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WEALTH TECH IMPACT ON THE WEALTH MANAGEMENT SECTOR

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ABSTRACT

Despite major worldwide setbacks (the dot-com bubble, the subprime crisis, and the COVID-19 epidemic), global wealth has been steadily rising over the past 20 years, rising from 80 trillion USD to 220 trillion USD. The wealth management sector, which helped maintain the rate at which the world's wealth increased over this time, has been under a lot of stress. But it appears to be dealing with far bigger problems now than in the past. In addition to external factors like political stability, natural occurrences (like pandemics), or the threat of an economic downturn, industry trends like rapid digitization, significant pressure on cost management, ongoing generational wealth transfer, rapidly changing customer profiles, and threats from Big Tech entry all have a significant impact on the wealth management sector. The purpose of this research study is to familiarize readers with the notion of wealth technology as well as major trends in the global wealth management industry.

***Design/Methodology/Approach:** The following approaches have been used for the paper's objectives: comparative analysis of presented data and critical examination of literature, including research publications. The purpose of the study paper is to acquaint the reader with both the concept of Wealth Tech and the major trends in the global wealth management industry.*

***Keywords:** Asset Management, Wealth Management, Wealth Tech.*

Introduction

Despite numerous worldwide setbacks (dot-com bubble, subprime crisis, COVID-19 pandemic), global wealth has been steadily rising over the past 20 years, rising from 80 trillion USD to 220 trillion USD. The wealth management sector, which helped maintain this period's rapid expansion in global wealth, has been under a lot of stress. It appears to be dealing with much greater difficulties than in the past, though. External factors such as political stability, natural occurrences (such as pandemics), or the threat of an economic downturn all play a significant role in shaping the wealth management industry. Industry trends include rapid digitization, significant pressure on cost management, ongoing generational wealth transfer, rapidly changing customer profiles, and threats from Big Tech entry. Wealth Tech has grown as a result and appears to address some of the major issues facing the entire wealth management sector.

Research Methodology, Process, and Research Hypotheses

The study paper intends to evaluate the following two hypotheses:

- Digital transformation has become one of the important trends in the global wealth management sector;
- Wealth Tech's impact on the sector is growing globally.

The following techniques have been used for the paper's objectives: comparative analysis of presented data and critical examination of literature, including research publications. The purpose of the study paper is to acquaint the reader with both the concept of Wealth Tech and the major trends in the global wealth management industry.

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Wealth Management Definition and Specification

The practice of managing a client's assets (both liquid and non-liquid) according to a custom strategy and in accordance with a predetermined financial plan, as well as the implementation of that strategy with varying levels of client involvement, is known as wealth management. Financial and legal advice, asset management, tax preparation, offshore services, retirement planning, etc. are all important wealth management services (Lzak, 2018).

Private banking services are frequently provided by wealth management companies such as international banks, specialized banks, or investment banks. Along with financial services, these companies also offer banking on fine wines, luxury items, commodities, real estate, diamonds, and numismatics, as well as condo hotels. These non-financial offerings are custom-made, negotiated with a specific client, and typically have greater costs and levels of risk (Dziawgo, 2013; Koziska, 2019). Five primary kinds of risk need to be taken into account by wealth management and private banking providers:

Macroeconomic risk (the impact of macroeconomic factors), business risk (internal factors in a specific bank), reputation risk (the perception of a certain bank), model risk (the use of incorrect financial models), and non-compliance risk (Niedzióka, 2018) are some of the risks that banks may face. According to Kolenik (2018), wealthy clients, who fall into one of two primary categories—High Net Worth Individuals (HNWI) or Ultra High Net Worth Individuals (UHNWI)—are the target market for wealth management and private banking services.

According to the Global Wealth Management Report 2020 and Lzak (2018), HNWI households have financial assets worth at least $1 million, whereas UHNWI households have financial assets worth at least $100 million.

Key Trends in Wealth Management

Globally speaking, personal wealth has been steadily rising. Global wealth has nearly tripled over the past 20 years, rising from 80 trillion USD in 1999 to 226 trillion USD in 2019, and is expected to reach 220 trillion USD in 2020. Global personal wealth has been continuously increasing despite numerous setbacks that have negatively impacted it, such as the COVID-19 pandemic and the subprime mortgage crisis in 2008 (Global Wealth 2020 Report, 2020). Figure 1 shows the rise of personal wealth globally.

