

OVERCOMING THE DIGITAL DILEMMA IN WEALTH MANAGEMENT

By Brent Beardsley, Daniel Kessler, Matthias Naumann, Neil Pardasani, and Jürgen Rogg

WEALTH MANAGEMENT CLIENTS ARE increasingly accustomed to using mobile, social, cloud, and Web technologies in their personal and professional lives. Thus it's no surprise that they expect the institutions and experts managing their wealth to progressively employ digital tools and practices as well, to improve service, efficiency, and the overall client experience. The problem is that most wealth management entities are not yet able to do so.

For wealth managers, the benefits of embracing digitization are huge. Mobile banking now allows clients to interact with their wealth managers anytime, anywhere. Cloud computing provides access to unprecedented computer power and storage, permitting complex transaction processing. Big data applications help wealth managers capture, analyze, and interpret vast amounts of data and leverage that knowledge to create highly customized solutions. And social media platforms, along with closed communities, allow clients and others to connect and discuss market develop-

ments, investment options, and other financial matters instantly.

These advances can reshape the way products, services, and information are provided to clients. A wealth manager could increase client activity, for instance, by delivering tailored investment ideas to the client's mobile device—factoring in actual market movements, the client's financial situation, and insights that reflect the company's research-house view. Greater self-service provisioning across devices will help generate higher share of wallet through optimized up-selling and cross-selling as well as through a lower cost to serve. Although the traditional wealth manager–client relationship will continue to emphasize face-to-face contact and the sense of trust that such contact engenders, digital communication will radically redefine and enhance the relationship, effectively changing the dynamics of competitive advantage.

Yet despite its potential, digitization is occurring more slowly in wealth management than in other industries. Scale and

complexity are part of the issue: many players are reluctant to disrupt the traditional client-service approach, and they can have a hard time figuring out where to start because of the heterogeneity of wealth management activities. As a consequence, wealth managers have been holding back. At the same time, “robo-advisors” and new players entering the market with a digital-first model are raising the competitive stakes, increasing both client expectations and the sense of urgency to act. Combined, these factors mean that wealth managers are facing a digital dilemma.

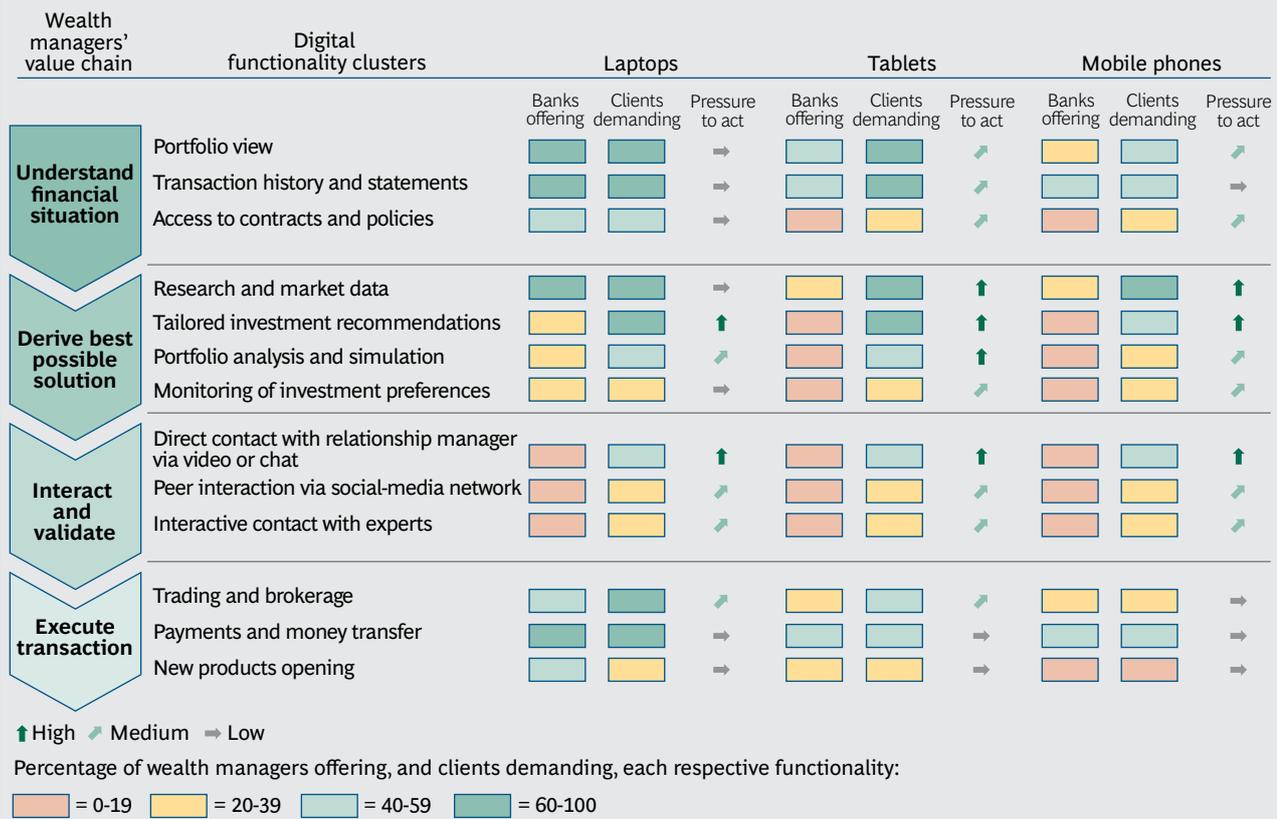
The Mismatch Between Digital Readiness and Client Expectations

What do clients expect from wealth managers? A survey of approximately 140 wealth managers around the world, released in conjunction with BCG’s Global Wealth report last year, found that approxi-

mately 75 percent of wealth management clients indicated that they would like more interactive multichannel offerings. (See *Riding a Wave of Growth*, BCG report, June 2014.) Few organizations, however, currently have such offerings, and only 25 percent of wealth managers provide customized advice online. Sophisticated functionalities that make use of big data and advanced portfolio analytics—such as personalized monitoring of investment preferences, simulations, and tailored investment recommendations—remain largely nascent. Digital collaboration is the least developed. Only 13 percent of participating banks enable video or chat interactions with relationship managers (RMs), despite the fact that clients highly value such communication. (See Exhibit 1.)

