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7 Key Wealth Management Trends for 2022

Midway through 2021, it felt—albeit for the briefest of moments—that the continued threat of Covid-19 may have finally been in the rear-view mirror. My passport was dusted off and I made a vain attempt to try to squeeze myself back into some more appropriate work attire.

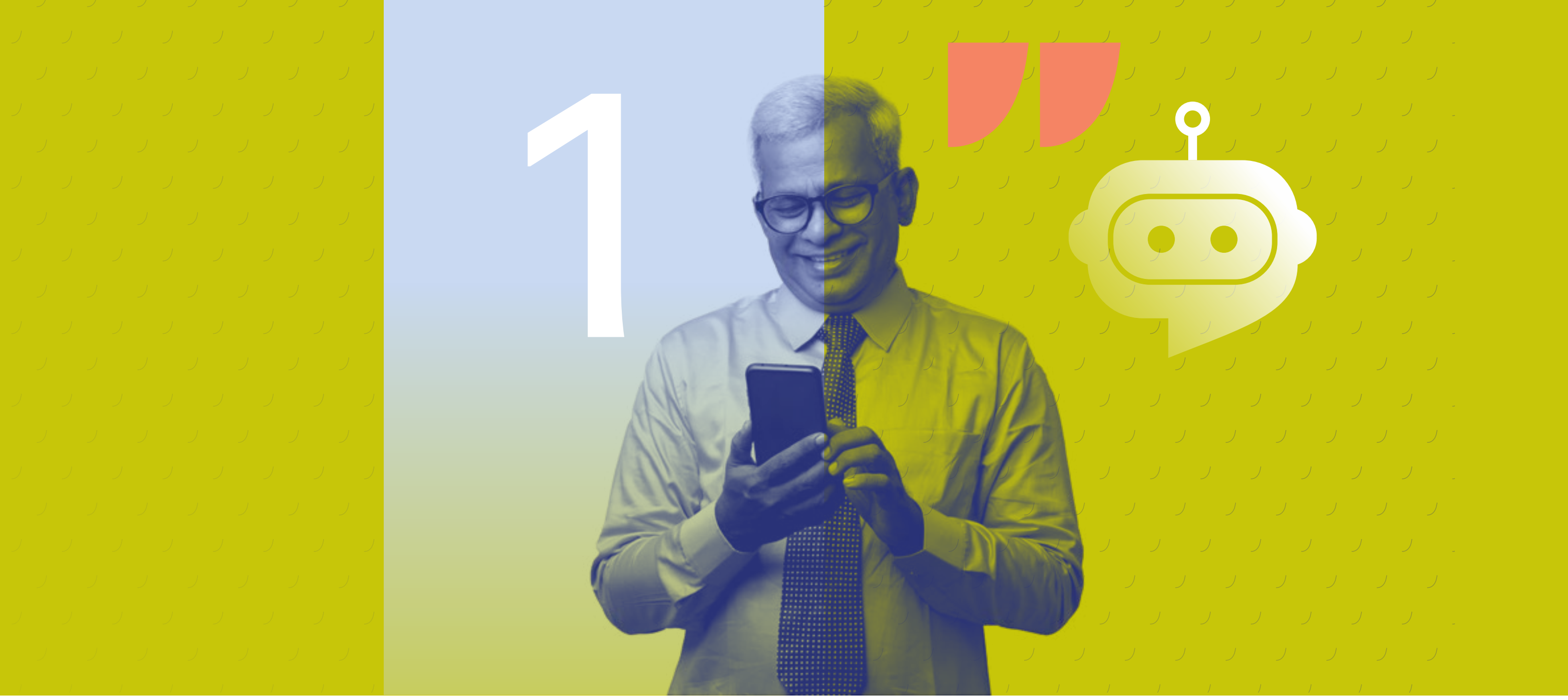
Unfortunately, the rapid global emergence of new Covid variants—firstly Delta and then Omicron—would suggest that we may still be short of a true endemic.

Naturally, the key trends in wealth management (especially in wealth tech) throughout 2021 and 2022 were heavily slanted towards Covid-related challenges.

Rapidly introduced ‘Work from home’ requirements and the closure of bank branches and offices worldwide led to some truly innovative remote delivery solutions and a laser focus on all things related to ‘CX’ or Customer Experience. As we look ahead to what 2022 may have in store, I expect to see this focus area remain. Many banks and wealth managers were already giving their channels, delivery and CX solutions a much-needed overhaul – in many ways, the rapid onset of Covid-related challenges only sought to speed up the process.

What other key trends may we expect to see in the wealth space in the coming months and where are wealth managers looking in order to create a strategic advantage?

Whilst the following list is far from exclusive, these are some of the key topics that our customers are discussing with us and represent what I feel are current significant areas of interest.



Hybrid working models, digital interaction, self-service channel functionality and virtual branches

As mentioned, many banks and wealth managers were already undertaking significant investment in their overall client experience, seeking ways to differentiate in a crowded marketplace by offering streamlined, frictionless digital experiences that delight, rather than frustrate customers.

