Where will wealth take clients next?

2021 EY Global Wealth Research Report

The better the question. The better the answer.
The better the world works.

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Contents

Welcome

Uncertain times make us question what we value. Wealth managers must use deeper, richer insights to provide clients with more holistic, tailored and meaningful experiences.

Wealth managers faced an unsettling combination of practical disruption and enforced reflection as a result of the COVID-19 pandemic — client behaviors are changing rapidly, as they seek to financially de-clutter their lives and refocus on their most important priorities.

Our research confirms that the pandemic has had far-reaching effects on wealth clients' beliefs and world views. These go far beyond investors' ever-growing appreciation for digital channels. Clients are becoming more risk averse, are increasingly focused on achieving personal goals aligned to their purpose, and want to enhance their financial protection, diversification and security.

As they contemplate their providers, clients value a range of tangible and intangible factors that span three key dimensions of the wealth experience: the expectation of core services they receive, how they engage with those services, and their ability to achieve purpose with their wealth.

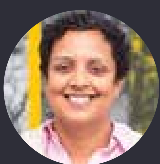
To explore these themes, we surveyed 2,500 wealth management clients in 21 geographies. This report sets out our key findings, which include:

- **Service**: Clients expect a greater range of tailored services than many firms can provide alone. Nearly half also want to consolidate all their financial activities in one place. Firms that can use partnering to integrate client services could unlock huge gains in wallet share.
- **Engagement**: The growing use of digital tools is changing how clients view their providers. Many expect their wealth relationships to become less personal (e.g., less face-to-face) in the future. But clients are also far more open to sharing their data than wealth firms realize, especially among younger generations, in exchange for tailored experiences.
- **Purpose**: Most clients now have sustainability goals, but providers' understanding is failing to keep up. A broader understanding of purpose will help firms to implement clients' beliefs, meet their growing expectations and build lasting relationships.

Complementing a strategic focus on service and engagement with a clear emphasis on purpose holds the key to elevating client experiences and demonstrating the long-term value of wealth management.

We invite you to read our key findings in this report, and visit ey.com/wealthresearch to learn more.

Americas



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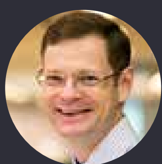

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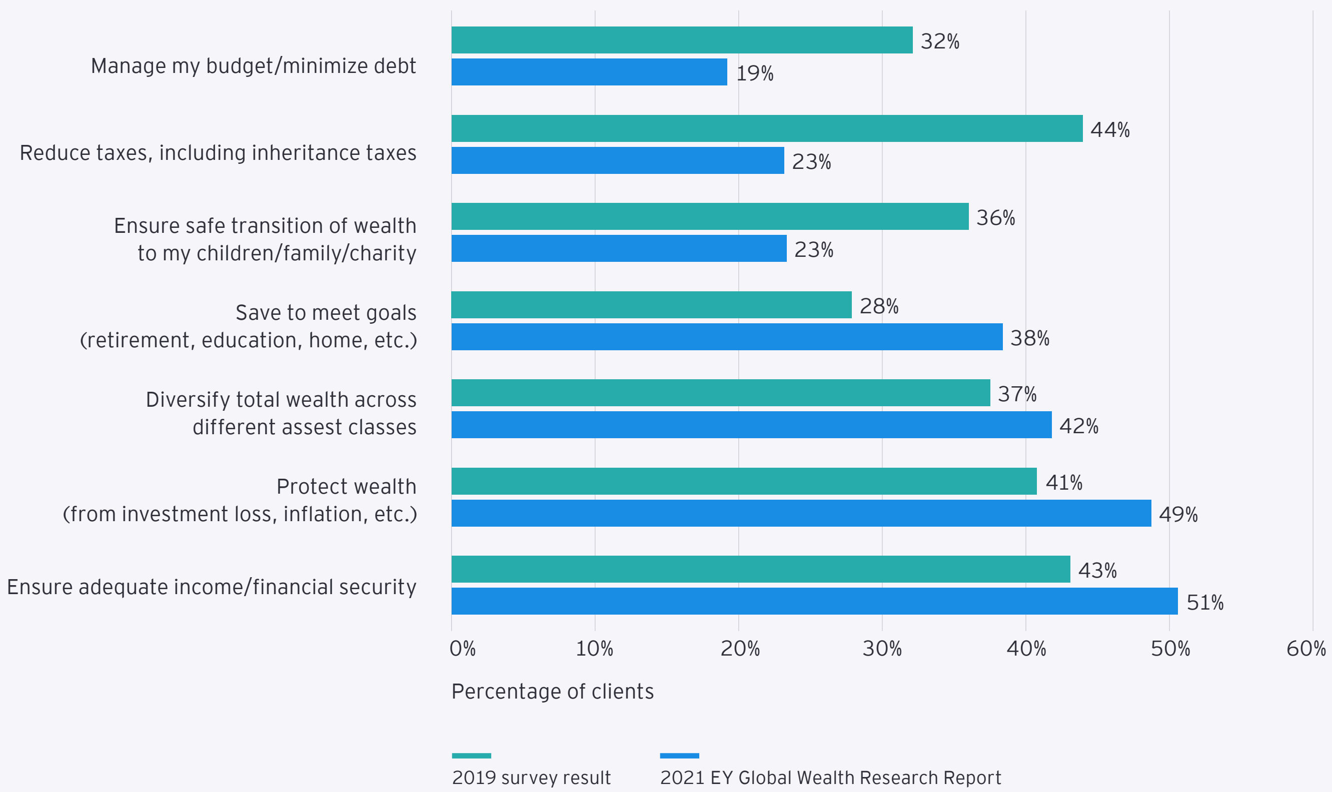
Setting the scene

