

# 7 Key Trends Driving Wealth Management in 2023

# Contents

Executive summary	03
1. The Generational Wealth Transfer	04
2. Environmental, Social & Governance (ESG) compliant frameworks	05
3. Individual and Team Mobility	06
4. Fintech Adoption	07
5. API-ification	08
6. Hyper-personalization	09
7. Personalized or custom indexing	10
Acknowledgements	12



# Executive summary

The global wealth management sector has undergone significant and irreversible change in recent years. The limitations imposed by the pandemic saw wealth managers scramble to digitalize service offerings and enable both remote servicing and distribution. Political challenges led to an increase in global mobility and record cross-border asset flows as investors sought safe havens for their capital, and customers increasingly demanded more socially responsible investments.

Looking ahead to 2023, we expect challenges for the global economy to continue. Supply chain difficulties and pandemic driven monetary policies have led to a cost-of-living crisis in many parts of Europe, rising interest rates, volatile markets and inflation spikes look set to continue. Against this uncertainty, investors will seek guidance from their trusted wealth advisers who will need to be prepared to navigate these complex and uncertain times.

The most progressive and forward looking institutions will likely use this challenging period as a time to refine their long term strategies. They will aim to identify key trends and invest for the future. They will seek to increase operational efficiency wherever possible and, by doing so, minimize all unnecessary costs. They will likely seek to enhance their product and service offering to ensure future readiness and thereby emerge from this period of instability in a stronger position as some degree of normality resumes.

These are just some of the key trends that we anticipate will be top of mind for key decision-makers in wealth management throughout 2023.





# The Generational Wealth Transfer

With an estimated 80 Trillion USD<sup>1</sup> set to transfer from baby boomers to their Generation X and Millennial offspring in the coming years, this trend will remain critical to wealth managers focused on higher net worth clients.

It does of course present a dilemma for those 'high touch' organizations that may be more service orientated and less digitally enabled.

How can wealth managers craft a hybrid proposition that is likely to appeal to a younger client base whilst still maintaining an offering that has satisfied their parents? It is highly likely that even those firms who enjoy strong personal relationships with their existing clients or who maintain a degree of prestige will still see client attrition if their offering does not appeal to a younger, more mobile and digitally savvy client base.

With this migration of assets, these same firms must also ensure their service offering extends beyond investments and also caters to clients seeking advice in areas such as healthcare, retirement planning, capital gains tax mitigation strategies and inheritance tax planning.



# Environmental, Social & Governance (ESG) compliant frameworks

Multiple studies have shown that a younger generation of investors will often actively seek investments that reflect their underlying values and those wealth management providers that are unwilling or unable to address client demands for ESG compliant portfolios may risk losing these clients to other service providers.

The product landscape has rapidly evolved and there are now a number of tools available to assist in the implementation and execution of a robust ESG framework, yet in many regions, some wealth managers still appear reluctant to embrace these concepts as a core pillar of their service.

The myth that ESG compliant portfolios may lag non-compliant portfolios no longer appears to hold true. Over 90% of S&P 500 companies voluntarily release some aspect of sustainability information to the market and many have set their own sustainability targets. The universe is now broad enough to enable wealth managers to build solutions that can drive returns whilst still reflecting the values of the investor.

# 2





# Individual and Team Mobility

The Pandemic accelerated the mobile workforce trend across many industries. As the world returns to normality, although many will wish to see staff return to the office to engage with colleagues and clients as they did in the past, employees are increasingly looking to work and interact with clients in new ways.

Hybrid working models and digital collaboration tools have granted the flexibility to make new engagement models possible and in some cases, these may become a preference for both advisers and their clients.

How these shifting attitudes are interpreted and accommodated, for employers and service providers may drive a significant degree of their staff and even client retention or attrition across the wealth segment.

In addition to the pandemic-related issues, 2022 also saw several key geopolitical events, which had a direct and lasting impact on a number of core financial services centers. These events have already led to an impact on global bookings and in some cases, client migration, which in turn could lead to a need to focus on both attrition and retention of key staff and wealth management teams as firms reposition to cater to shifting demand.