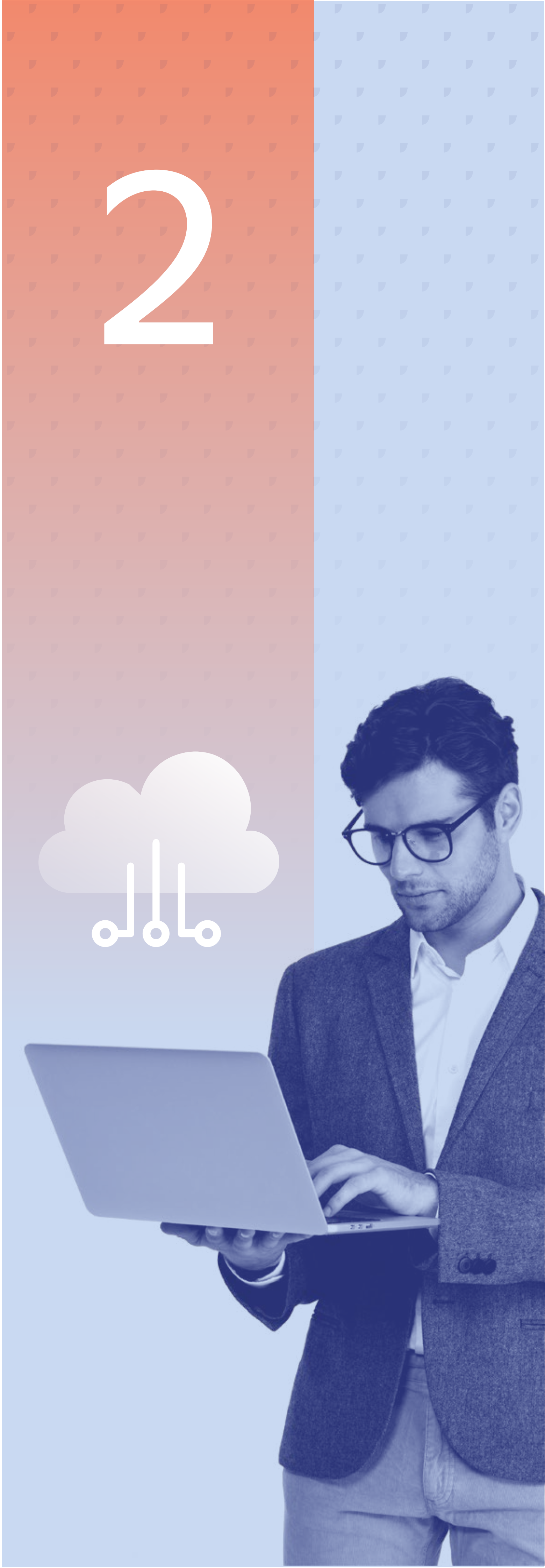
The ongoing challenges associated with a remote workforce and a client base that may no longer wish to default to an ‘in-person’ meeting has seen a great deal of focus on applications capable of enabling screen sharing, collaboration and communication in secure portals.

More basic services are being pushed into self-service channels both to lower operational costs but also to increase resolution times for customers and to help to alleviate frustrations and friction.

Led by a tide of growing neo or challenger banks, mobile application may now serve as virtual ‘branches’ with carefully designed customer journeys enabling a wide range of functionality. Video calls and chat bots will aim to address more complex requirements but the ability to leverage optical, voice and fingerprint tools, now native on most smart phones has enabled many neo-type organizations to expand their offerings despite their lack of a bricks and mortar presence.

More traditional organizations, recognizing the appeal and seeking to replicate some parts of this model.

For wealth management operations, this is obviously not as straightforward. KYC and AML monitoring is rarely a frictionless endeavor. More complex asset classes and portfolio solutions may not lend themselves to self-service purchase or remote delivery. However, in the retail and mass affluent customer segment, the ability to leverage online goal-based planning tools, risk questionnaires and automated portfolio rebalancing tools has enabled many new wealth managers to craft fully compliant and very compelling wealth services almost completely remote and with greatly reduced operational costs.



Cloud migration

As local legislation on the security, ownership, storage and transmission of customer data becomes clearer and more defined, we fully expect to see the growth of cloud-based and cloud-hosted infrastructure continue to accelerate.

Wealth managers and banks keen to leverage the power of their data for AI related applications need the capacity and the elasticity appeals from a cost perspective.

Costs continue to reduce; flexibility is increasing and the arguments for physical hardware are reducing year-on-year.

Hyper personalization

Somewhat related to the growing demand for cloud-hosted applications, 2022 will likely see a significant increase in the use of data and AI solutions to drive hyper-personalization.

Hyper-personalization, in a service sense, will mean different things to different people. For banks, the ability to 'learn' their clients spending habits will enable them to create and deliver bespoke recommendations for savings and investments and to make much smarter credit and lending decisions.

For wealth management firms, an analysis of peer groups based on metrics such as age, address, occupation, net worth, risk appetite, stated preferences, life stages and current holdings may enable firms to present recommendations with a much higher degree of confidence in their appeal to the customer creating the appearance of personalization.

