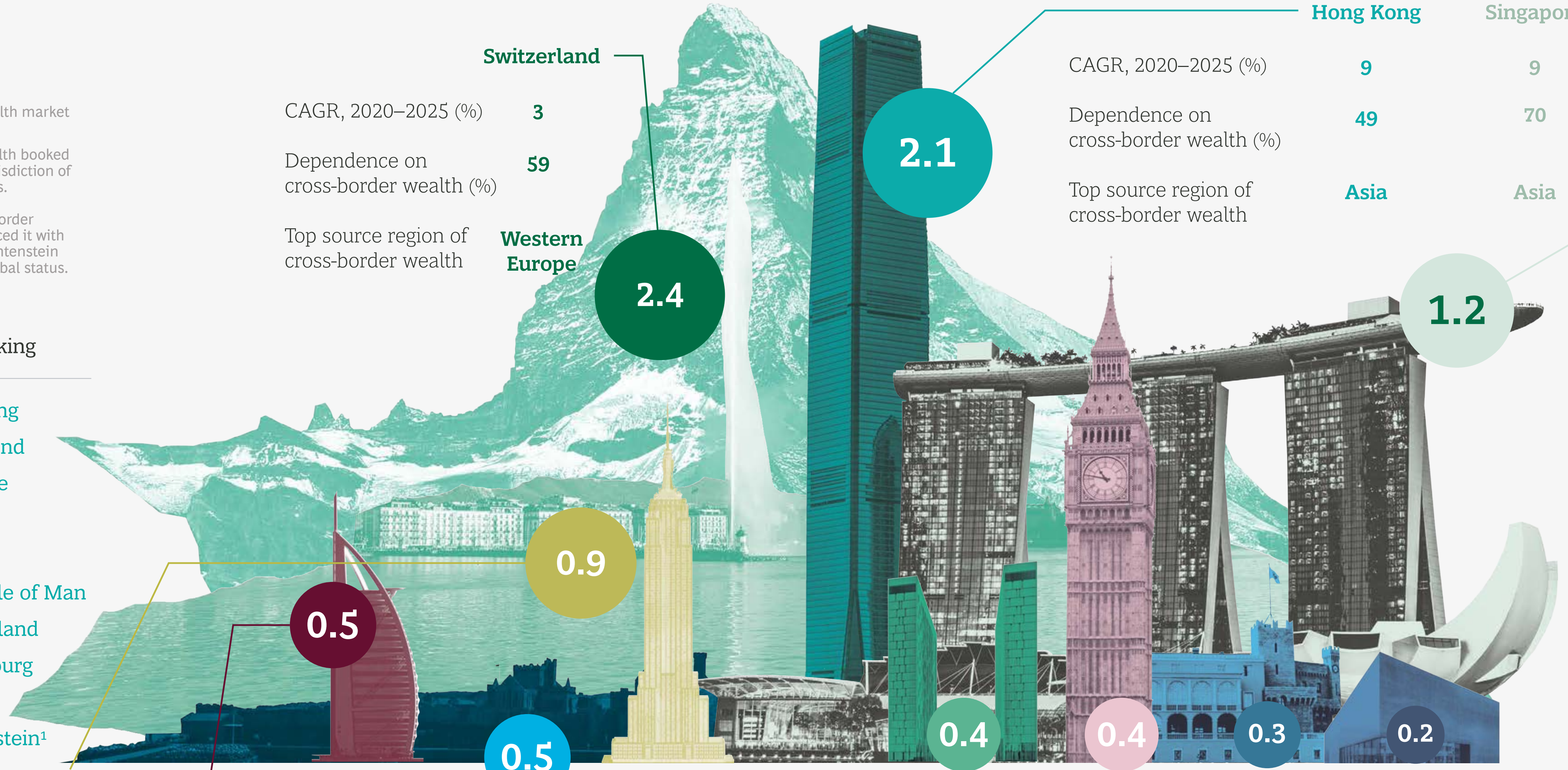
Cross-border financial center wealth, 2020 ($trillions)

Sources: Global Wealth Report 2021; BCG global wealth market sizing and benchmarking database.

Note: Cross-border wealth is defined as financial wealth booked in a jurisdiction separate from the wealth owner's jurisdiction of domicile. All dollar figures are expressed in US dollars.

[1]Although we anticipate that the tenth-largest cross-border financial center in 2025 will be Cyprus, we have replaced it with Liechtenstein in the 2025 ranking chart because Liechtenstein has a more geographically diverse client base and global status.

	2020 ranking	2025 ranking
1.	Switzerland	Hong Kong
2.	Hong Kong	Switzerland
3.	Singapore	Singapore
4.	US	US
5.	CI and Isle of Man	UAE
6.	UAE	CI and Isle of Man
7.	UK mainland	UK mainland
8.	Luxembourg	Luxembourg
9.	Monaco	Monaco
10.	Liechtenstein	Liechtenstein[1]

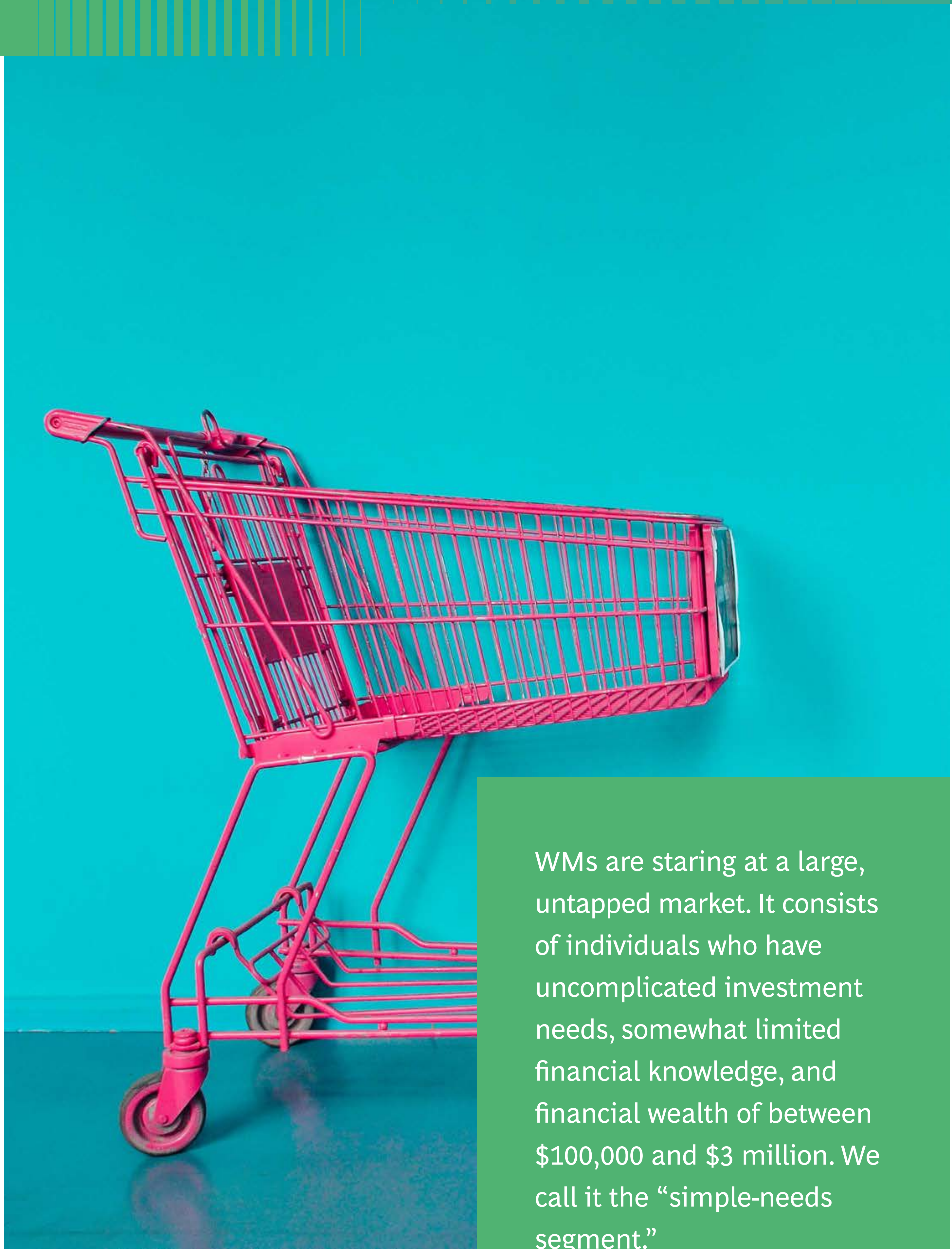


	Switzerland
CAGR, 2020–2025 (%)	3
Dependence on cross-border wealth (%)	59
Top source region of cross-border wealth	Western Europe

	Hong Kong	Singapore
CAGR, 2020–2025 (%)	9	9
Dependence on cross-border wealth (%)	49	70
Top source region of cross-border wealth	Asia	Asia

	US	UAE	CI and Isle of Man
CAGR, 2020–2025 (%)	7	5	2
Dependence on cross-border wealth (%)	1.5	66	>90
Top source region of cross-border wealth	Latin America	Middle East	Western Europe

	Luxembourg	UK mainland	Monaco	Liechtenstein
CAGR, 2020–2025 (%)	3	4	2	2
Dependence on cross-border wealth (%)	80	10	>90	>90
Top source region of cross-border wealth	Western Europe	Western Europe	Western Europe	Western Europe



WMs are staring at a large, untapped market. It consists of individuals who have uncomplicated investment needs, somewhat limited financial knowledge, and financial wealth of between $100,000 and $3 million. We call it the “simple-needs segment.”