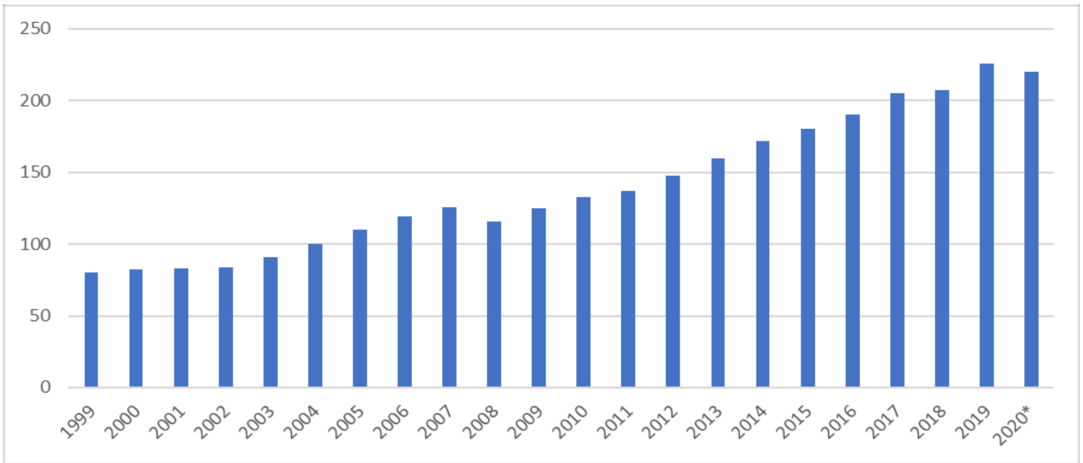


Figure 1: Global Personal Wealth Growth from 1999 to 2020 (USD Trillion)

Note: *Projected value
Source: Global Wealth 2020: The Future of Wealth Management—A CEO Agenda, Boston Consulting Group, 2020, Allianz Global Wealth Report 2020, Allianz, 2020.

Although overall global wealth has been increasing steadily, the wealth management business is facing intense pressure from a variety of trends and forces. The growing digitization of wealth management is one of the important developments. Oliver Wyman projects that client communication interaction channels like webinars, videos, web collaboration, and chat conversations will be used more frequently than channels like face-to-face meetings and email, which will be used less frequently (Global Wealth Management Report, 2020; Roubini Thought Lab, 2017). 40% of managers in Europe gave accelerating digital transformation a higher priority than other activities as a result of the COVID-19 pandemic (BlackRock, 2020). Robo advisory is one of the major issues with digital transformation.

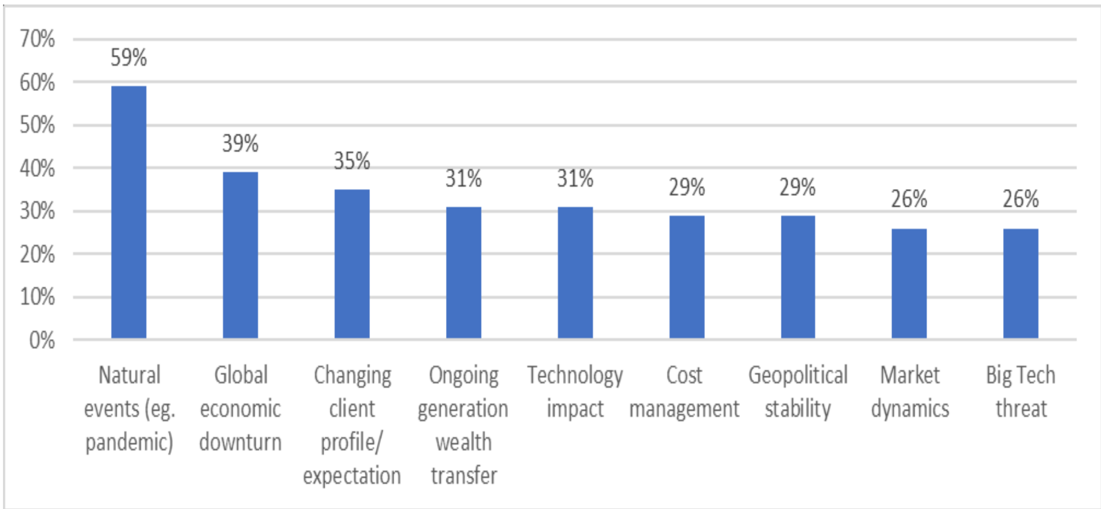


Figure 2: Most important challenges in the global Wealth Management industry (2020).

