



Forbes insights

AI AND THE MODERN WEALTH MANAGER:

How Artificial Intelligence Is Creating
a Personalized Investing Experience

IN ASSOCIATION WITH:



TEMENOS
The banking software company



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ABOUT THIS REPORT

Now that artificial intelligence (AI) technologies are weaving their way into the traditional world of wealth management, a balancing act has emerged that will define the future of the industry: the blending of man and machine in advisors to produce better service and results for increasingly tech-savvy high-net-worth individuals (HNWI) and emerging affluent clients.

It's no secret that FinTech is becoming a bigger part of the wealth management experience. At the center of the transformation is AI, which comprises a variety of technologies, such as machine learning and natural language processing, that are changing the business while its lifeblood remains firmly planted in the expertise and nuanced touch of a human advisor. Two years ago, when Forbes Insights and Temenos teamed up to gauge shifting client demographics in wealth management and assess the rise of robo-advisors, it was clear that the industry was only dipping its toes into the new world of algorithms. Today, we are still in the early days of AI, but the evolution of attitudes within the industry has come a very long way—and any wealth manager not aligned with this unstoppable trend is likely to face an existential crisis at some point in the future.

To grasp the significance of the digital transformation taking place, one has to dig deep into the minds of the advisors and their clients to discover their views on AI. In this sense, the true state of wealth management today and its future is hidden in plain sight, waiting to be uncovered with questions. Just what role is AI playing for wealth managers today—and how do advisors and their clients view the introduction of these powerful technologies? How do they see AI changing wealth management and financial services in the years ahead?

To better understand how AI is playing out on the ground and where the technology is leading, we surveyed more than 300 advisors and high-net-worth individuals. The results, combined with the perspectives from leading executives, academics and subject-matter experts, reveal how AI is currently shaping the industry and also provide insight into what the future might hold.

METHODOLOGY

Forbes Insights and Temenos surveyed 310 wealth managers and high-net-worth individual investors across the globe about their acceptance and use of AI in wealth management in March 2018. The survey canvassed 219 high-level executives—a quarter of whom were in the C-suite, 37% of whom were heads of asset management and 16% of whom were heads of business—at investment banks (76%) and at private banks (24%) as well as 91 high-net-worth individuals (76% had a net worth between £1 million and £9 million). Forbes Insights also conducted several one-on-one interviews with executives and experts to add context to the findings. Twenty percent of respondents were from the United States and Canada, 24% from Asia Pacific, 28% from EMEA and 27% from Latin/South America.

KEY FINDINGS

- **AI WILL PLAY AN IMPORTANT ROLE IN THE FUTURE OF WEALTH MANAGEMENT.** A significant percentage (93%) of wealth managers say AI will play a role in the future of their practice.
- **THE DIGITIZATION OF WEALTH MANAGEMENT SERVICES IS SEEN AS A POSITIVE TREND BY BOTH WEALTH MANAGERS AND HNWIs.** Eighty-six percent of wealth managers say the rise of digitization is essential or good overall. This sentiment is even higher among high-net-worth individuals—96%.
- **ATTITUDES TOWARD DIGITIZATION VARY BY GEOGRAPHY.** Seventy percent of wealth managers in Asia-Pacific say digitization is essential, versus 63% in Europe. This compares with a global average of 52%.
- **THE DEPLOYMENT OF AI TECHNOLOGIES IN WEALTH MANAGEMENT IS IN THE EARLY STAGES, BUT IT IS EXPECTED TO SIGNIFICANTLY INCREASE IN THE COMING YEARS.** Only a little over a third (34%) of wealth managers are currently deploying AI within their firms, but 99% plan to deploy AI within the next three years.
- **HNWIs ARE OPTIMISTIC ABOUT THE USE OF AI.** Eighty-four percent are accepting or highly accepting of this technology in their investing experience.
- **WEALTH MANAGERS SEE AI AS A GAME CHANGER AND AN IMPORTANT COMPONENT IN DELIVERING BUSINESS RESULTS.** Almost a third of wealth managers say AI has the ability to transform wealth management for the better, and many are already seeing results from these technologies in portfolio returns (71%), client communication (71%) and overall client experience (68%).