The Simple-Needs Opportunity

The Size of the Prize Globally

331
million clients
CAGR, 2020–2025
3.2%

59
$trillions investable wealth
CAGR, 2020–2025
4.1%

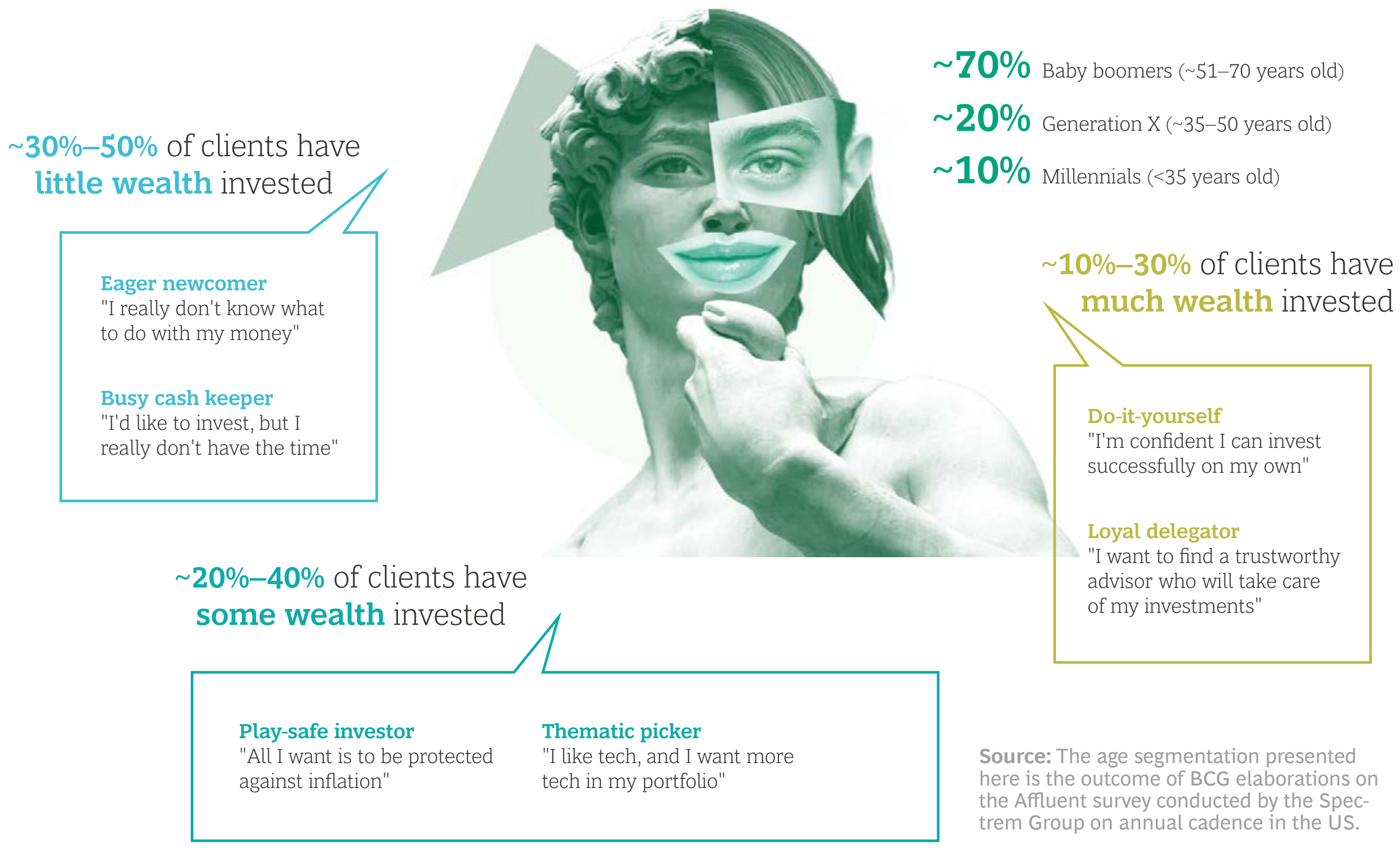
118
$billions revenue pools
CAGR, 2020–2025
6.8%

Sources: BCG global wealth market sizing and benchmarking database 2021; BCG needs-based Affluents segmentation 2020.

WMs often overlook people in the simple-needs segment whose wealth is $1 million or less because their assets are too large to conform to retail offerings and too small to attract the attention that higher net worth tiers draw. At the upper end, individuals with wealth of between $1 and $3 million often find themselves besieged by relationship managers (RMs) who offer the same standardized set of products. The result is a low degree of personalization and a lackluster client experience with no “wow” factor.

That’s a missed opportunity. The simple-needs segment numbers 331 million individuals, holds $59 trillion in investable wealth, and has the potential to contribute $118 billion to the global wealth revenue pool. And that base is about to get larger. But winning this segment requires embracing a radically different business model, predicated on a deep understanding of client needs and optimized for efficiency.

Who the Clients Are and What They Need



Source: The age segmentation presented here is the outcome of BCG elaborations on the Affluent survey conducted by the Spectrem Group on annual cadence in the US.

A Bold, New Digital Wealth Management Model

Digitization, long a tool of disruption, can be a source of inclusion and revitalization, allowing WMs to reach a mass audience in a cost-effective and scalable way. This digital wealth management model has five core elements.

A Supercharged Relationship Manager

Advanced technologies will enable RMs to deliver bespoke experiences at scale. With access to rich profile data, they will be able to tailor conversations to the individual. Behavioral analytics will reveal which clients have a passion for tech trends or other topics, which like to access information over their mobile devices—and what frequency of contact they desire. Digital tools will automate everything from portfolio construction to outreach and will permit end-to-end self-service for clients who prefer it. The potential is huge. Better digital intelligence can improve prospecting, upselling, and retention, allowing RMs to deliver the right message at the right moment. In the consumer market, for example, Tesco can estimate almost exactly the day when an expectant mother will give birth, enabling the company to tailor its outreach and offerings. Similarly, advanced analytics can help WMs anticipate needs and curate best-fit investment products for their clients.

> With analytics and digital tools available to do the heavy day-to-day lifting, RMs can devote their time to providing expert counsel and client handholding. Over time, RMs will provide key support in the digital conversion funnel, focusing on fewer, but higher-quality interactions at the most important moments in the client life cycle.

As their role evolves, RMs will need to master new knowledge in order to be credible advisors to their clients and work collaboratively to create customized experiences end to end. These changes will create a supercharged RM who can serve a much larger client portfolio and generate significantly higher client satisfaction and net promoter scores.

Contextual, Consumable Learning

For many clients, the lack of deep financial knowledge is an investment barrier. Individuals may fear making foolish choices that put their funds at risk. Arcane terminology and technical language can be intimidating, too. (See Exhibit 2.) Because clients' level of comfort with numbers can differ considerably, financial terminology—such as percentage changes and yields—that seems basic to some people can read like a foreign language to others. To make educational content more accessible, WMs should try to use nonfinancial terms and visual aids. Interactive charts, instant feeds, and gamification make learning more inviting and easier to digest. Such content should be positioned strategically on the WM's digital platform and on third-party sites such as LinkedIn. For example, the WM might supplement information on "lending in the investment context" with a link to a podcast or video tutorial series that it hosted. Thoughtful placement can improve engagement and nudge sales conversion. Digitizing financial knowledge in these ways also ensures a level of consistency that is not possible if instruction is left in the hands of RMs, whose skills and time commitment can vary widely due to operating model constraints or personal preferences.

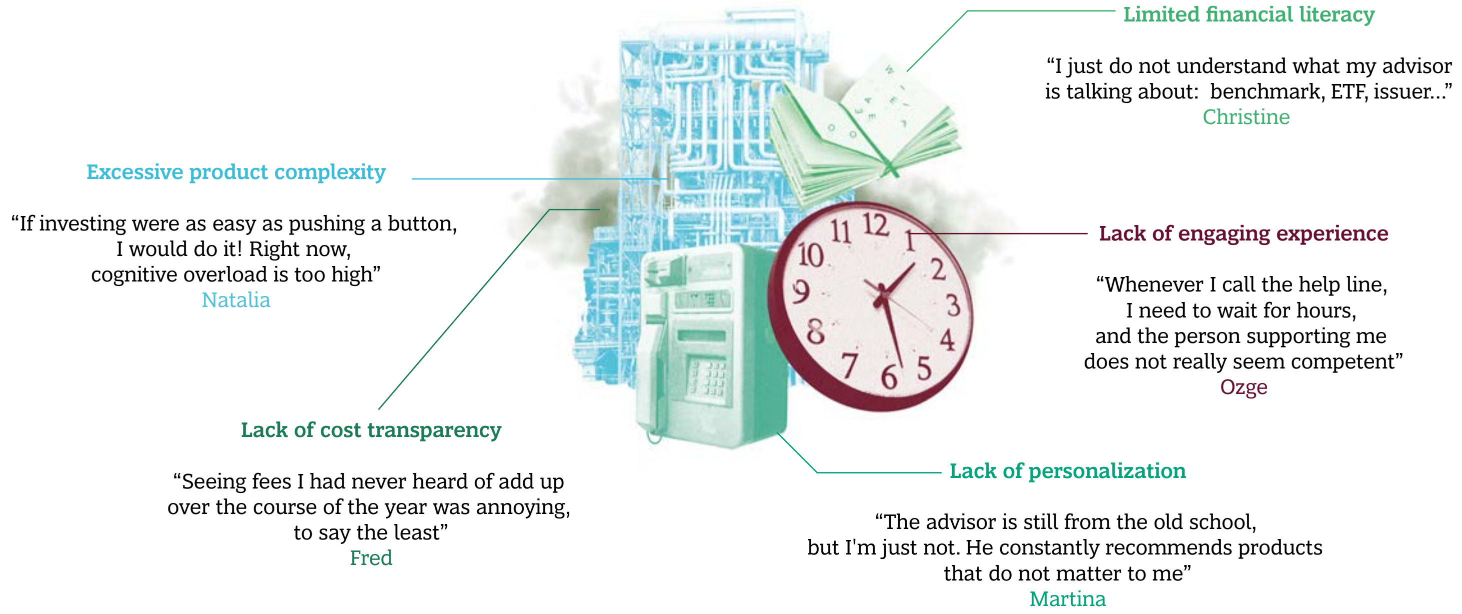
Smarter Experience Design

Instead of crowded dashboards full of technical indicators, WM leaders take a "less is more" approach, presenting core information in a clear and user-friendly way. They also use pull-downs and interactive treatments to break deeper content exploration into separate, easy-to-consume sections. Robinhood's app, for example, has a simple and lean home page that displays the account value and a caption with one piece of account-related news. Users can swipe right to see their account's performance in different time scales, and they can scroll down to dig deeper into their holdings and the performance of individual stocks. In addition, WMs need to make portfolio dashboards and simulation tools readily available. A client can use them to explore scenarios such as whether investing slightly more per month might bring their retirement date closer, thereby increasing the tangibility of investment outcomes. And finally, given the rising popularity of environmental, social, and governance (ESG) investing, WMs should consider introducing visuals that display such things as the overall carbon footprint of a client's portfolio.

Simplified Pricing

A similar commitment to transparency should play out on the pricing front. Although WMs might have benefited from complex pricing structures in the past, clients have chafed at what they consider hidden fees. To build client trust and stay ahead of regulation, institutions should streamline pricing by embracing a hybrid model that combines asset-based pricing (such as basis points per AuM) and a subscription fee. WMs that target clients who have assets of $1 million or less may shift entirely to a subscription-based model, with pricing tiered to reflect the degree of customization and advice provided. In widespread use elsewhere, subscription pricing has gained broad market acceptance. It also gives WMs greater revenue predictability.

Exhibit 2 - The Five Sources of Client Friction



Sources: BCG Global Wealth 2021.