Source: World Wealth Report, 2020, Capgemini, 2020.

The greater emphasis on cost management is another significant trend. The industry's short- and medium-term revenue growth and profitability are anticipated to decline as a result of COVID-19. The transformation of operating models with a focus on building IT infrastructure is anticipated to have the biggest impact on cost optimization, compared to short-term cost reductions, such as those involving headcount and real estate, for example (Global Wealth Management Report, 2020; Financial Technology Partners Fintech industry research, 2017).

Lower margin is one of the major problems in the sector, even if assets under management have been increasing steadily. Lower margins are a result of low-interest rates, expensive staff and technology costs, existing restrictions, and probable future regulations (Avery, 2020; Euromoney, 2020).

In order to preserve returns, such macroeconomic conditions may also point to a rise in demand for alternative, customized investments (BNP Paribas, 2018; Deloitte, 2020).

Moreover, because of rising regulatory requirements and expensive customer acquisition costs, the wealth management sector is predicted to experience increased market consolidation. The value of mergers and acquisitions (M&A) transactions rose by 30% in 2019 compared to 2018, setting a record for M&A transactions in the wealth management sector (CB Insights, 2020).

Additionally, it is anticipated that Big Tech corporations will enter the wealth management industry. The term "Big Tech" refers to multinational technological companies that gain an advantage by collecting, analyzing, and expanding into new, non-core business areas.

The most significant Big Tech players are "GAFA" (Google, Amazon, Facebook, Apple), a group of US-based enterprises, as well as Alibaba and Tencent, two Chinese firms. Several Big Tech businesses currently provide numerous financial services.

Services. More and more youthful clients are choosing Big Tech over traditional financial services providers due to their advantages in terms of high customer awareness, ease of use, quick service, personalized solutions, and enticing features (Dziawgo, 2021).

The aging clientele is another important trend in asset management to take into account. The largest wealth transfer in history is anticipated to occur between 2017 and 2060, when assets valued at $50 trillion USD are anticipated to be transferred to the next generation (CB Insights, 2020).

Future HNWIs and UHNWIs will be different from today's wealthy clientele in a number of ways, including financial literacy, general speed of life, rate of wealth accumulation, and outlook on sustainability. Because of this, wealth management companies will need to refocus in order to draw in and keep future generations of HNWI and UHNWI. They must do this not only by offering a wide range of financial and non-financial services but also by building strong client relationships and providing services that are specifically tailored to their most sophisticated needs (Global Wealth 2020 Report, 2020; Xtiva, 2020).

Due to the aforementioned changes (high level of digitization, declining profitability), wealth managers now cater to the Mass Affluent, a clientele that was previously outside of their core emphasis. These customers, which are defined as households with financial assets worth less than $1 million USD, appear to be particularly alluring because the assets of the Mass Affluent are primarily made up of cash (50%) that is available for investment. The development of Wealth Tech was made possible by big data analytics, which may also reduce operational costs by up to 40% and client service costs by up to 20% (Global-Digital-Wealth-Management-Report-2019-2020, 2020).

In spite of the COVID-19 pandemic, the global wealth among HNWI and UHNWI is expected to significantly increase in upcoming years, which is presented in Table 1. Table 1. Global wealth of HNWI and UHNWI (2019 and expected in 2024)

	2019	**2024**	**CAGR* (19'-24')**
HNWI	79 trillion USD	101 trillion USD	5%
UHNWI	16 trillion USD	24 trillion USD	8%

Note: *Compound Annual Growth Rate Source: Global Wealth Management Report 2020, Oliver Wyman, 2020; CAGR – Compound Annual Growth Rate.