HOW AI IS IMPACTING THE WEALTH MANAGER

A new wealth manager is emerging with the growing deployment of AI solutions for wealthy investors. The 2016 Forbes Insights/Temenos survey showed that hesitation among wealth managers was palpable; only a quarter surveyed viewed the digitization of wealth management services as essential. Today, that percentage has grown to 52%, a major jump. Executives now resolutely see digital technologies as essential to success in delivering enhanced client experiences (Figure 1).

AI is becoming a big part—if not the central part—of wealth managers’ approach to technology. Overall, 84% see at least a strong potential for the technology to deliver better client experiences, and almost a third of wealth managers see AI as a game changer in the industry.

Yet the rise of AI raises a key question for wealth managers. “A typical advisor can only handle a maximum of 200 clients and still do a good job,” says Kathleen DeRose, clinical associate professor of finance at New York University’s Stern School of Business. Automating the administrative tasks that consume their time will help, DeRose says, but the future for wealth managers is really about a central question: “How do they successfully operate a hybrid model where clients with large portfolios and complex situations can still receive the personal touch?”

AI GAME PLANS

Morgan Stanley and Wells Fargo are bellwethers of the emerging wealth manager. Both are focused on building AI-driven solutions with applications across the broad spectrum of their operations, and both view the customer experience as the fulcrum of their strategies.

“We are leveraging artificial intelligence across the organization to make our data smarter, and to create new customer experiences along the way,” says Chuck Monroe, head of AI Enterprise Solutions at Wells Fargo. “We wanted to do it in a way that made sense from an organizational perspective, from a customer perspective, and ultimately positioned us to deliver in an efficient way that enabled lines of businesses across the company.”

Note: Total percentages may not add to 100% due to rounding for various of the graphs in this report.

Figure 1. WEALTH MANAGERS: Which statement best expresses your opinion of the digitization of wealth management services?

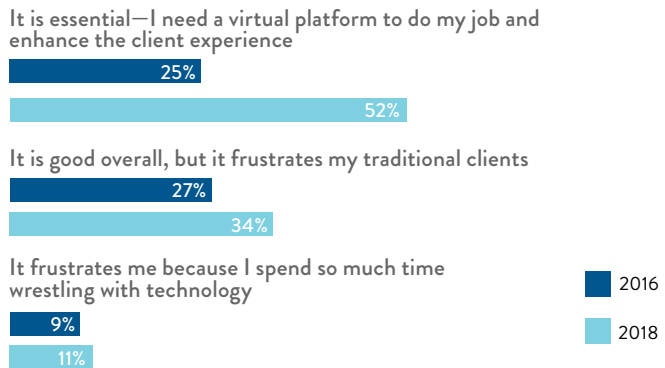
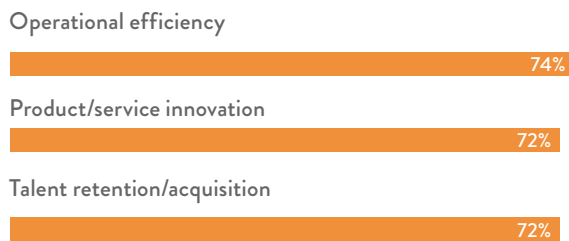


Figure 2. WEALTH MANAGERS: How significant is your use of technology in pursuing the following business goals?



Jeff McMillan, chief analytics and data officer for Morgan Stanley, sees AI as a “massive accelerator” of processes and client-focused services. “AI is not the objective,” he says. “AI is no different than the other 20 pieces of technology that came before it, such as the internet and mobile. I think much of the disconnect today is that people want to solve for AI, and they forget that really this is all about delivering a superior value proposition to clients.”

AI IN ACTION

Results of the 2018 Forbes Insights/Temenos survey show that wealth managers are keenly aware of the importance of technology—particularly AI—across key areas of their organizations. And a significant portion of them are seeing improved results in everything from cybersecurity to portfolio returns and client communication as a result of these technologies (Figures 2 and 3).

“Machine learning is a powerful approach to identifying fraud and identifying both opportunities and anomalies,” says Morgan Stanley’s McMillan. “The machine can look at billions and even trillions of historical activities and make informed correlations. It sees what’s working for you and what’s not, and then it gives you more of what works and less of what doesn’t. For us, machine learning is more than just a technology; it’s a strategy around augmented human advice that allows us to give every client high-quality service in a very customized way.”