The wealth management industry never stands still, but the period since our last report has been exceptionally disrupted by COVID-19 and its knock-on effects. We therefore open this report with an overview of seven vital client trends identified by our research. These provide essential background for the report's key findings and allow us to put specific data points into the broader context of clients' priorities for a post-pandemic world.

Clients are now more focused on asset preservation and security

The 2019 EY Global Wealth Research report showed that clients were setting a variety of financial goals. Depending on their circumstances, these ranged from seeking greater tax efficiency to legacy planning and income protection. Following a difficult year in 2020, clients have now narrowed their financial goals. They are increasingly focused on meeting their personal goals, diversifying their investments, protecting their wealth and maintaining financial security.

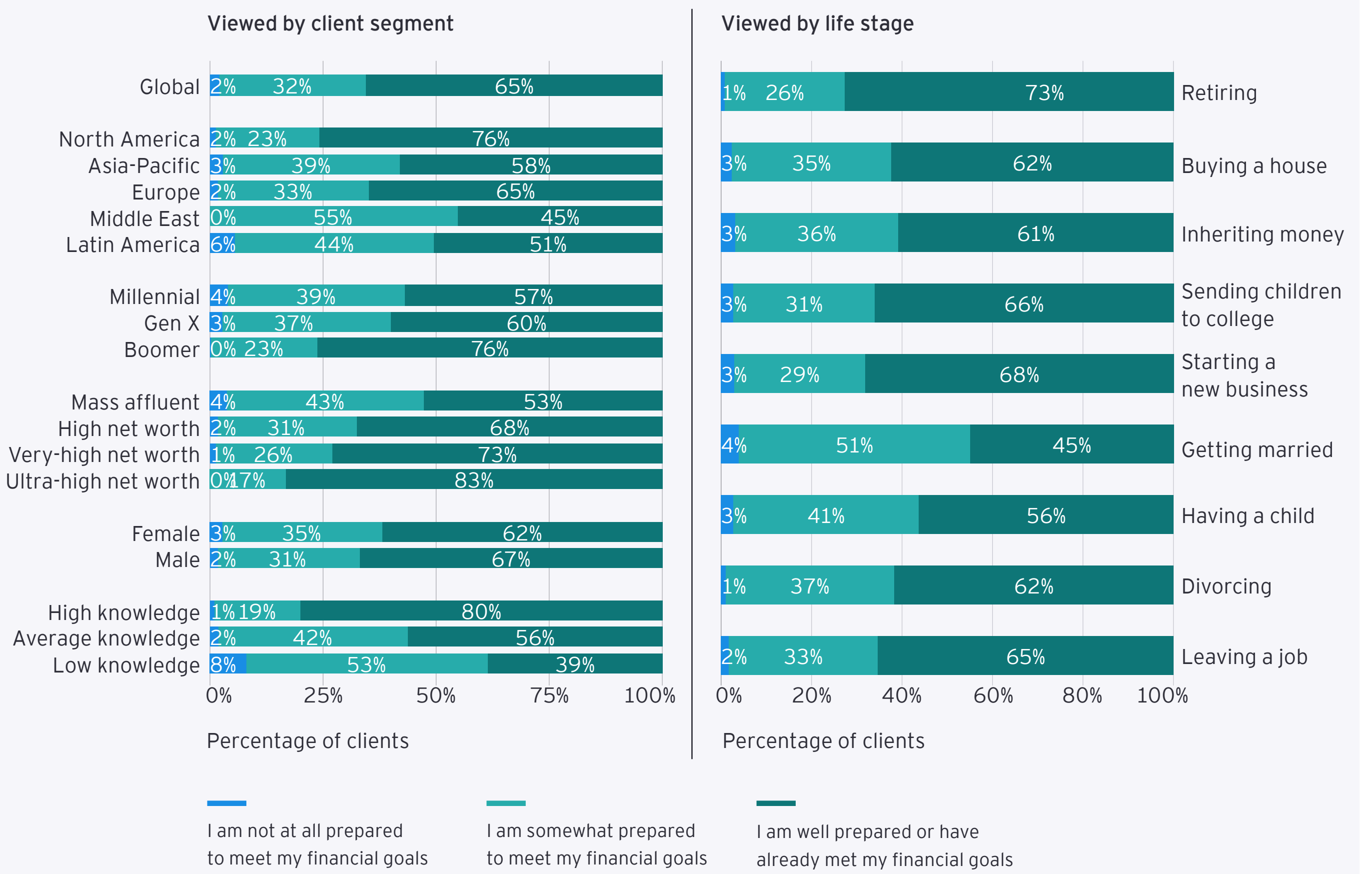
The main financial goals that clients discuss, manage and delegate to their wealth manager