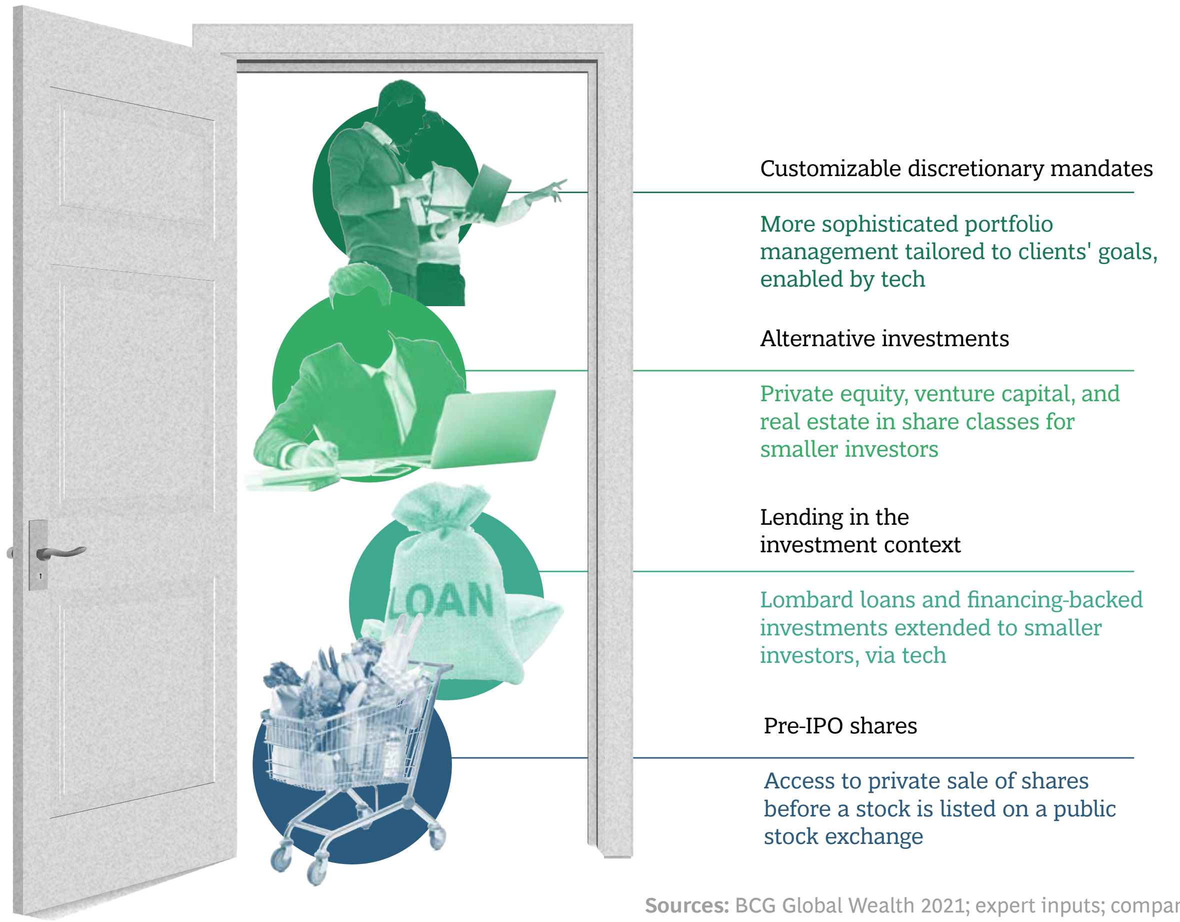
Democratized Access to "Haute" Investments

Private equity, hedge funds, and venture capital have long been the exclusive preserve of institutional clients and very wealthy individuals. The same is true for securities-backed lending and thematic investment. Innovative WMs will provide simple-needs clients with greater access to these investment categories and to the prospect of greater wealth. For example, a pre-IPO investment that might normally require a minimum stake of millions of dollars could be sold to mass wealth clients at much smaller investment levels by aggregating individual demand. Likewise, other HNWI and UHNWI offerings, such as access to subject matter experts, private equity deal talks, and hedge fund investing master classes, can be scaled down and made available to clients in the simple-needs segment. In addition to making these offerings available, WMs must make them comprehensible, a task that involves presenting sophisticated financial products in an intuitive and easy-to-understand way and applying the same learning logic that we detailed earlier. (See Exhibit 3.)

Although WMs will continue to serve simple-needs clients primarily through a discretionary investment model—for instance, most WMs will not offer such clients advice on individual stocks—digitization will permit greater portfolio customization than is possible today without creating cost-to-serve problems. Over time, these advances may blur the line between discretionary and advisory models.

Exhibit 3 - Democratizing Access to Private Banking

Initial view of next-generation mass-market products (non-exhaustive)



Sources: BCG Global Wealth 2021; expert inputs; company information.

Winning by Thinking and Acting Like a Tech Company

The digital model presented here is clearly disruptive, but it is also the way of the future for this segment of simple-needs clients. WMs can win that future by emulating tech leaders. It is essential to translate client feedback into compelling products and features and to release innovations quickly. The payoff for firms that figure out how to do this well, especially in serving those at the lower end (individuals with $1 million or less in investable wealth), is likely to be huge, as these individuals represent, on average, 50% to 60% of WMs' client base worldwide. Some fintechs, for example, have been able to build a base of 20 million clients in just a few years. WMs that get their model right could see revenue pools from simple-needs clients soar by as much as 40% to 50%. A strong digital model can also boost market capitalization, enabling WMs to achieve multiples similar to those that tech companies enjoy. For example, Coinbase acquired more than 50 million paying customers and reached a market cap of $60 billion in only seven years. The tech improvements that WMs make to serve the simple-needs segment can pay off in other areas of the business as well, improving service quality and cost-to-serve in higher wealth tiers. Despite its name, the simple-needs segment will be the avant-garde for WMs and a testing lab of digital innovation.

Start Small and Move Fast

WMs should adopt a "build-measure-learn" model to develop a minimum viable product, place it in the market as quickly as possible, and then test and refine it in rapid cycles. The Canadian fintech Wealthsimple, for example, has compressed its development timelines, supported by processes that solicit immediate and direct client feedback. As a result, Wealthsimple was among the first companies to build commission-free trading and crypto trading into its platform. It also launched a spate of popular features such as peer-to-peer money transfer, automated portfolio rebalancing, and optimized tax-loss harvesting within just a few months—far faster than traditional release cycles.

WMs must ensure that foundational digital enablers are in place, too. These include ready access to data, a strong analytics infrastructure, a diversified tech stack, and cross-functional teams capable of converting raw client intelligence into superior insights and delivery. (See the sidebar "The Operating Model of the Future for Simple-Needs Clients.")

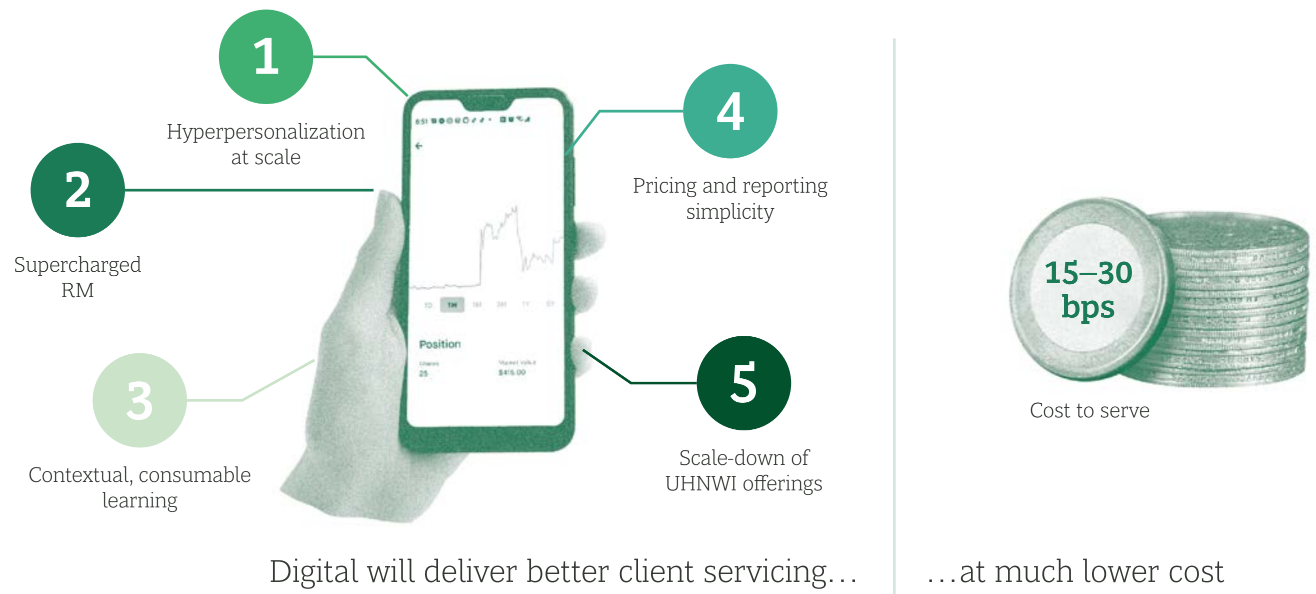
The Operating Model of the Future for Simple-Needs Clients

Instead of reinforcing artificial divides that segregate the front office from the product and back offices, WMs must create a one-bank approach that treats collaborative, cross-functional teaming as the default way of working. This operating model supports experimentation and allows institutions to deliver innovations to the market at a much faster tempo. Roles and responsibilities will evolve in kind. For example, RMs will no longer act solely as sellers. Instead, they'll actively support the design team, bringing the client's voice to the development process, co-creating digital solutions, and advising on features and offerings.

In order for these changes to work, however, organizations must develop a new set of key performance indicators, and they must realign their incentive schemes. This step is crucial and entails more than simply dusting off existing performance metrics. Rather, WMs should invest in a thoughtful change management and training approach that will encourage collaborative teaming and help employees transition successfully to the new model.

Talent needs will also shift. The usual mix of sales, product, tech, risk, and operations capabilities will not suffice. WMs will have to acquire expertise in data mining and analytics, customer-centric design, agile delivery, and other skills. Given the high demand for these capabilities in the broader marketplace, WMs must approach hiring and retention strategically, nurturing talent within their own workforce and applying best practices from other sectors.

What Success Looks Like: Harnessing Digital to Win This Segment



Sources: BCG global wealth market sizing and benchmarking database 2021; BCG needs-based Affluents segmentation 2020.

Exhibit 4 - Eight Standout Levers for Client Acquisition, Activation, and Retention

Sources: BCG Global Wealth 2021; CB Insights 2021; company information.

Master the Art and Science of Client Acquisition, Activation, and Retention

Tech stars recognize that building, activating, and retaining a large and loyal client base is essential to creating network effects. They also understand that acquiring that base is a major undertaking: growing adoption can cost six times what it takes to build the digital platform itself. To improve performance for simple-needs clients (and all other segments), WMs should focus on a proven set of acquisition, activation, and retention levers. (See Exhibit 4.)

Establishing a larger presence on social media networks can extend reach. Some WMs are increasing their digital media marketing on sites such as Facebook and Instagram, where they can gain instant visibility among target segments, especially younger demographics. Together, these steps can help WMs improve client engagement and reduce churn.

Embrace Next-Generation Marketing and Sales

Digitization can allow WMs to substantially elevate their marketing and sales game for all segments, from lead generation to qualification and sales conversion. (See Exhibit 5.) In the area of lead generation, for example, a WM could reduce the amount of time it typically takes to surface potential targets by pulling in a wider array of external data. Analytics could scour information from online real-estate marketplaces and look for known triggers, such as a set of high-end properties for sale. Public records could then say who the current homeowners are and provide the WM with a tangible lead. Partnerships with law firms and other professional services organizations could enrich the data pool further, helping to identify individuals at pivotal life stages, whether starting a new business or going through marriage or divorce.

Such information can help a WM nurture demand. For example, knowing that an individual was in the middle of divorce proceedings could prompt the WM to send pertinent information, such as a set of articles on financial management offerings designed to offset the impact of alimony payments. Much of this outreach could be automated.