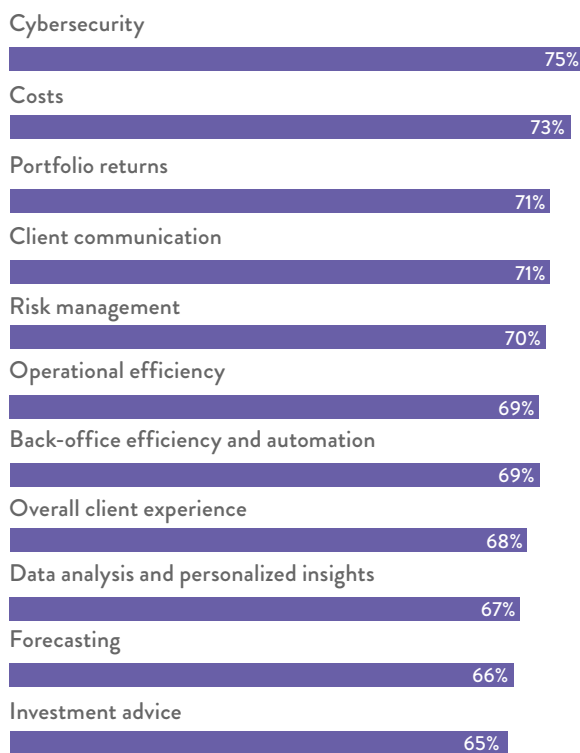
Survey results show that such sentiment defines the industry today. More than a third of wealth managers are actively deploying AI and are “all-in.” A quarter are testing AI solutions, and 35% are “extremely interested.” Not a single wealth manager of the 219 surveyed said there wasn’t any interest in AI (Figure 4—see following page).

ROBO-ADVISORS

Two years ago, the emergence of robo-advisors, which automate asset allocation and portfolio management, was a radically new technology in wealth management. Today, almost 90% of wealth managers surveyed view robo-advisors positively (Figure 5—see following page)—and they’re acting accordingly.

One example of how companies are integrating robo-advisors into their service portfolio is Wells Fargo’s Intuitive Investor, a robo-advisor solution that uses clients’ responses to an online questionnaire to understand their risk tolerance and investment goals—and then provide customized portfolio recommendations. Investors can also access advice through phone-based advisors.

Figure 3. WEALTH MANAGERS: How important is AI in delivering results in the following areas?



“Intuitive Investor understands the risk tolerance and investment objectives of clients,” says Scott Welz, managing director of innovation at Wells Fargo Advisors. “Based on that, it can customize a portfolio to their needs. It also does tax-loss harvesting, and clients can talk to an expert on the phone and connect the things that they’re seeing on the AI tool.”

CHATBOTS

Chatbots are another technology permeating the wealth management industry. Driven by natural language processing, these platforms also respond to aspects of an individual client’s situation and even predict certain issues that might arise. While chatbots were not much of a factor in wealth management in 2016, a sizable majority of survey respondents now view them positively. In fact, 70% of wealth managers see them as beneficial, as do 57% of high-net-worth clients.

Figure 4. WEALTH MANAGERS: How would you characterize your level of deployment or interest in AI technologies at your organization?

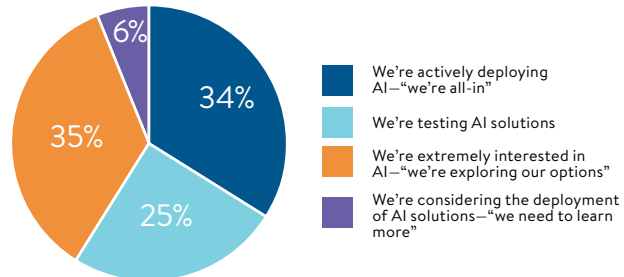
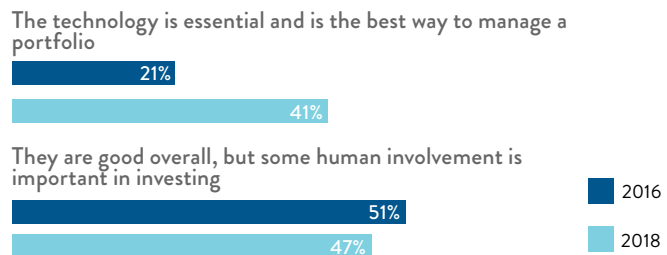


Figure 5. WEALTH MANAGERS: As a wealth manager, how do you view robo-advisors?