A lack of investment knowledge is holding clients back from fully achieving their financial goals

Two-thirds of wealth clients have met their financial goals or are well-prepared to do so, but younger and less knowledgeable clients feel notably less confident than their older, more knowledgeable counterparts. The generational divide is apparent in investors' experiences of major life events. At retirement, as they contemplate fewer distractions and the drawdown of their wealth, almost three-quarters of investors feel confident in achieving their financial goals. In contrast, confidence is typically weaker when clients get married or have children, reflecting their increasing responsibilities and growing need to accumulate wealth.

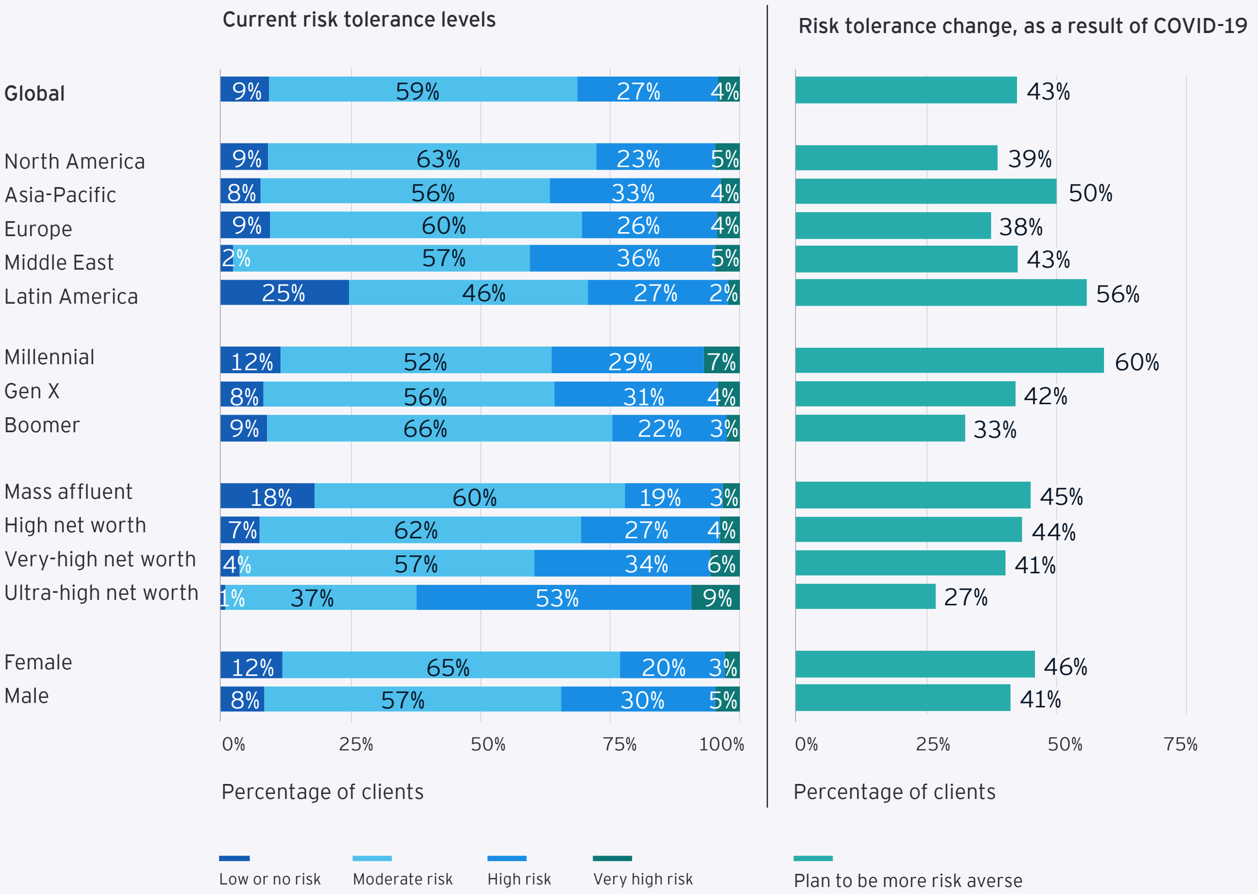
The degree to which clients are prepared to meet their financial goals



COVID-19 set to make the next generation of clients more risk averse

As a group, wealth clients are risk-averse, with just a third of clients preferring investments with high or very high levels of risk. The wealthiest clients and male investors are more likely to have higher risk tolerances. It is also striking that nearly half of clients expect to become more risk-averse due to COVID-19. The youngest clients plan to reduce their risks the most, contradicting the stereotypical image of younger investors seeking out high-risk assets such as cryptocurrencies. The events of 2020 have changed this group's investing outlook for the foreseeable future. Female clients and the mass affluent are also more likely to reduce their risk appetite.