Efforts are slowly picking up in the broader social-media arena. According to our study, 30 percent of respondents offer at least one form of social-media functionality that

EXHIBIT 1 | Wealth Management Clients Are Demanding More Digital Capabilities



Source: BCG analysis.

is specific to wealth management. But most of those offerings tend to be static—RM profiles on professional networks such as LinkedIn, for example, and basic company information on platforms such as Facebook and YouTube. Only 4 percent of wealth managers provide higher-value services, such as advice-sharing forums or portfolio-modeling simulators.

Time to Capture the Opportunity

Early movers that best balance traditional, relationship-led wealth management with intuitive, simple-to-use, and integrated digital features, products and services, have a real opportunity to gain competitive advantage. Providing a compelling digital proposition can spark revenue growth while increasing efficiency. (See Exhibit 2.) According to our study, up to 40 percent of participants prefer receiving tailored digital outreach via RM phone calls; more than 60 percent would like to exchange investment ideas with like-minded peers; and more than half consider customized research information and instant simulation delivered over digital channels to be a critical competency.

Even modest improvements can yield significant benefits. For instance, wealth managers with an advanced—yet not leading—digital offering reduced attrition by as much as 5 percent, increased revenue from cross-selling by 2 to 5 percent, and realized efficiency gains from greater automation and more streamlined processes by 10 to 15 percent. For organizations that go further in delivering a rich, integrated cross-channel experience, the potential is significantly higher. Considering the value at stake, wealth managers must start now or risk being left behind as competitors accelerate their digitization.

Our experience shows that instead of diluting the traditional wealth manager–client relationship, as many fear, digital transformations enrich the quality of client service by improving the end-to-end experience. Through superior service, a greater range of offerings, and enhanced interactivity, digitization can effectively transform the client relationship, generating richer forms of engagement and providing RMs with the ability to offer more pertinent, targeted, and timely advice—qualities that can be competitively differentiating. (See Exhibit 3.)

EXHIBIT 2 | Digitization Confers Material Benefits for Wealth Managers

Benefit	Driver	Enabler
Revenue uplift	Share of wallet and retention	<ul style="list-style-type: none"> Higher client activity with instant, individualized news and alerts Deeper engagement in personal finance and greater “stickiness”
	Cross-selling and up-selling	<ul style="list-style-type: none"> Proactive, tailored advice and recommendations Segment-based pricing for new, premium digital offering
	New clients	<ul style="list-style-type: none"> Broader, innovative client value proposition Access to untapped client segments
Efficiency gains	Front office	<ul style="list-style-type: none"> Investment ideas captured and simulated by clients digitally Possible RM substitution for lower wealth segments¹
	Processing and administration	<ul style="list-style-type: none"> Process simplification across the entire value chain Intuitive, guided self-administration
	Products and services	<ul style="list-style-type: none"> Configuration performed by clients digitally² Early client testing and feedback

Source: BCG project experience.

¹RM = relationship manager.

²Within regulatory limits.

EXHIBIT 3 | Misperceptions Delay Digital Advancement

Wealth managers see digitization as high risk...

Brand dilution
Weakened client relationship
Plain transaction and administration
Channel cannibalization
Operational and organizational disruption
Massive, overscoped execution



...but BCG data shows that digitization provides high value

Exclusive innovator positioning
Higher engagement level and quality
Exploration and excitement
Multichannel cross-selling and up-selling
Opportunity to fundamentally reengineer
Focused and agile approach

Source: BCG project experience.

Building a Leading Digital Proposition

Wealth management practices seeking to go digital should begin by articulating their strategic objectives relative to their desired value proposition, client experience, channel management, delivery platform, and product design. Executing against that strategy then requires a multidisciplinary engagement model, strong delivery focus, and rigorous change management. Wealth managers should take the following steps:

- *Define a clear ambition.* Develop a truly differentiating value proposition and ensure that the vision is integrated into the overall bank strategy. Gaining early alignment with top management, cascading it through the front office and project teams, and including external stakeholders—such as regulators—in the discussion are critical to success.
- *Identify a primary focus.* Prioritize a handful of high-value “client journeys” across channels. Three to five such pathways are recommended to start with; providing too many, especially at the outset, increases complexity and costs.
- *Build a simple—but compelling—client experience.* Using the set of identified client journeys as the driver, develop intuitive functionalities to enable a

unique user experience, such as tailored alerts or personalized portfolio recommendations offering instant collaboration with the RM. Keep things simple and actionable to drive adoption and advocacy. Resist the temptation to bring the full breadth of sophisticated, professional RM tools and processes to all digital channels.

- *Test and refine continuously.* Commit to rapid prototyping and continuous iteration in both the front office and with clients. This approach will help refine and shape digital offerings more quickly and maximize overall effectiveness.
- *Establish operational readiness.* Ensure a clear perspective on the operational and policy implications of digital banking. This will help improve efficiency and address time-consuming and complex fine-tuning ahead of your launch date.
- *Drive rigorous change management.* Ensure strong commitment from senior management and governance, including rigid prioritization, agile solution development, and proactive alignment with all parts of the company.

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