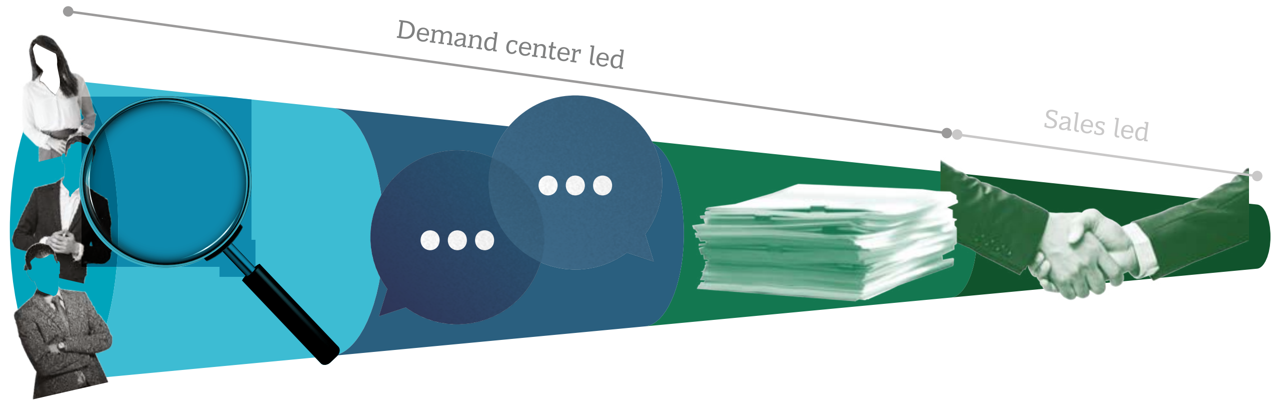
WMs can also use digital tools to assist in qualifying and delivering leads. For example, Goldman Sachs Personal Financial Management has created a series of engaging quizzes that prospective clients can complete as part of the presale discovery process. Encompassing behavioral science, the quizzes invite self-reflection, often helping individuals crystallize how they think and feel about their financial future in ways that they may not have previously realized. Such approaches provide implicit value even before the relationship has commenced and help increase prospective clients' openness to further engagement.

Leading WMs are updating their sales conversion practices, too. For example, some are creating business development offices staffed with specialists who focus on sales pitches and support client onboarding. Creating these dedicated groups can help WMs boost sales while freeing RMs to spend more time on content conversations, expert counseling, and client handholding before and after a sale.

Supporting all of these activities are such foundational elements as automated lead scoring, a marketing automation suite, and customer relationship tools.

> The race is on. The next few years will see a revolution in how WMs serve the simple-needs segment. The winners will be those that can spin up the most compelling digital wealth platform at the fastest rate and sustain that pace over time.

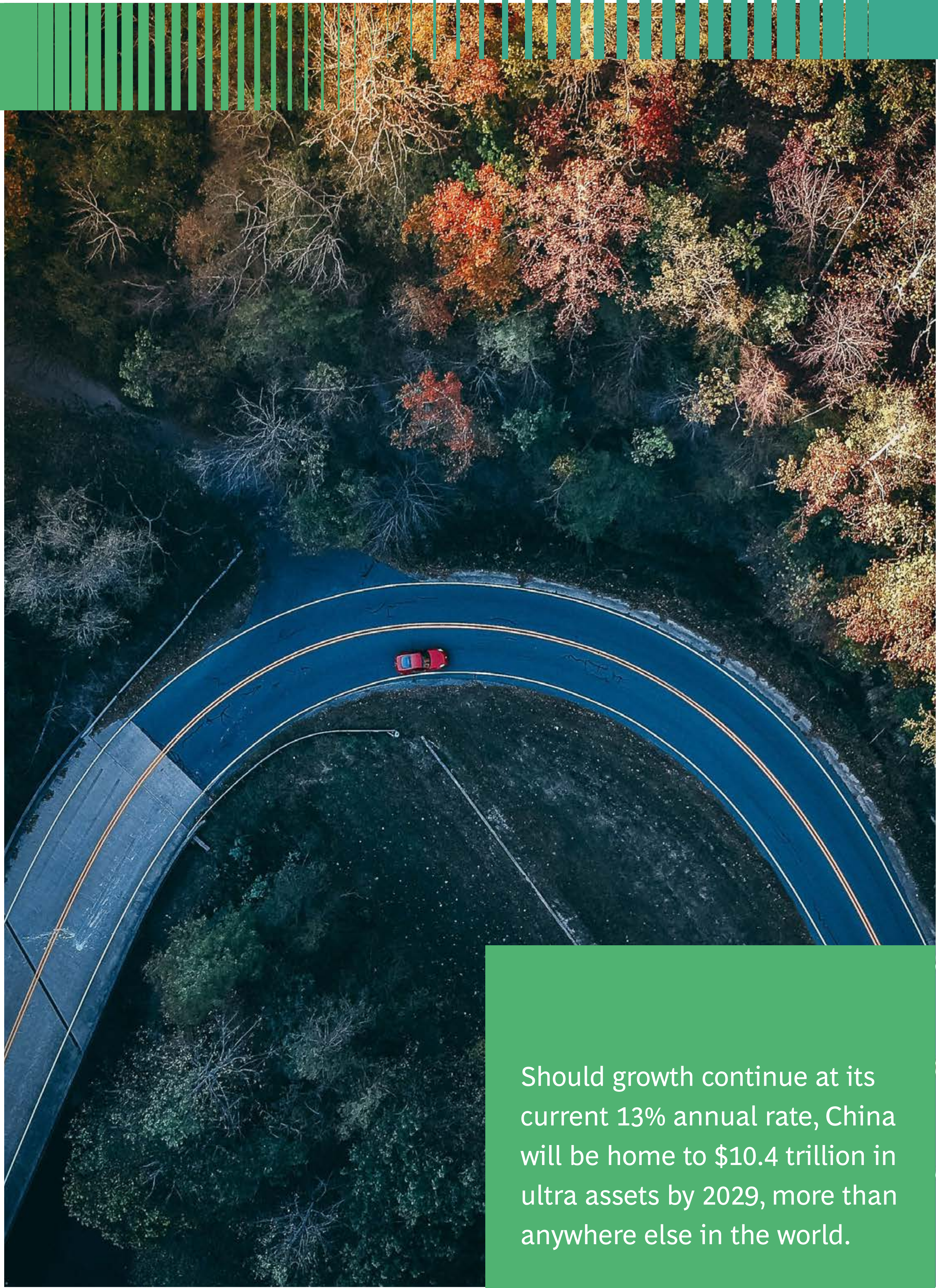
Exhibit 5 - Wealth Management Marketing and Sales in the 2020s



Identify leads	Nurture demand	Qualify and deliver leads	Convert to sales
External data sources for new leads/contacts, at key trigger points	Hook offerings to drive engagement/initial purchase (content or products)	Presale client discovery toolkits (money mindset, goals, tradeoffs)	RM/advisor actions dashboard and CRM tools
Marketing toolkit expansion to capture actionable leads and contacts (e.g., digital marketing)	Personalized and automated nurturing journeys (content driven)	Demand center for centralized appointment setting (inside sales, digital channels)	Business development office for sale conversion
Simplification/digitization of referral journeys, gamification/incentives	Further enriched life event triggers; e.g., account aggregation for existing customers	RM/advisor match capability	Optimized client onboarding post-sale conversion

Enhance orchestration to optimize demand generation pathways (data layer, automated lead scoring, marketing automation suite, CRM tools and approaches, sales and marketing feedback loops)

Sources: BCG Global Wealth Report 2021; BCG experience.



Should growth continue at its current 13% annual rate, China will be home to $10.4 trillion in ultra assets by 2029, more than anywhere else in the world.

The New Ultras

In 2020, more than 6,000 people worldwide became ultras. That uptick caps a decade of expansion by the segment, with year-on-year growth of 9% since 2015. The ultra bracket, consisting of individuals whose total financial wealth exceeds $100 million, now includes 60,000 people and a combined $22 trillion in investable wealth, representing 15% of the world's total investable wealth.

With this surge in growth come changes in where wealth is concentrated, how it is generated, and who holds it. The US sits at the top of the league table in UHNWI concentration, as it has for some time. But China is on track to overtake it by the end of the decade.

Should growth continue at its current 13% annual rate, China will be home to $10.4 trillion in ultra assets by 2029, more than anywhere else in the world. The US will be close behind, with a forecasted total of $9.9 trillion in investable wealth by 2029.

Aside from these two heavyweights, ten other countries will present attractive, long-term opportunities. (See Exhibit 6.)

Critically, WMs that want to succeed in these high-growth markets must be attuned to local differences, such as sources of wealth. For example, in China, most ultras are first generation, while the US and Europe have a mix of first-, second-, and third-generation ultras. More than two-thirds of US ultras are self-made, while inherited assets account for close to half of all ultra wealth in Europe.

There are demographic changes as well. Women have broken through the top wealth ranks in greater numbers than ever before. Although still a minority, women now account for around 12% of all ultras, with most of them living in the US, Germany, and China.

What ultras want from their WMs is shifting, too. Offerings that seemed leading edge a few years ago, such as impact investments and exposure to alternative asset classes, can look stale today. Service must be highly differentiated to suit client needs, and omnichannel access and rich digital functionality have become standard features.

Providing that caliber of service will require WMs to explore new product and digital frontiers. Those willing to stretch their models will be strongly positioned to capture the next wave of growth, which is likely to be very large.

Today's Next Gens Are Tomorrow's Ultras

Over the next 10 to 15 years, the next-gen segment will be an influential driver of future growth. This segment, composed of individuals between the ages of 20 and 50, includes current young UHNWIs, current HNWIs whose wealth will grow, and others who will accumulate life-changing wealth from inheritance or liquidity events. Collectively, the next gen has longer investment horizons, a greater appetite for risk, and often a desire to use their wealth to create positive societal impact as well as solid returns. Aspirations differ greatly across the next gen, as do individual profiles and lifestyles. (See the sidebar "Meet the Next Gen.") Yet our interviews reveal a number of cross-cutting themes.

Next Gens Enjoy a Mix-and-Match Approach to Banking

Next gens are comfortable with independently navigating many elements of their wealth management, and they're not inclined to pay high fees for activities they believe they can do well enough on their own, such as stock picking. What they want are exclusive opportunities, specialized lending, and investment expertise—services and capabilities they can access only through a WM. Examples include high-value alternative investments, deal opportunities, private placements, and bespoke credit. For example, an entrepreneur might receive a starter loan collateralized against her parent's equity holdings.

Next Gens Expect Advisors to Have In-Depth Knowledge

A common frustration for next gens is that too many RMs—even those from the most prestigious banks—come to meetings with generic presentations. Next gens echoed this point repeatedly in our interviews, and it's a theme we have heard from wealth clients for a long time. Yet WMs still haven't changed!

Next Gens Don't Want to Be Treated Like Their Parents

This is an important point of distinction, but many banks are not attuned to these generational differences. WMs must refresh their business models and approaches if they hope to satisfy the needs, values, and expectations of the next-gen segment.