# Fintech Adoption

With rising costs and clients demanding more than ever, wealth managers, especially those in larger and less specialized customer segments, will recognize that the rapid ability to enhance a product or service may be best achieved by outsourcing to a specialist service provider or vendor.

In more specialized areas, for example, news, content management, or crypto trading, we anticipate more bank-fintech partnerships. Clients themselves may seek out direct relationships with well-established fintech providers to meet some of their wealth management needs, especially from 'non-financial institutions' with whom they already enjoy a trusted relationship, such as telcos or super-app providers.

To combat possible client attrition or loss of wallet share, many wealth providers may need to seek our partnerships to ensure that their offerings can continue to compete.

These partnerships can offer wealth managers a great deal of value, enable a higher degree of specialization, the ability to differentiate from competition, a reduction in internal development costs and a faster method with which to bring new, and in-demand offerings to their existing client base.

# 4







# API-ification

Banking software vendors will continue to create robust micro-services and APIs to allow wealth managers to innovate rapidly using data-rich building blocks. Additionally, API-integrated solutions from a host of 3rdparty solution providers can provide rapid solutions for highly complex or niche areas.

The increase in the use of APIs will allow wealth managers to offer more targeted and relevant solutions and services to multiple client segments, and for global or multi-region providers, across multiple geographies.

Consuming APIs will allow wealth managers to deploy solutions faster and benefit from significantly reduced development costs. We expect to see service offerings become increasingly competitive as wealth managers test solutions to determine what their existing and prospective customers will value the most.





# Hyper-personalization

One of the most common criticisms of large financial institutions is that they do not sufficiently know or understand their customers. The ability to leverage existing customer data, both structured and unstructured, can enable the creation of deeper insights to formulate more significant and relevant recommendations and bespoke or semi-bespoke proposals.

These will create a perception of a unique, tailored offering that if used correctly, is more likely to appeal to a selected sub-set of customers.

As increasing focus is given to the reduction of operating costs, and the growth of market share and wallet share, we anticipate a wider interest in data analytics tools that can be used to drive greater levels of hyper-personalization at scale.

This need not be as complex as some may imagine. For example, if a product or service is shown to appeal to a small number of clients, can analytics be used to identify other client sub-sets with closely matching characteristics, where the appeal may be shared across this wider group?







# Personalized or custom indexing

Reflecting the hyper-personalization and ESG trends, we also see rapid growth in personalized or custom indexing. Advances in technology have helped to ease the associated administrative burden making this financially viable for a new range of potential investors.

Personalized indexing enables wealth managers to undertake improved tax planning and to take advantage of tax loss harvesting to minimize liabilities. Likewise, they can reduce concentration risk, which has become vital with the dominance of some companies in the world's largest markets.

Finally, they can use personalized strategies to more easily create custom portfolios that reflect their social values while enabling low management costs and significant diversification.

The previous barrier to personalized or custom indexing was cost. The core benefit of index investing was the simplicity which resulted in a significantly lower charging structure. Once even a small amount of complexity is introduced to these basic service offerings, the costs will rise and the margins will erode but the technology that can enable this is now of an age where personalized indexing may be possible at scale and at a competitive price point.



As you can see, 2023 looks set to be a challenging year for the global wealth management segment however within this difficult environment, opportunities are available for wealth managers to reduce operational costs, enhance their service offerings, to grow both market and customer wallet share and ultimately, to emerge both stronger and more resilient.

As always, a trusted technology vendor with a proven track record and experienced and qualified service partners will be instrumental to provide guidance, advice and solutions in order to successfully adopt these emerging trends.

<sup>1</sup>Cerulli Associates, January 2022





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Eric Mellor is a wealth specialist at Temenos, responsible for bridging the gap between customers and vendors, working with banks to define their wealth management goals and ambitions and translating these to practical, effective technology-driven solutions.

### **About Temenos**

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