HOW WEALTH MANAGERS AROUND THE WORLD VIEW AI

Survey results among wealth managers in various regions of the world—Europe, Latin America, North America and Asia-Pacific—show different levels of acceptance and understanding of AI.

DIGITIZATION

- **Seventy percent** of wealth managers in Asia-Pacific say digitization is essential, versus **63%** in Europe. This compares with a global average of **52%**.

UNDERSTANDING

- **Eighty percent** of Asia-Pacific wealth managers are testing or deploying the use of AI in their companies, followed by **67%** of those in Europe, **50%** in North America and **44%** in Latin America.
- North American companies are less likely to be engaged in AI initiatives (**50%**), and those in Latin America are the least likely to be taking steps in that direction (**56%**).

APPROACH

- European and North American wealth managers are the most likely to consider AI a “game changer” (**41% and 30%**, respectively).
- Asia-Pacific wealth managers are more likely to see AI as an enabler to help their firms deliver better client experience than as a game changer (**71% vs. 24%**).
- Latin American wealth managers are more conservative: Just **26%** say AI will be a game changer.

“Chatbots can offer correct answers or correct information to address a client’s concern or need,” says Welz. “They can also predict other areas related to the issue. We want to be able to create an experience where there’s a complete answer to every question in the first interaction.”

While they are on the rise, bots are not necessarily a large part of every firm’s strategy at this stage. McMillan’s focus at Morgan Stanley, for example, is on enabling human-to-human conversations with what he calls “super-high-quality information.” “As soon as you move to more esoteric questions, the wheels come off a bot,” he says. “The best way for us to engage with clients is via phone call, and the second-best way is via email. We do not believe the technology is anywhere near putting a bot in the middle of the complexity of a client relationship. We are, however, doing work with bots to make both our service and support people more effective. We believe they can be a very powerful way to help our financial advisors move up the value chain.”

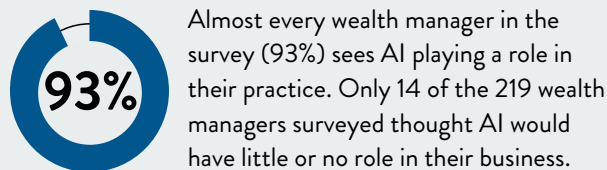
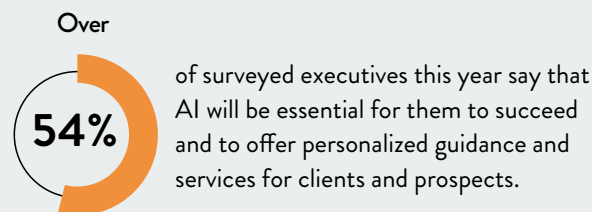
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SCOTT WELZ,
MANAGING DIRECTOR
OF INNOVATION, WELLS FARGO

THE BIONIC ADVISOR: 2018

The relationship between technology and human wealth advisors was just beginning to play out in 2016—and the hybrid, or bionic, model that was emerging then is now clearly in place. In fact, the human advisor and the machine are fusing together.



Jim Carroll, global futurist and innovation expert, speaks with financial organizations about aligning their existing distribution channels with the new realities of technology. “Many firms are too wrapped up in existing business models built in the pre-IT and AI eras, and their value might be doomed,” he says. “They’ve got to figure out what the secret sauce is in the new era of wealth management, far more in terms of advisory services and far less in transactional services.” Carroll speaks about the observations of his 23-year-old son, who just started working in wealth management. “The tech-savvy/social media/gaming generation is going to have a huge impact on the industry as they make their presence felt.”

HOW AI IS IMPACTING HIGH-NET-WORTH INDIVIDUALS

Wealthy clients are becoming more sophisticated in their use of technology, a secular trend that will only gather steam as millennials and younger generations age into the bedrock segment of the business. In fact, as seen in Figure 6, an overwhelmingly high percentage (82%) of surveyed investors believe the use of AI in wealth management is a good thing, and they are interested in the use of AI in managing their wealth. A big majority (67%) want their wealth manager to adopt some form of AI immediately, and more than half (59%) say wealth managers who don't embrace these technologies will not survive (Figure 7).