Exhibit 6 - Top 12 UHNWI Markets

	Financial investable wealth: UHNW investable wealth ($trillions), 2020	Financial investable wealth: UHNW investable wealth ($trillions), 2020 to 2025 Δ	Financial investable wealth: 2019 vs 2020 change (%)	Number of ultras: UHNWIs in 2020 (thousands)	Number of ultras: 2020 to 2025 Δ (thousands)	Number of ultras: 2019 to 2020 change (%)
US	5.8	2.0	15.8	20.6	7.4	15.4
Mainland China	3.6	2.9	26.5	7.8	5.8	23.9
Germany	1.4	0.4	5.9	2.9	0.7	6.4
Hong Kong	1.0	0.4	10.4	1.9	0.7	8.7
France	0.7	0.1	2.1	2.5	0.5	4.1
India	0.6	0.5	16.9	0.8	0.6	14.4
UK	0.6	0.1	3.5	2.1	0.4	4.6
Italy	0.5	-0.1	0.4	1.8	0.2	0.2
Russia	0.5	0.2	14.8	0.5	0.2	12.4
Canada	0.5	0.2	10.0	1.9	0.6	8.7
Switzerland	0.4	-0.1	3.7	0.7	0.1	3.3
Taiwan	0.4	-0.2	12.4	1.3	0.5	12.2

Source: BCG Global Wealth 2021.

Note: UHNWI = ultra high net worth individual, defined as an individual with total financial wealth of $100 million. All dollar amounts are expressed in US dollars.

Meet the Next Gen

Profile

LR

is a 22-year-old working for a venture within the family's wider business. She lives in Europe and enjoys competition-level sports.

WM attitudes and relationships

My WM engaged when I graduated. The timing was perfect. We're in regular contact (WhatsApp and bi-weekly calls). He shares articles and brings a wide perspective on the managerial aspects of private companies. I enjoy learning from him.

Turnoffs

It's unpleasant when it feels like WMs are trying to sell me something. Another pitfall some of my friends experience is assuming people my age understand what they are talking about when they may have no clue.

Unmet needs

I'm looking for private market access combined with ESG. I'd like tangible, real impact through my investments, which is only possible if I invest directly (putting an ESG sticker on a basket of stocks is too disconnected).

The desired advisor

Informality is important and a small age gap (no more than 15 years). I'd also like someone I click with and who takes the time to explain things properly.

What's needed to win

A big part of the experience is learning about new investments. Instead of networking events, I'd like to attend content sessions on technical investing skills. Pricing isn't a major deciding factor.

JD

is a 34-year-old entrepreneur turned professional investor. He's a self-made ultra, and lives in Texas with his girlfriend.

WM attitudes and relationships

Earlier, I didn't see the value in WMs. I thought, "Why pay someone when I don't know if they will do as good a job as I could?" Now, I'd be willing to outsource if the RM can bring me something I can't get myself.

Turnoffs

The pitches I tend to see are garbage. Why the hell would I give this person millions of dollars?

Unmet needs

I'd like more private direct market and alternative investments, along with exclusive business deals. I wouldn't pay someone to buy stocks.

The desired advisor

My ideal advisor is highly experienced. I want the really smart, awkward guy from The Big Short, not a well-dressed slick talker!

What's needed to win

There needs to be an incentive structure where the firm makes money only when I do and pays to attract really smart people.

PB

is 27 years old and works in the family business. He lives between China and the US and has a strong interest in philosophy.

WM attitudes and relationships

I don't have a relationship with a WM firm. I'm a bit young for that, and it's not relevant, as my parents manage family assets.

Turnoffs

It's off-putting when someone talks to me only because they want me to invest. I'm interested in programs where I get something of value, such as when a Swiss bank brought a group of twenty-somethings together for a week to learn about investing.

Unmet needs

I'm looking for a long-term methodical approach. The most important thing to me is maintaining wealth over generations.

The desired advisor

My ideal RM is a person of high integrity and competence. Care and professionalism are crucial.

What's needed to win

I want to trust that we will have aligned incentives and that they will behave in the right way.

AB

is a 38-year-old entrepreneur who grew up in Europe and now lives in California. He enjoys comedy and watersports.

WM attitudes and relationships

My company raised funds with Goldman, so I decided to move my money there. They just made it easy. I don't need a high level of service, but I'd pay an RM to make my life easier.

Turnoffs

I have been contacted by a load of prestigious firms, and the outreach was pretty bland. I didn't take them up on it.

Unmet needs

I'd want more access to unique opportunities, like angel or VC investments. I prefer a DIY approach. I don't think a wealth manager can pick stocks better than I can. Plus, it's cheaper on Robinhood.

The desired advisor

"B players" go into wealth management. Competence is in such short supply. I don't believe they can outperform the market. If they did, I'd ask, "Why you aren't working for a hedge fund?"

What's needed to win

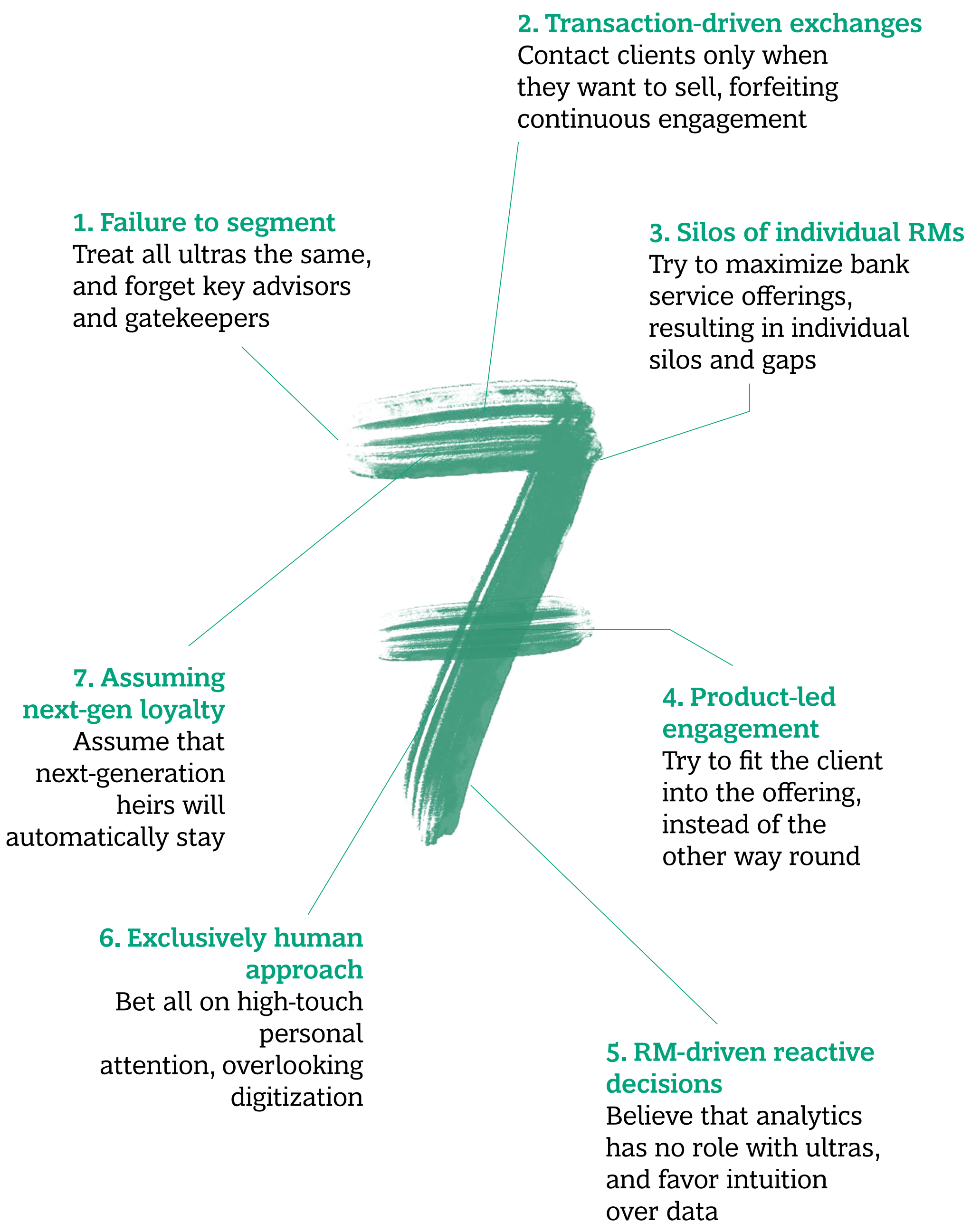
Stick to business. That's what I'm paying for, and I see through the other bits that are ultimately going to cost me more.

To Wow the Ultras, Avoid These Seven Sins

Servicing ultras is not for every bank, but the opportunity can be very attractive for those with the right capabilities. WMs can approach the opportunity in one of two ways: as an orchestrator that serves the full suite of client needs, or as a niche player that specializes in a particular area of competitive advantage, even if it means forgoing the primary client relationship.

Both approaches can deliver enormous value, but they require WMs to avoid seven common sins. (See Exhibit 7.) The top performers over the next five years will deliver the wow factor in the following ways:

Exhibit 7 - The Seven Sins Wealth Managers Commit in Serving Ultras



Sources: BCG Global Wealth 2021; expert inputs; interviews of UHNWIs.

Note: UHNWIs are defined as individuals with total financial wealth of more than $100 million.

Avoid

1

Failure to segment

Ultras have distinct needs and aspirations, yet many WMs treat them as a homogeneous group and often neglect to consider an ultra's key advisors, gatekeepers, and staff.

2

Transaction-driven exchanges

Some WMs are so focused on the sale that they contact clients only when transaction opportunities arise, and they fail to account for client needs in completing those journeys. The result is missed opportunities to bring value and more occasions to frustrate clients.

3

Silos of individual RMs

Despite well-intentioned efforts to offer clients the best of the bank's array of services and expertise, too many firms struggle to break free of organizational silos, resulting in individual RM islands, service gaps, and suboptimal decisions.

Embrace

1

Targeted needs-based segmentation

Top WMs individualize planning, and they include the whole team.

WM leaders differentiate outreach and offerings based on needs, not wallet. They tailor strategy to the family's values and communications to the ultra's preferred frequency, formality, and channel.

These interactions extend to the client's support network, ensuring that key people are in the loop and have direct access to the right WM resources. For example, the WM can pair advisors for mega ultra clients with top investment bank specialists.

2

Interaction-driven experiences

Because small moments matter, leading WMs insist on excellence across every touchpoint.

Rather than leaving service quality to chance, strong performers identify client journeys, and consider what clients need at each stage, such as applying for credit. They define common standards of excellence, such as the number of days required to open an account, and introduce sales force effectiveness measures designed especially for ultra clients.

By elevating execution, top WMs act at key moments and deliver value across every interaction.

3

Bringing all of the bank

Trailblazing WMs strive to be as borderless as their ultra clients.

Recognizing that ultras are global citizens with complex needs, top WMs deliver a one-bank experience. They prioritize internal coordination, enabling RMs around the globe to tap into client profile information and access expertise—sparing clients the need to repeat basic information and enabling key features such as priority account opening and expedited credit approval—across all markets.