Wealth Tech in Wealth Management

The global financial market has undergone a significant digital shift, and the fintech industry has grown. FinTech (finance technology) is a term used to describe companies that use cutting-edge technology to offer digital solutions to the financial market. The secret to success in the fintech industry is creating goods and services that are more automated and user-friendly than those already on the market. Due to factors such as the tarnished reputation of the global financial system, the firing of seasoned financial professionals, and possible synergies with the biggest banks, the fintech industry witnessed a boom after the subprime crisis. Furthermore, problems with the banking sector in a specific nation may frequently result in the collapse of the state finances (Kolenik, 2021). The improvement of financial inclusion in developing nations is also greatly impacted by fintech enterprises (Folwarski, 2021). Investment services, risk management, payment services, data privacy management, and digital client servicing platforms are the major areas of concentration for fintech enterprises (Kondraciuk and Zaleska, 2019; Lzak, 2018).

Wealth Tech is a sub-sector of financial technology that focuses on managing client portfolios and investments via the use of digital technologies as well as specialized goods and services.

Wealth Tech as a part of the Fintech Sector

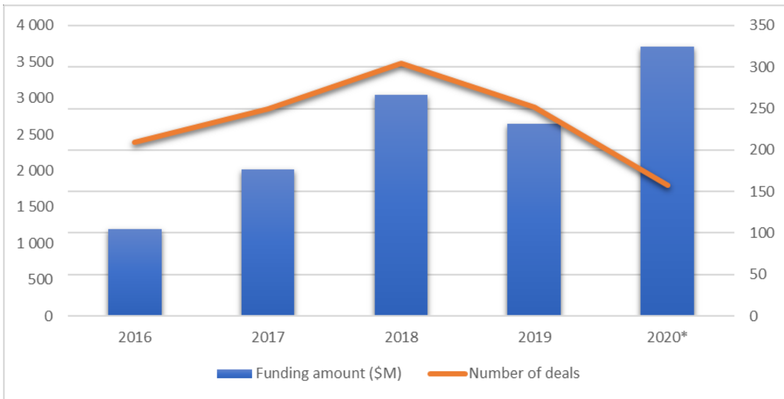
Wealth Tech, according to BBVA (BBVA, 2020), is defined as "Financial technology companies creating digital solutions to transform the investment and asset management industry." The phrase "technological developments and services created to transform existing investing solutions (wealth management, trading) across all asset classes" is another definition of wealth technology. 2018 (Chishti and Puschmann).

Since Wealth Tech businesses raised approximately 3.5 billion USD in 2020, a 30% increase over 2019, the industry has been growing (CB Insights, 2020; CB Insights, 2020). Chart 4 displays the financing of Wealth Tech startups from 2016 to 2020. Despite the COVID-19 pandemic, the Wealth Tech industry has experienced the highest level of fundraising success in 2020.

Several services of Wealth Tech are as follows:

- Robo-advisory - giving a comprehensive offering to a specific client without an advisor's physical presence. Taking into account a number of roboadvisory's major benefits, such as its lower cost (2–3 times lower fees than advisors), greater accuracy, quickness, objectivity (complex algorithms are able to analyze specific financial instruments more efficiently without any emotional component related to stress), and convenience (no need in the meeting with an advisor), local financial advisor and availability for round-the-clock portfolio monitoring). UpTo manage up to 10% of the entire global assets under management By 2020, there will be automated financial advisors, with considerable potential growth in the ensuing 2-3 years.
- Robo-retirement: managing savings programs in the direction of retirement.
- Digital brokerage offers access to both retail investors and business options for investing in the stock market and other markets. organizations• Micro investment - enables consumers to make tiny investments without paying a large commission.
- Algorithmic trading, which gives users access to real-time, automated trading operations.

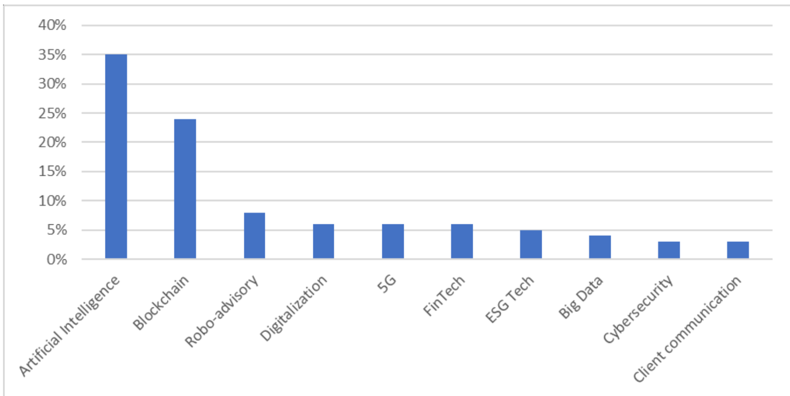
B2B software (Cheung, 2019; Electronic Identification, 2020) offers businesses digital solutions. (Cheung, 2019;



Note: *2020 data available for 10 months (until October 2020)
Source: Wealth Tech Funding Is Having A Record-Breaking Year, CB Insights, 2020. Wealth Tech Market Map: 110+ Companies Building the Next Generation Of Wealth Management Tools, CB Insights, 2020.