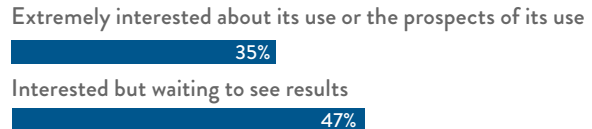
Ed Gogel, a high-net-worth investor who spent his career working with computers and AI technologies, represents the kind of sophisticated, tech-forward client likely to define the future of wealth management. "The AI-enabled environment really provides a lot more transparency for investors," says Gogel, who started his own investment firm, Temporal.AI, which uses quantitative modeling to make predictions about currency markets. "It removes emotion. AI technologies are agnostic, which is really what you want in an investor."

“

The machine does a very good job of identifying opportunities. Connecting that with humans who are able to talk, reason, discern and empathize is a really powerful combination.”

JEFF MCMILLAN,
CHIEF ANALYTICS AND DATA
OFFICER, MORGAN STANLEY

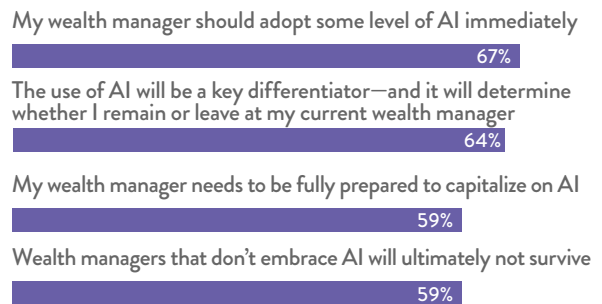
Figure 6. CLIENTS: What is your attitude about the use of AI in managing your wealth?



Which uses of AI technologies are you comfortable with?



Figure 7. CLIENTS: Percentage of clients surveyed who agree or completely agree with the following:



Morgan Stanley's McMillan adds: "The machine does a very good job of identifying opportunities. Connecting that with humans who are able to talk, reason, discern and empathize is a really powerful combination."

THE EMERGING MASS-AFFLUENT CLIENT

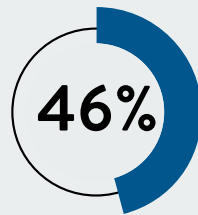
The mass-affluent—those with investable assets of £74,000 to £740,000—represent a vital target for wealth managers given the revenue these clients represent for traditional or retail banks. Bringing these investors into the wealth management fold would have a big impact on overall revenue growth.



7 in 10

wealth managers think attracting mass-affluent clients is important.

Almost half



of wealth managers believe that customer-focused data analytics is the most important way to attract emerging-affluent clients.



Those aged **18-34**

were much more aware of all the major technologies (range of 87% to 94% recognition) than clients aged 45 and older (range of 45% to 68% recognition).

HOW AI WILL INFLUENCE THE FUTURE OF WEALTH MANAGEMENT

Looking ahead, executives see AI becoming more of a reality as plans and strategies to integrate AI into products and services go live. Clients themselves see AI weaving its way deeper into their investing experience, with almost half believing that AI will “take over” portfolio management (Figure 8).

Such sentiment about human-level AI is overly enthusiastic and unlikely to occur over the coming decades, in McMillan’s view. But he and other Wells Fargo executives see something profound in the coming years—real predictive investment guidance and personalization. Success in these efforts will come down to having relevant and consistent data.

The predictive aspect of AI will be a driver of transformative personalization in wealth management. Both the executives and the clients surveyed believe the biggest impact will be on risk management, with better analysis and forecasting—the same elements that will deliver true predictive investment guidance (Figure 9). Each client then gets a whole new level of attention.

“What the future holds is personalization at scale,” NYU’s DeRose says. “This will come by accumulating much more data about how to help people make better financial decisions. That becomes very powerful because it’s a feedback loop that influences advice and portfolio construction. I see that happening—it’s inexorable.”

Figure 8. CLIENTS: To what degree will AI technology “take over” the following areas in the next five years?