The current level of risk tolerance of clients and the changes they expect to make as a result of COVID-19



Asia-Pacific markets declare a high propensity to move assets by 2024

A smaller proportion of clients than in the past are looking to move between wealth providers. In 2019, the EY organization found that 32% of clients across the globe planned to move money, down from 40% in 2016. In 2021, just 28% of clients expect to move wealth relationships over the next three years.

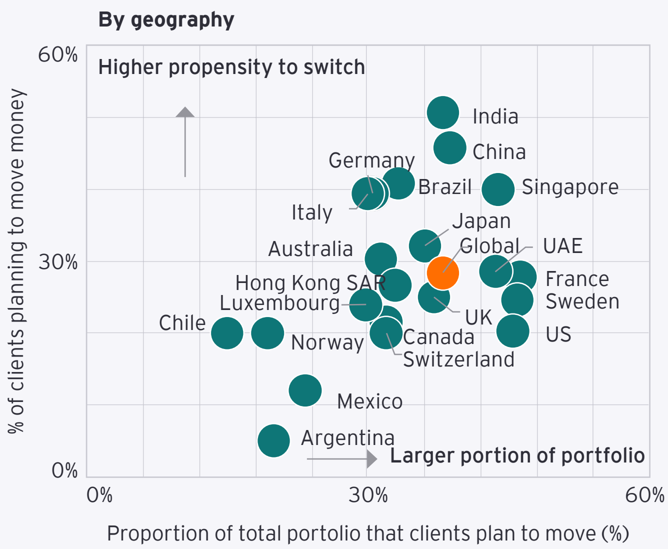
When these clients do move, they plan to transfer an average of 38% of their assets to a different provider. Millennials and clients in Asia-Pacific are the most likely to move assets, while clients in the US are less likely to move (20%) but plan to shift a larger proportion of their assets when they do so (45%).

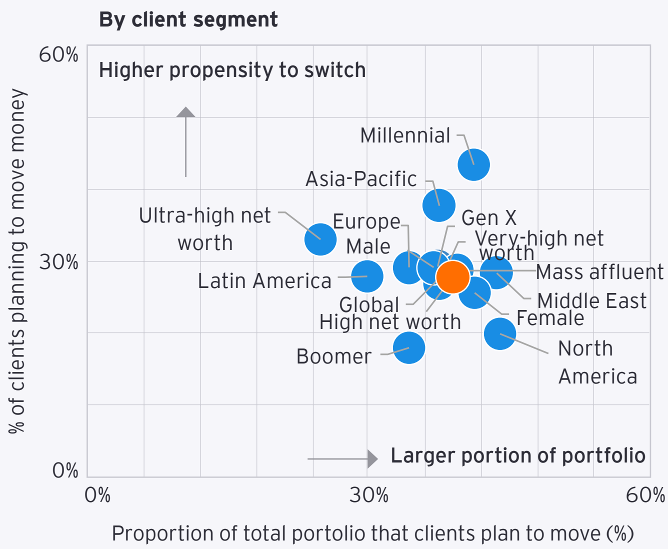
In 2021, just

28%

of clients globally expect to move wealth relationships over the next three years.

The degree to which clients expect to move money to different wealth managers over the next three years and the expected size of their portfolio