4

Product-led engagement

Because they structure sales around particular offerings, many WMs work to fit the client to the product rather than the other way around

5

RM-driven reactive decisions

WMs may feel that they have a good handle on how best to serve ultras, relying on years of experience and intuition to guide them. But while such experience is certainly valuable, hunches don't deliver the fact base needed.

4

Client-led solutions

Winning firms work backward from the client's needs, creating individualized solutions.

Rather than applying one campaign to all ultras, innovative WMs champion client-centricity. If a client is interested in ESG, for example, the RM might construct a proposition based on the specific dimensions the client cares most about.

These WMs align performance metrics to support their client-first mindset, with growth targets tied to solutions, not campaigns, and with client satisfaction a leading measure.

5

Anticipating needs that the client may not even be aware of having

With a strong data and analytics backbone, top WMs provide proactive recommendations that delight and reward.

These leaders make gathering robust data a priority, and they invest in specialized algorithms to aid sales planning. Advanced analytics can surface market triggers, revealing, for example, a client in need of increased leverage. Other indicators, such as the sale of a business, can suggest which clients are about to experience a life change. These insights allow the WM to make timely recommendations. The ability to view a client's aggregated positions can be a powerful advantage, allowing RMs to offer holistic investment advice that helps clients avoid overindexing, while also growing wallet share.

6

Exclusively human approach

Many WMs believe that a high-touch model must be human-centered, which leads them to underinvest in digital tools and platforms.

7

Assuming next-gen loyalty

Some WMs imagine that next gens will automatically stay with their family's current wealth manager. That can be a dangerous assumption.

6

A bionic approach combining the best of human and digital

Top WMs invest in digital platforms and apps to digitally support human interactions across channels at critical moments.

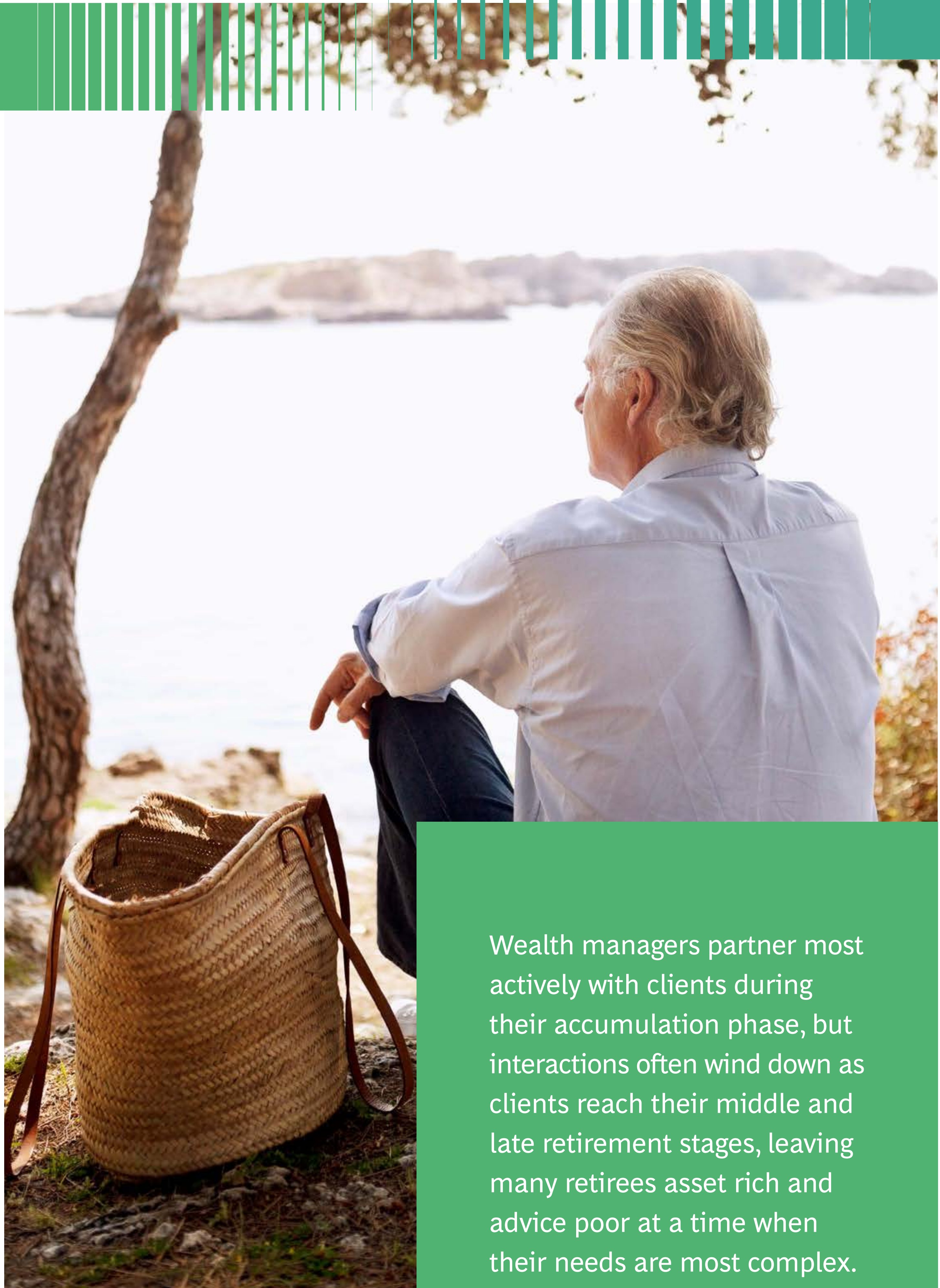
These investments allow WMs to excel at the basics and build from there, providing clients with digital enablers such as an at-a-glance view of their global portfolios and interactive modeling. In Asia, for example, clients often interact with WMs through WhatsApp and WeChat. Mobile apps can also enable self-serve and direct chat. And responsive design ensures that information is easy for clients to access and read. These digital tools support human interactions so that clients have the right information and functionality at their fingertips.

7

Earning next-gen loyalty

Much like luxury brand leaders, innovative WMs build authentic connections and foster lifetime relationships.

Relationships take time to develop, so leading WMs start early and target their outreach to the age and lifestyle of the next gen—for example, inviting a first-time Asian entrepreneur to a founders event headed by other Asian and global leaders. By continually adapting engagement, WMs earn the loyalty of younger ultras.



Wealth managers partner most actively with clients during their accumulation phase, but interactions often wind down as clients reach their middle and late retirement stages, leaving many retirees asset rich and advice poor at a time when their needs are most complex.

The Decumulation Phase Is a Golden Opportunity for Retirees and WMs

Marisa is a 73-year-old Chicago native who retired eight years ago after a successful career as an attorney. With total wealth of just over $2 million, she felt that she was on a secure financial footing and hoped to leave a six-figure inheritance to each of her children. She and her now-deceased husband received continued support from their financial advisor when planning their retirement, so they could live comfortably without fear of running out of money as they aged. When she retired, most of Marisa's wealth came from equity in her home and money she had saved in a defined contribution plan during her law career. Marisa is conservative by nature, and in the early years of her retirement she has been careful with her spending, just as she was throughout her working life.

As a result, her wealth has grown, not shrunk, leaving Marisa to wonder if she was living unnecessarily below her means. Could she afford to take that painting course in France? Should she help her kids with their expenses now rather than leaving them to wait for an inheritance? She had other lifestyle concerns beyond her finances. A recent knee injury had sidelined her, depriving her of her customary gym routine and leading her to spend more time alone at home watching TV. Before retiring, she had several eye-opening discussions with her financial advisor about how to make the post-work chapter of her life rich and productive. But she hasn't heard from her financial advisor in nearly two years, and she now feels unsure about what her next move should be.

The Decumulation Dilemma

Marisa is not alone. In fact, she is a member of one of the world's fastest-growing demographics: retirees. By 2050, 1.5 billion people globally—approximately one in every six individuals—will be at least 65 years old. That's twice the size of today's retiree population, and it represents an enormous wellspring of wealth.

Individuals in this age band today own $29.3 trillion in financial assets accessible to WMs. Over the next five years, that figure will grow at a compound annual rate of close to 7%, which means that WMs globally will be able to target close to $41.1 trillion in financial wealth by 2025. (See Exhibit 8.)

A wealth pool of this size would seem to be hard to ignore. Yet decumulation often marks the denouement of the WM relationship. As was true in Marisa's case, interactions with WMs often wind down as clients reach their middle and late retirement stages, leaving many retirees asset rich and advice poor at a time when their needs are most complex.

In the hurly-burly of working life, few individuals map their vision of retirement or think through the financial and nonfinancial concerns that attend its various stages. As a result, the changes that accompany a person's golden years can make it a time of great opportunity and stress.

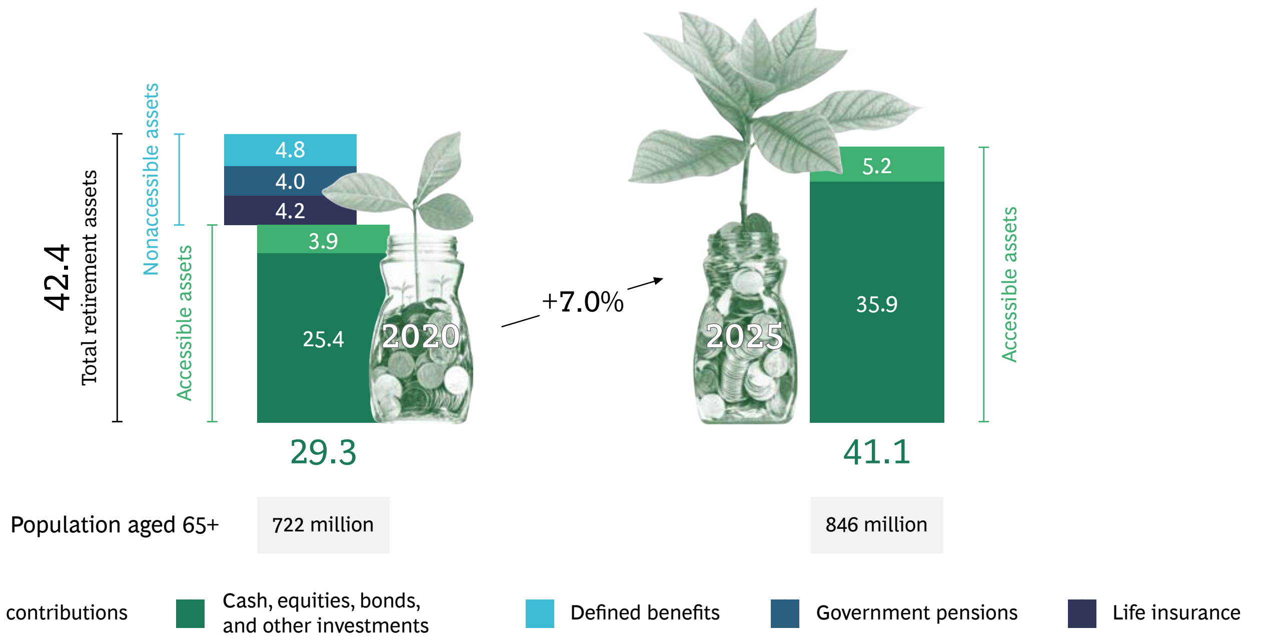
That's particularly true for individuals in the affluent and lower-end HNWI bands ($250,000 to $5 million in wealth). Individuals in these segments who are at least 65 years old hold $10.3 trillion in financial assets accessible to WMs, (35% of the total retirement asset pool), and they generate $13.7 billion in annual WM revenues. These individuals are especially impacted by the advisory gap in the decumulation phase. Their wealth gives them options, but it also introduces lots of questions, from tax and estate planning to broader life planning. Often, they have few reliable outlets to consult in trying to gather answers. And those that are available often require them to chase down specialists in particular domains, such as accountancy and estate lawyers—a time-consuming and often frustrating exercise.