Even in the mass market or retail segment, a structured analysis of available data, spending patterns etc. may enable banks and wealth managers to segment large customer groups into smaller, but still significant sub-segments and deliver suggestions and recommendations to this sub-set with a far higher degree of confidence.

One of the most common criticisms aimed at large financial institutions is that they do not sufficiently know or understand their customers. The ability to leverage data in a structured manner will enable the creation of insights that may lead to semi-bespoke proposals – that will at least create a perception of a unique, tailored offering.

Generational wealth transfer

The original boomer generation, those born between 1946 and 1954 are now in their mid-70's. Their children and grandchildren, both Gen X and Millennials may expect to inherit somewhere between $40-60 Trillion dollars in the coming years.

This generational transfer of wealth has been on the radar of financial services organizations for many years and has the potential to be a tricky event to navigate.

Advances in healthcare have led to boomers living longer than ever and retirement costs have increased some 88% over the past 20 years. Add to this the impacts of things such as the global financial crisis in 2008, rising divorce rates and property transfer and inheritance tax and these anticipated transfers may not be as straightforward as one may imagine.

The key for many organizations is to structure a service offering that helps remove friction in the transfer process. This may start with an internal ability to offer advice on topics such as retirement, tax and estate planning.
Many firms may also wish to ensure they are able to retain services from their wealthiest clients' children once a transfer takes place. To do so will require a review of the service offerings. It's safe to say that a service offering that appeals to a HNW individual in their mid-70's may not appeal to their younger children.

Wealth managers need to ensure their service offering can meet the needs of digitally native clients who may be more transactional in their approach to investment but also need to be careful not to alienate the older generation with whom that wealth may still sit.

The key to success when navigating this generational transfer may be the adoption of a hybrid operating model that will meet the needs of their current customers but also offer sufficient appeal to a younger generation.

Environmental, Social, & Governance (ESG)

There can be little doubt that ESG is of its time. Even if retail investors are not actively seeking ESG-compliant investment solutions, the commitments made last year during the COP26 conferences demonstrate that ESG related issues will play a significant role in the performance of many global companies.

Despite increasing demand for ESG investment and a rapidly growing awareness within the investment community, research indicates that consumer knowledge remains low even in developed markets and many firms still have no defined policy in place for the screening, selection and management of ESG compliant portfolios.

Whether or not firms decide to make this service offering a key differentiator, and it does seem there may still be scope to do so, it must soon become part of the overall service offering – the downside risk is a possible loss of customers to many of the boutique managers who have elected to focus on the rising demand in this area.

Technology companies such as Temenos are able to work with third party data providers to enable the rapid introduction of capabilities that will enable wealth firms to manage fully compliant ESG services for their customers. Screening capabilities and powerful constraints engines can help to ensure compliance.

Digital assets

2021 was a strange year for digital assets. A host of freshly minted millionaires and, in some cases, billionaires saw a massive surge in demand from anyone with a smartphone and an Internet connection.

Whilst the more established assets have achieved a degree of stability and, in some cases, more practical real-world applications, we continue to see new launches that appear to be purely speculative.

What cannot be ignored is the demand. ETFs focused on peripheral industries saw record breaking subscriptions and wealth managers have scrambled to form partnerships with custody providers, trading platforms and other niche industry players.

Whilst the most heavily regulated entities will likely maintain some concerns, accommodation may need to be made if they wish to protect existing client wallet share.

Third party partnerships may help to bridge a gap in the interim but once the regulatory path becomes clearer, larger organizations may need to weigh the demand against the cost of development and look to build or buy their own internal capabilities.

Cross segment platforms / streamlining

We continue to see demand from existing clients seeking to leverage their solution to service additional customer segments and new customers wishing to service multiple segments with a single solution.

A separate, client specific channels solution can enable a different 'look and feel' at customer level and different products and services can still be individually tailored and delivered to different customer types but at a platform level, a single solution enable a greater degree of efficiency and significantly lower operation and maintenance costs.

In emerging markets, this demand was spurned from a rapidly growing middle class with higher levels of disposable income and financial literacy. In developed markets, the driver is client sophistication and competition from emerging FinTech providers – even traditionally mass affluent customers are seeking products previously offered only to private bank clients and a blurring of the boundaries continues.

Covid-19 woes, coupled with a drive for greater operations efficiency and lower costs, will likely see this trend both continue and likely accelerate further.

As discussed, the above is simply an example of the key trends we expect to see dominate the wealth segment in 2022.

Each may compete for develop dollars and the priority granted to each may depend upon the organization, the segments serviced and the regions of operation.

As always, if you would like to discuss how Temenos may support your organization as you navigate the year ahead, please do not hesitate to contact me.

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About Temenos

Temenos (SIX: TEMN) is the world's leading open platform for composable banking, creating opportunities for over 1.2 billion people around the world every day. We serve two-thirds of the world's top 1,000 banks and 70+ challenger banks in 150+ countries by helping them build new banking services and state-of-the-art customer experiences. The Temenos open platform helps our top-performing clients achieve return on equity three times the industry average and cost-to-income ratios half the industry average.

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