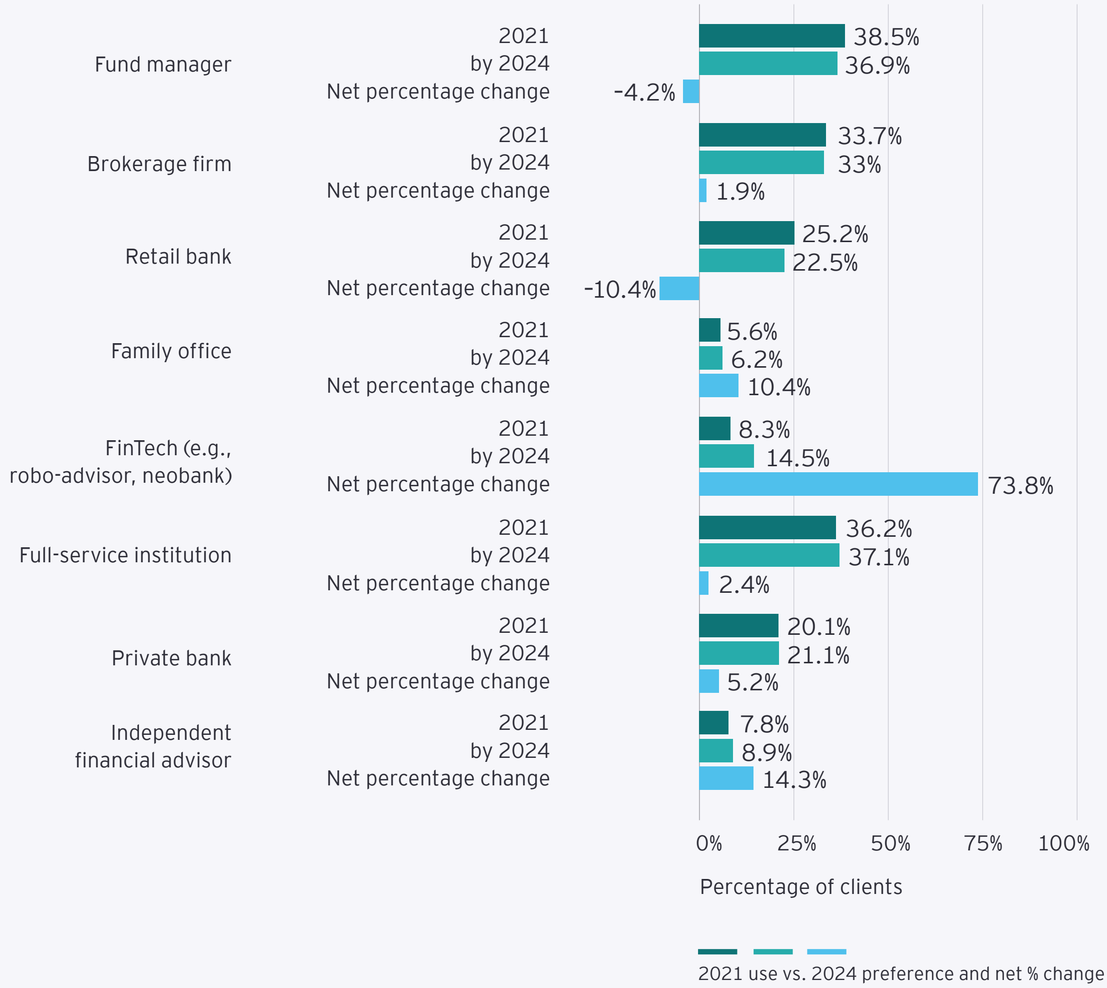
Global overall average

FinTech providers look set to make the greatest gains in client relationships over the next three years

The global wealth industry is one of the most fragmented financial sectors, and client tastes are evolving rapidly. Clients across the world plan to adopt more digitally enabled banking, wealth and investment-related FinTech services. This trend is strongest in but not isolated to Europe, where innovation is accelerating rapidly.

Family offices are also expected to enjoy further growth, and independent advisors are predicted to enjoy expansion, especially in North America. Private banks, which were losing client appeal in 2019, should also gain ground — especially in Europe. In contrast, retail banks continue to fall out of favor with clients, although North America bucks this trend.

The expected change in use of wealth management providers over the next three years