The rising popularity of defined contribution plans adds to the complexity. (See the sidebar, "The Pan-European Personal Pension Product—Finally!") Retirees may feel ill prepared to decide how to dispose of large lump sums when they arrive, especially as the use of annuities decreases. WMs have an opportunity to help affluent and lower-end HNWI retirees manage these dimensions.

Until now, however, several factors have prevented WMs from effectively serving the holistic retirement needs of these segments during their decumulation phase. One is cost. WMs have traditionally directed their retirement

Exhibit 8 - The Composition of Retirement Assets

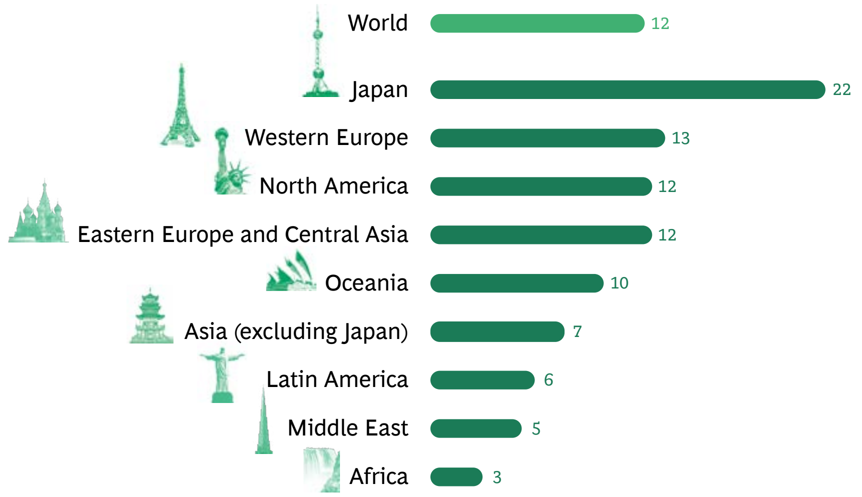
Retirement assets and population aged 65 or older in 2020 and 2025 ($trillions)



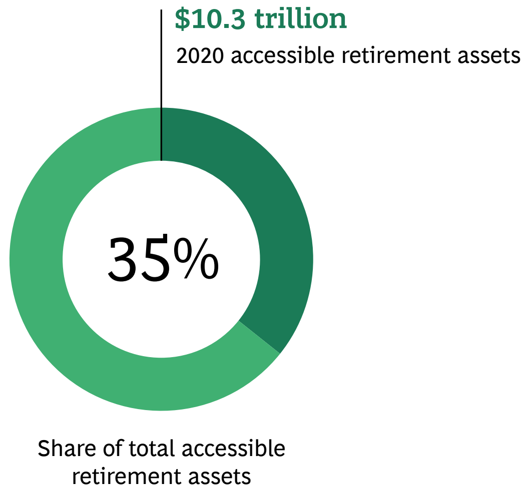
Sources: BCG market sizing; World Bank; OECD.

Note: Retirement assets are defined as all financial assets, excluding loans and unlisted equity, held by people aged 65 or older. Government pension estimates are based on OECD's yearly pension spending as percentage of GDP, global GDP, and average years of reserves in the US and OECD. HNWI = high net worth individuals. All dollar figures are expressed in US dollars.

Accessible retirement assets as a share of total financial assets, 2020 (%)



Retirement assets held by affluents and lower-end HNWIs, 2020[1]



[1] Affluents and lower-end HNWIs are defined as those with financial wealth of $250,000 to $5 million.

efforts at clients in higher asset categories. These wealthier individuals present a lower risk of using up a significant share of their assets, so they offer the potential for multigenerational wealth transfers, and their remaining wealth generates higher revenues—factors that compensate for the typically high cost of serving retirement needs.

The retiree advice gap also has roots in the industry's overemphasis of clients' accumulation needs. Financial advisors typically have material incentives to keep growing their clients' assets, even during their decumulation phase. Another barrier is the complexity of the decumulation phase. Not only do retirees' financial questions tend to be tangled—with asset drawdowns raising tax implications, for example—but their nonfinancial needs can be challenging as well, whether they involve finding a sense of community, pursuing a part-time job, or something else. Such needs vary by person and by stage of retirement.

Introducing an Advisor-Led, Digitally Enabled Decumulation Model

Imagine how differently Marisa might feel now if, a year before her retirement, her WM had invited her to a next-stage meeting—a conversation designed to help her think through her aspirations, note her concerns, and communicate her priorities for each stage of her retirement journey. The WM would aggregate Marisa's accounts and capture all of these inputs on a tablet and then feed them into a client analytics engine. In a follow-up conversation, the advisor, using an all-in-one dashboard, would give Marisa an overview of her asset portfolio and walk her through potential decumulation scenarios. In addition to helping Marisa, the digital backbone underlying this model would address key pain points for WMs—making it easy for them to update information and support clients in this large demographic in a sustainable, scalable fashion.

Revisiting this plan at least once a year would enable the financial advisor to help Marisa rebalance her portfolio and adjust her decumulation rate accordingly. Frequent touchpoints would help Marisa gain a trusted sounding board. In some respects, her financial advisor would serve as a life coach, suggesting ways for her to invest her time as well as her money.

A Broad Set of Needs Unique to Retirement

Retirement comes with distinct, evolving concerns

1 Retirement preparation

FINANCIAL

Voluntary contributions
"How should I change my investment mix in light of my retirement goals?"

Investment vehicles
"Should I invest through a defined contribution plan or directly in stocks and bonds?"

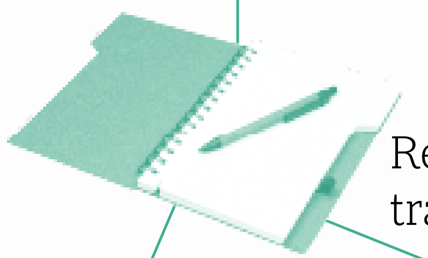
NONFINANCIAL

PURPOSE — **Job = sense of worth**
"I can't retire, my clients need me"

CONTROL — **Body slowing down**
"Even if I have energy, my body can only take so much"

COMMUNITY — **Fear of losing colleagues**
"I have worked for 15 years with my assistant. It will be weird to work without my partner in crime"

2 Retirement transition



FINANCIAL

Income stability and spending
"How should I rebalance my spending to maintain my current standard of living over the longer term?"

Sequence of needs
"What is the optimal sequencing strategy of drawing down my defined contribution plans?"

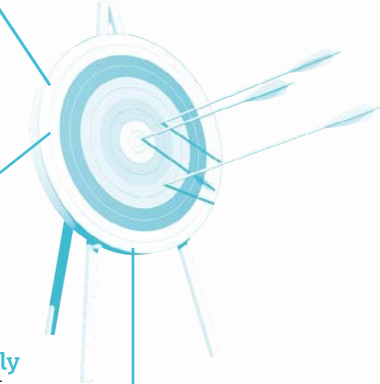
NONFINANCIAL

PURPOSE — **Replacing work with tasks**
"I need to set goals; I can't be one of those people who watch TV all day"

CONTROL — **Planning care beyond means**
"I'm terrified of getting thrown into assisted living"

COMMUNITY — **Shrinking social circles**
"I've had so many close friends to me pass"

3 Middle and late retirement



FINANCIAL

Residual balance goals
"How much of my wealth should I draw down and how much should I leave for my children?"

Income stability and spending
"Could I afford long-term care if I needed it?"

NONFINANCIAL

PURPOSE — **Thinking beyond one's existence"**
What should my legacy be after I pass away?"

CONTROL — **Relinquishing control of family**
"I hate the idea of my sons fighting over inheritance"

COMMUNITY — **Loss of a partner**
"Can I manage without my wife?"

Wealth managers can activate five levers to address these concerns

1. Set the stage **for success** in the **accumulation phase**
2. Empower clients by **digitally enabling advisors**
3. Revise **scorecards** for the decumulation phase
4. Provide access to **retirement experts**
5. Address the **broader set of client needs** unique to retirement

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Source: BCG Global Wealth 2021.

Five Ways to Defend and Grow the Decumulation Advantage

To serve clients like Marisa, we recommend that WMs take five interrelated actions.

1. Set the Stage for Success in the Accumulation Phase

WMs have a compelling "whitespace" opportunity. Employer-sponsored retirement plans account for a growing share of future retirement wealth. But these plans tend to make retirement savings an impersonal, hands-off experience. Savvy WMs can change that by working closely with plan sponsors and identifying ways to engage directly with individuals in the middle stages of their working lives—for instance, by providing onsite financial education opportunities or by hosting community events. In this way, WMs can set themselves apart and establish trusted relationships that go beyond financial management.

2. Empower Clients by Digitally Enabling Advisors

WMs need to have a comprehensive view of their clients' wealth in order to optimize decumulation planning, cross-selling, and service efficiency. Instead of sending clients a template to complete—or ignore—WMs who sit with their clients and perform the account aggregation in person benefit from five times higher adoption rates. Aided by advanced modeling tools and a strong digital platform, WMs can generate comprehensive decumulation simulations that deliver a personalized touch in a fraction of the usual time. These models can incorporate a standard set of high-value elements, such as tax simulations and inheritance planning to deliver a happy financial path for each client.

3. Provide Continuous Access to Retirement Topic Experts

Shared teams of experts can help advisors cost-effectively deliver advice on specialized subject matter. Advisors can consult these individuals on behalf of their clients and invite clients to access this "think tank" as needed. For example, a client interested in learning more about passing on wealth to their family could run their questions by an inheritance advisory leader. WMs that make such knowledge readily accessible can help to differentiate their planning services from more generic alternatives.

4. Revise Scorecards for the Decumulation Phase

WMs traditionally operate on the assumption that spending more time in front of clients leads to more revenues and better scorecards. As a result, advisors are predisposed to invest more heavily in relationships during the accumulation stage than during decumulation.

> To overcome this structural bias, WMs must change their incentive schemes, moving away from quantitative metrics such as assets, revenues and profits, and instead focusing on client satisfaction for those in the decumulation phase.

5. Address a Broader Set of Retirement Needs

WMs are well positioned to become the main gateway for retirement, helping clients access services that extend well beyond financial solutions. Examples include partnering with senior-oriented social clubs, charities, or retirement communities to help clients gain a deeper sense of community. WMs can also develop in-house expertise in key topic areas. For example, specialized counselors can support retirees who wish to stay active professionally by suggesting part-time jobs in their fields of interest. Retirees who want to leave a legacy could receive tailored advice on the most relevant charities to join or donate to. By helping retirees maintain a sense of purpose, community, and control, WMs can increase client adoption rates and monetize supplemental value at each stage of the retirement journey.