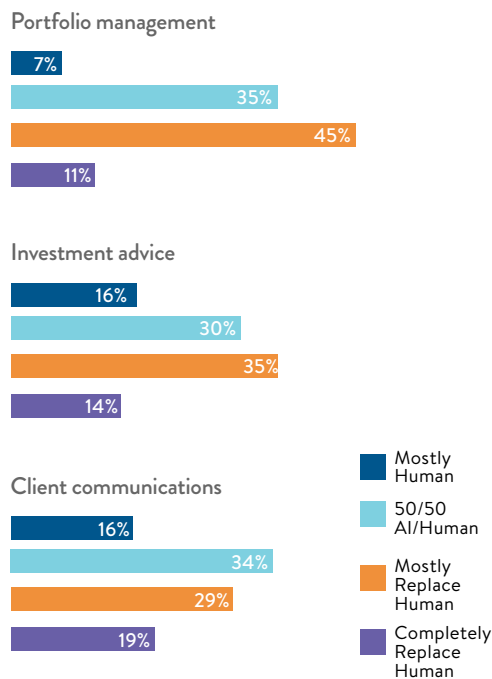
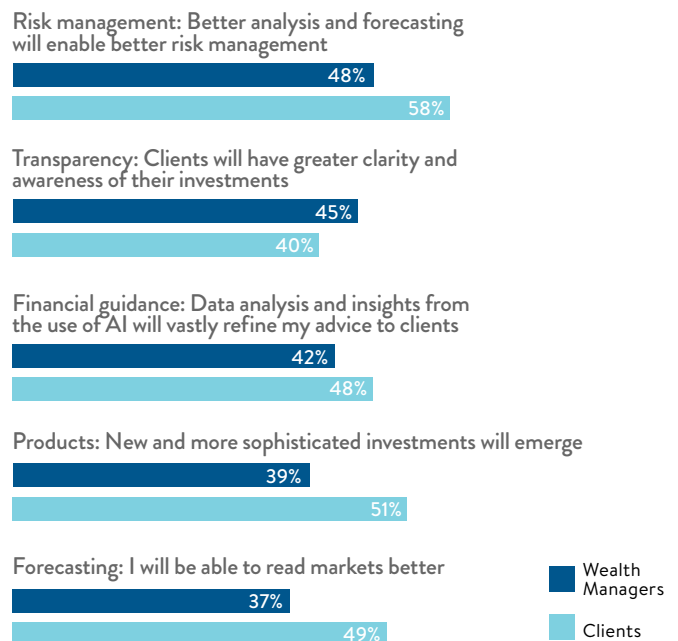


Figure 9. WEALTH MANAGERS/ CLIENTS: How do you think financial services might change as a result of AI?



CONCLUSION

So, what is the true state of wealth management today? The experts interviewed for this report all agree that success ultimately comes down to a potent balance of data and human capital. This union is already taking shape as traditional firms step resolutely into a new world of digitization. Today's modern wealth managers clearly see the critical importance of leveraging AI across their organizations to make data smarter and deepen relationships with clients, whose enthusiasm for new technologies is itself contributing to the changes we're seeing today.

The key element: Machine learning systems will need data to fuel the insights that will help advisors stay a step ahead. As Morgan Stanley's McMillan advises, "The winners are going to be the ones with intellectual capital combined with accurate and consistent data that is predictive of the future."

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JEFF MCMILLAN,
CHIEF ANALYTICS AND DATA OFFICER,
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- **Jeff McMillan**, Chief Analytics and Data Officer, Morgan Stanley
- **Chuck Monroe**, Head of AI Enterprise Solutions, Wells Fargo
- **Scott Welz**, Managing Director of Innovation, Wells Fargo

ABOUT TEMENOS

Temenos Group AG (SIX: TEMN), headquartered in Geneva, is a market leading software provider, partnering with banks and other financial institutions to transform their businesses and stay ahead of a changing marketplace. Over 3,000 firms across the globe, including 41 of the top 50 banks, rely on Temenos to process the daily transactions of more than 500 million banking customers. Temenos customers are proven to be more profitable than their peers: over a seven-year period, they enjoyed on average a 31% higher return on assets, a 36% higher return on equity and an 8.6 percentage point lower cost/income ratio than banks running legacy applications. For more information please visit www.temenos.com.

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