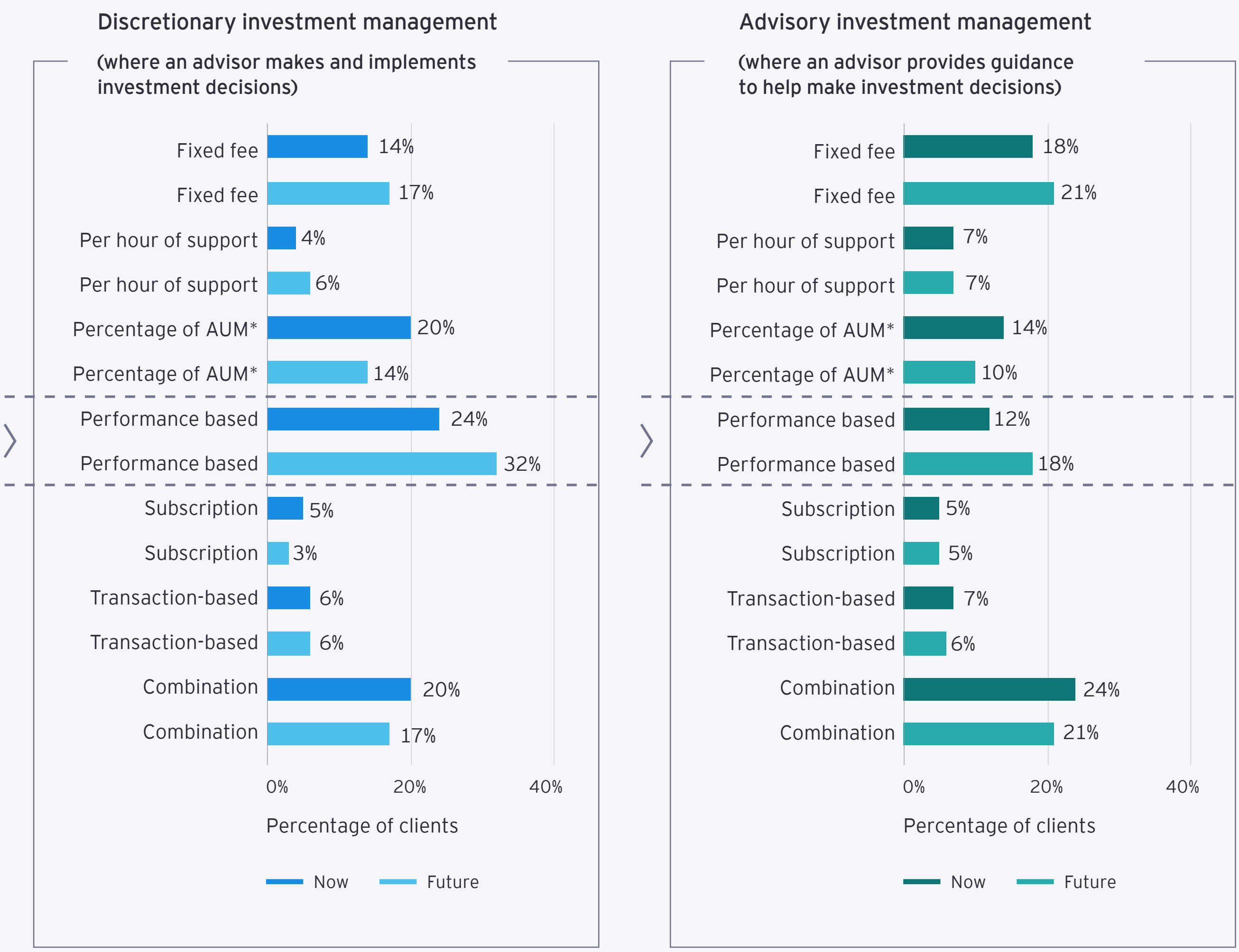


Note: percentage change figures may differ due to rounding.

Clients prefer performance-based discretionary investment management fees

Clients want to change the way they pay for specific wealth and investment services. For discretionary investment management, there is growing preference for performance-based fees, which create a stronger perception of alignment between charges and value creation. The demand for new charging models is climbing for advisory investment management services, too.

The change in preference in paying for discretionary and advisory investment management



Note: the chart does not include "I don't know" or "not applicable" responses; *Assets under management.

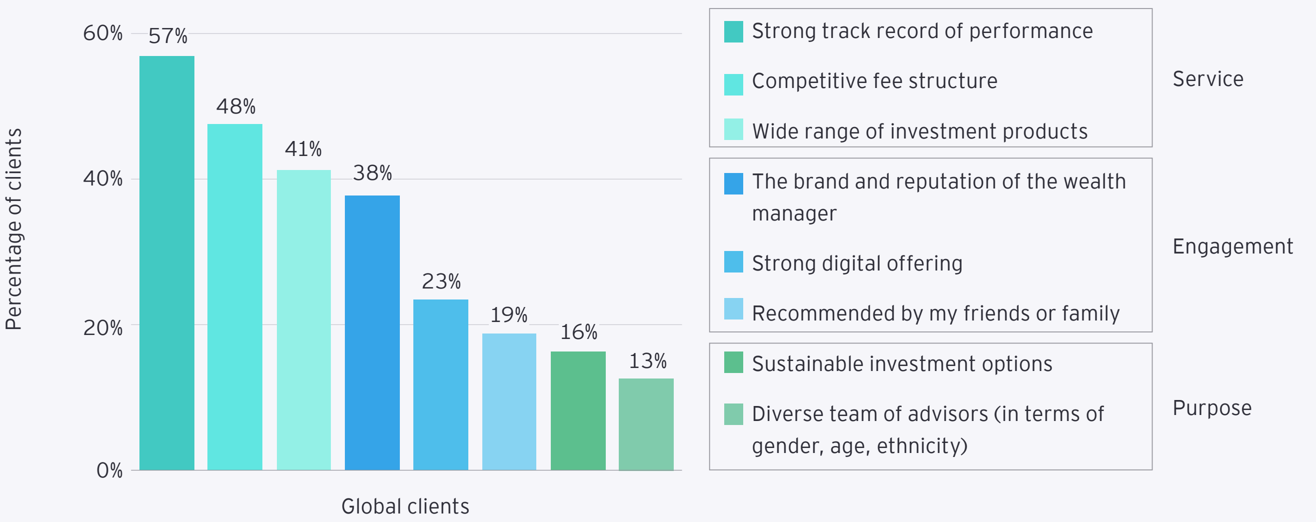
Service, engagement and purpose are key considerations when selecting a wealth management provider

As they commence a new provider relationship, clients are focused on a range of factors covering three key dimensions of the wealth proposition.

- Core service elements, most notably performance, fees and the product suite, are the first and most obvious priority.
- However, engagement-related factors such as branding, reputation and the digital offering are also seen as important indicators.
- Finally, up and coming areas connected with purpose such as sustainable investing and the diversity of advisor teams are also increasingly valued.

In the three main chapters of this report, we focus on our key research findings across each of these dimensions.