The Pan-European Personal Pension Product—Finally!

The European Union may be a single entity, but it's one with many different pension systems. And with a rapidly aging society and inadequacies in pay-as-you-go pension financing, the EU faced a growing need for a solution to address the looming retirement cliff.

Supplemental pension plans were the obvious place to look. Most countries have a three-pillar system with a mix of state-sponsored, employee-sponsored, and supplementary pension plans. Of these, the supplementary pension plan has become increasingly important; it is one area where individuals can take direct control of their savings and plug gaps in their coverage. But many existing plans are opaque, expensive, and inefficient. They are also inflexible: an individual who moves from Germany to the south of France, for example, cannot take their current supplemental plan with them.

The Pan-European Pension Plan (PEPP) seeks to address these issues. Authorized by the European Parliament and adopted by the European Council in 2019, the PEPP is a voluntary, personal pension that will provide the following benefits:

1. **Transparency.** PEPP regulations call for full transparency on the product, costs, and fees, in the form of a key information document and an annual pension benefits statement.

2. **Full Mandatory Advice.** To enable individuals to make informed decisions, providers must offer personalized PEPP recommendations. In the lead-up to retirement, they must advise again on the most suitable form of disbursement. This advisory can be delivered digitally at both stages.

3. **Low Fees.** Total fees for the entire offering, including advice, must be capped at 100 basis points of the accumulated annual capital.

4. **Portability.** Individuals can take their PEPP with them if they relocate within the European Union. They may also switch providers.

5. **Tax Deductibility.** Although member states will set tax incentives, we expect that PEPPs will be tax privileged in most countries, as the European Union recommends.

6. **Flexible Payout.** PEPP savers can choose from among several types of out-payments, including annuities, lump sums, regular drawdown payments, or some combination of these options.

PEPP presents WMs with a major opportunity—but to win it, they'll need a digital offering. The new pension plan will create a massive market (employed citizens alone number more than 230 million in the EU), a single product, and a powerful gateway offering, which WMs can use to grow relationships and sales as part of their decumulation strategy. Customer acquisition costs should be lower, too, given the EU's strong endorsement of PEPPs and the expected tax privileges in most member states.

With the first PEPP products likely to reach the market in early 2022, institutions must invest now if they want to be in a position to capture this market. WMs that move quickly have an opportunity to pull business away from insurers and turn PEPPs into an attractive new market.

About Our Methodology

In preparing this report, we used a segment nomenclature based on the following measures of personal wealth:

- **Retail: between $0 and $250,000**
- **Affluents: between $250,000 and $1 million**
- **Lower end of high net worth individuals (HNWI) I: between $1 million and $5 million**
- **Lower end of high net worth individuals (HNWI) II: between $5 million and $20 million**
- **Upper end of HNWI: between $20 million and $100 million**
- **Ultra high net worth individuals (UHNWI): more than $100 million**

This year, we have added to our nomenclature a category that we call the "simple-needs segment," for clients whose personal wealth totals between $100,000 and $3 million and whose wealth management needs are not complex.

Historical personal wealth represents the personal wealth of the total adult resident population, collected by market and by asset class from central banks or equivalent institutions, based on the global System of National Accounts (SNA). For markets that do not publish consolidated statistics about financial assets, real assets, or liabilities, we performed a bottom-up analysis using market-specific proxies that were in line with the SNA. Proxies originate from the central bank or equivalent institutions.

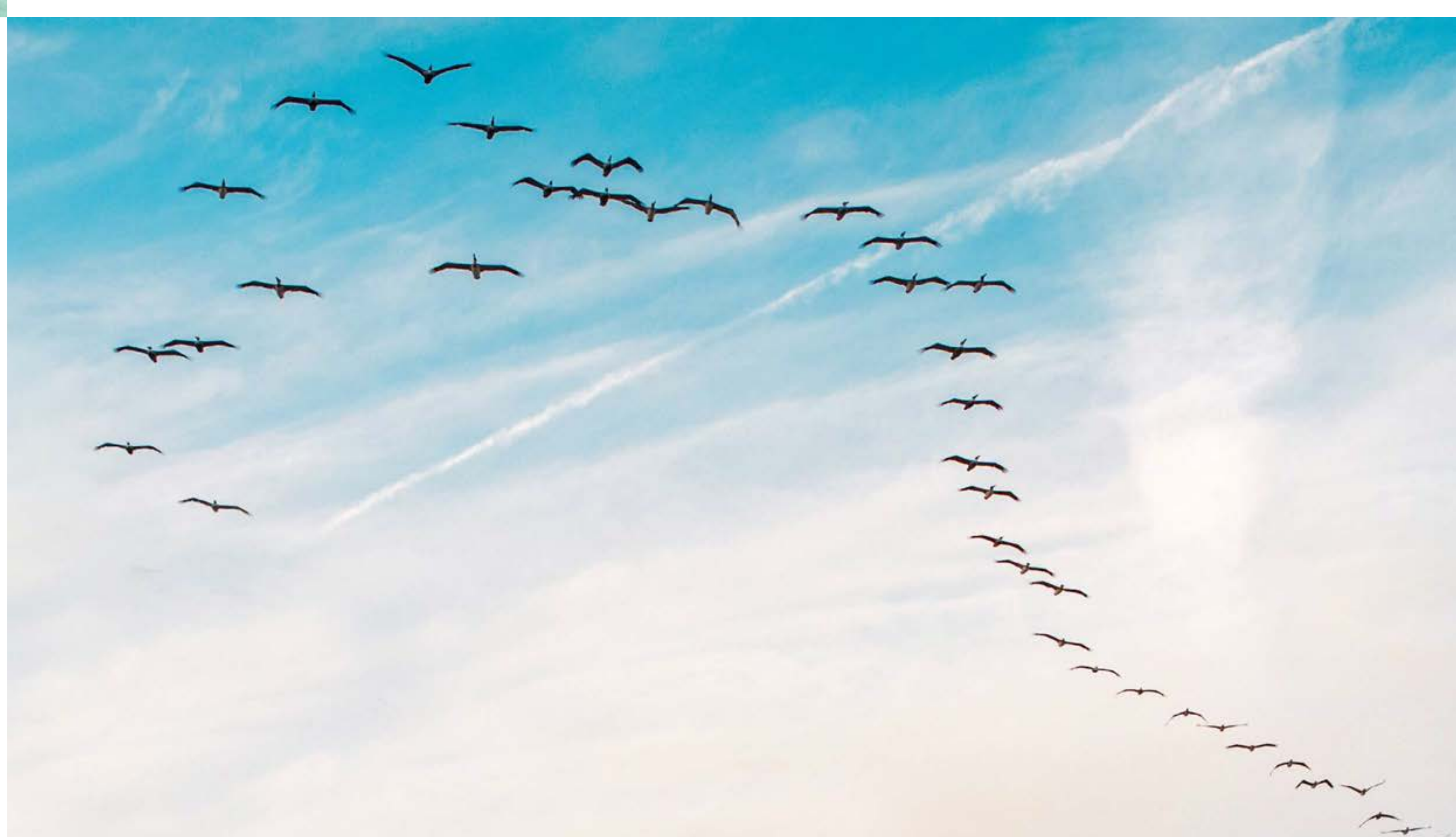
We developed our forecasting of personal wealth at the level of individual sub-asset classes, using a fixed-panel multiple regression analysis of past asset-driving indicators and applying these patterns with forecast indicator values. We created a base scenario to indicate the most probable development, as well as a bullish prediction and a bearish prediction of future developments. For the whole time series—both past and future—we consistently sourced indicator values from public data, and we adjusted future values on the basis of local market expertise and expectations, where needed.

We included cross-border wealth as part of total wealth and calculated it on the basis of triangulations of different data sources, including publications by national financial monetary authorities, the Bank of International Settlements, and BCG project experience. We estimated growth of cross-border wealth on the basis of assumptions regarding net inflows and outflows, appreciation and performance of current cross-border assets, and shifts of existing cross-border assets between financial centers.

Data on the distribution of wealth is based on resident adult populations by market and on the use of econometric analysis to combine various sources of publicly available wealth distribution data, including rich lists. Growth rates of wealth segments account for shifts of individuals in and out of segments over time as they get richer or poorer; thus, for example, a negative growth in the lowest segment generally means that people have become richer and moved up into a higher wealth segment.

Conclusion

Although banks and related advisory institutions have talked for years about being client led, most continue to view the world as they always have, seeing clients primarily through the prism of products and serving them as a collection of wallets. By turning the lens around, WMs can access revenue pools that they've been missing out on for years. To succeed, they must shake up their current ways of working and digitize their business models, enabling cross-functional teaming and realigning roles, performance measurement, and incentives. Those that adapt their operating model to put clients at the center and fully adjust their processes and ways of working can turn the next five years into a period of unprecedented prosperity.



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Acknowledgments

The authors thank their BCG colleagues for their invaluable assistance with this report. Global contributors include:

Core operational project team: Lorenzo Capucci, Bruno Bacchetti, Anne-Sophie Bert, Guillaume Epitaux, Stephan Knobel, Clarissa Mariani, Zoe Orr, Ankit Rastogi, and Daniel Schaub

Financial institutions:

Americas: Thomas Foucault, Juan Pablo Guerrero, Federico Muxi, Neil Pardasani, and Max Pulido

Europe: Johannes Burkhard, Giovanni Covazzi, Lukas Haider, and Thomas Schulte

Middle East and Africa: Mustafa Bosca, Farouk El Hosni, and Mohammad Khan

Asia and Oceania: Mathias Egler, Ashish Garg, Damien Ho, Varun Kejriwal, Penny Law, Brad Noakes, Ernest Saudjana, and Tatsuya Takeuchi

Insurance: Walter Reinl

BCG Digital Ventures: Jurgen Eckel and Steve Mallouk

BCG analyst and knowledge team: Nitin Aggarwal, Stefan Gotzev, Yunqiao Gou, Chad Jennings, Nisha Mittal, Harshit Talesara, Anna Polienko, Blaine Slack, William Ta, and Daniel Vaz

Marketing and media: Flavio Cuva, Paola Garbini, Cassandra Haenggi, and Jatta Lindstrom

We also express a special thank you to Philip Crawford, Jan Dudzik, Kim Friedman, and Marie Glenn for their editorial and design support.

For Further Reading

Boston Consulting Group has published other reports and articles that may be of interest to senior financial executives. Recent examples include those listed here.

Global Risk 2021: Building a Stronger, Healthier Bank
A report by Boston Consulting Group, May 2021
https://www.bcg.com/publications/2021/embracing-change-post-pandemic-in-the-banking-industry

Financial Institutions Need to Pursue Their Own Path to the Cloud
An article by Boston Consulting Group, May 2021
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A report by Boston Consulting Group, October 2020
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Five Strategies for Mobile-Payment Banking in Africa
A Focus by Boston Consulting Group, August 2020
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A report by Boston Consulting Group, June 2020
https://www.bcg.com/publications/2020/global-wealth-future-of-wealth-management-ceo-agenda


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