One of the most important global industrial trends is the rapid digitization of wealth management. The top technologies, as determined by wealth managers and private bankers worldwide, are shown in Figure 5. We may infer that Wealth Tech will keep growing in the future because these companies use artificial intelligence, blockchain, big data, and robo-advisory in their operations. Several significant Wealth Tech companies are listed and examined below. They were selected based on their scope of operations, overall recognition, and total financing amount.

Figure 4; Technologies with the Highest Importance in Wealth Management



Source: Avery H., Private Banking and Wealth Management Survey 2020: How to win in wealth over the next decade, Euromoney, 2020.

- **Avaloq:** Although it was established in Zurich in 1985, the company's main specialties are wealth management technologies and digital banking solutions.

The company offers banks and wealth managers in Europe, Asia, and the Americas cloud-based solutions. It is one of the world leaders in wealth technology with 4.5 trillion CHF in assets under management (AUM) and 150 banks served (wealthtech100.com).

- **Addepar:** *A wealth management platform that enables analytics, performance reporting, and data aggregation, Addepar was launched in 2009. In November 2020, Addepar raised 117 million USD, making it one of the largest Wealth Tech deals that year. It will manage 2.5 trillion USD across more than 25 nations in 2021 (addepar.com; PR Newswire, 2020).*
- **Wealth Front:** Established in 2011, Wealth front offers a low-cost platform for investment management with a focus on portfolio optimization. It has 450 thousand clients globally and raised USD 205 million (crunchbase.com; wealthfront.com).
- **eToro, a 2007:** Founded trading platform with 20 million users worldwide and wants to go public through a merger with FinTech Acquisition Corp., offers zero-commission trading and permits investors to share and duplicate their bets.

The greatest wealth technology-related transaction in the first half of 2021 is valued at 10 billion USD (Bloomberg News, 2021; Financial Technology Partners, 2021).

- According to Crunchbase and Robinhood, one of the biggest online trading platforms in the world, Robinhood has raised 5.6 billion dollars.
- Blockchain.com, one of the world's major cryptocurrency networks, was created in 2011 and has 30 million members, 500 million USD in investment, and 800 billion USD in transaction volume.
- Apex Clearing was established in 2012 and focuses on risk and compliance, as well as portfolio management, rebalancing, clearing, custody, and reporting.
- (Crunchbase.com; dataminr.com) Dataminr is a firm that offers a platform for risk identification and real-time events that are powered by artificial intelligence.
- Invest Cloud was established in 2010 and offers wealth managers and private bankers cloud-based platforms with more than 300 client-specific apps. Its assets under management reached $2 trillion USD in 2021, and the company's valuation surpassed $1 billion USD (Finextra, 2021; investcloud.com).

Future Outcomes and Conclusion

The following hypotheses will be put to the test in this research paper:

- Digital transformation will become one of the major trends in the world of wealth management.
- The impact of wealth technology on the global wealth management industry is growing.

Both hypotheses can be successfully demonstrated after applying the following techniques: critical analysis of literature, including research articles, and comparison analysis of presented data. The wealth management sector must adjust to a new clientele because of the generational wealth transfer towards millennials and Generation Z. Making full use of digital channels to operate and connect with the client is one of the important adjustments that must be addressed. This trend was further enhanced by COVID-19, as a sizable portion of managers gave digital transformation top priority after the epidemic.

Wealth Tech has been able to establish itself as a crucial aspect of wealth management as a result of the rapid digital change. It can be deduced that Wealth Tech's role in wealth management will become more significant and it could draw more clients, who are both younger and less wealthy, thanks to funding in the billions of dollars on new Wealth Tech companies and strong reliance on major technologies like artificial intelligence, robo-advisory, Big data, or blockchain.

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