Important reasons to clients for selecting a wealth manager

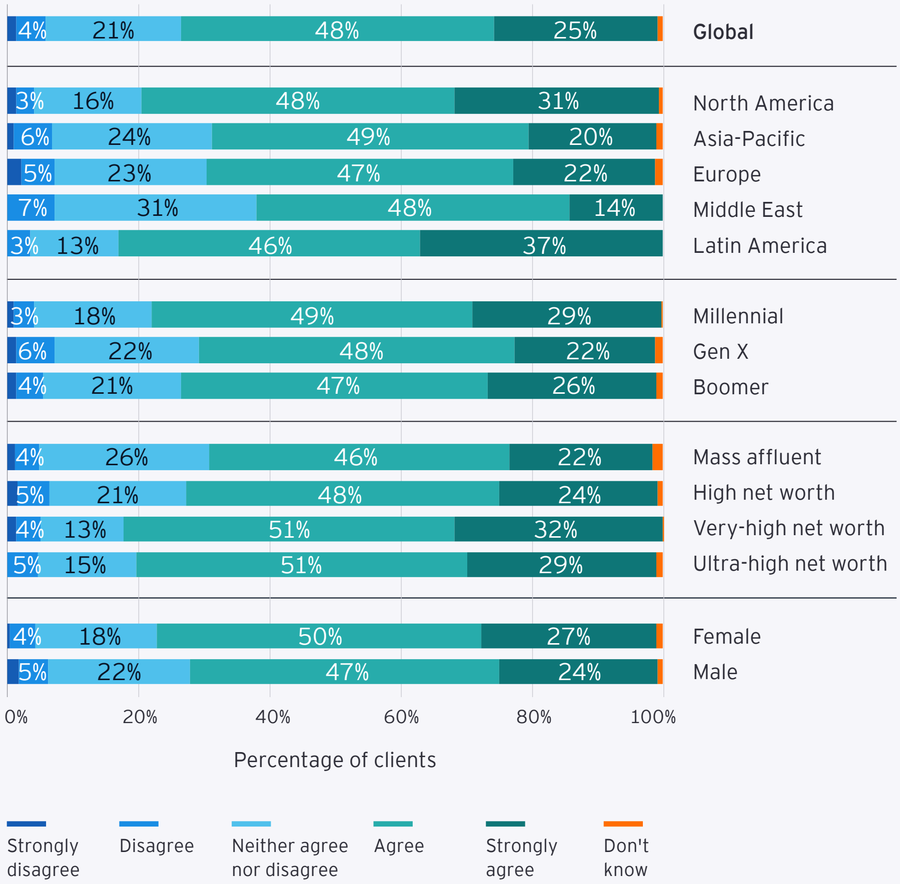


1 Service

The nature of value – and how it's delivered – is changing

Wealth management clients are increasingly focused on value, with 73% of clients worldwide indicating that wealth managers are successfully delivering value for money – a very positive finding that suggests wealth firms have proven their value by guiding clients through the disruption caused by COVID-19.

Clients that indicated the service they receive is **value for money**



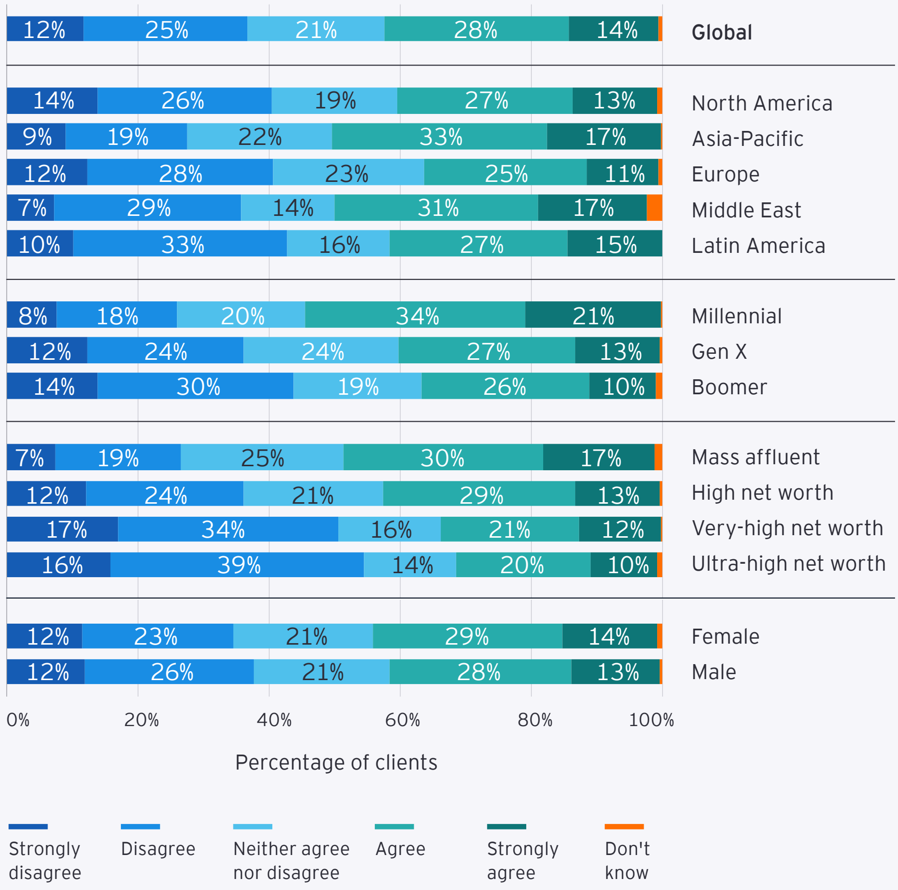
A strong sense of value for money is also evident from the proportion of clients who are aware of trading and product fees, which has increased to 87%, up from 83% in 2019.

Set against that, the fact that 42% of investors remain concerned about hidden costs when working with their wealth manager, driven by a more anxious younger audience, which suggests there is scope to improve transparency. That figure rises to 50% in Asia-Pacific, where regulation has done less to improve fee transparency than in Europe or North America and where up-front load and trailer commissions are still common in many markets.

42%

of investors remain concerned about hidden costs when working with their wealth manager suggests there is scope to improve transparency.

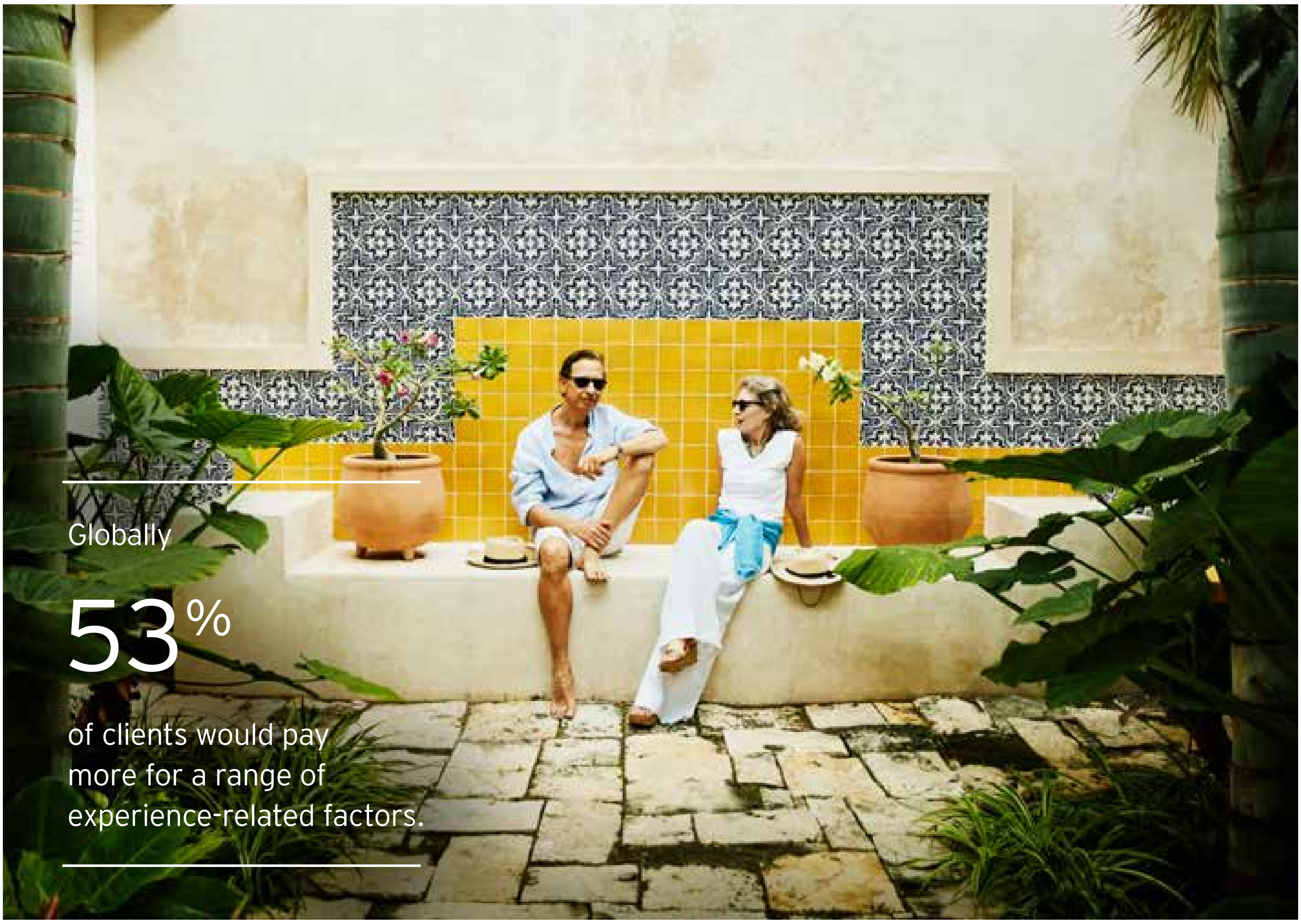
Clients that indicated they are **concerned about the hidden costs** when working with their wealth manager or advisor



Pricing is a key driver in choosing a wealth provider for half of all investors, and there are growing expectations for the "basic" elements of wealth offerings to be provided at zero cost. By 2024, an increasing number of investors will expect free transaction services — such as equity trading — and over 30% will expect free portfolio reports. In the future, we believe clients may increasingly expect more qualitative elements such as financial planning or advice or investment education to be provided for free as well.

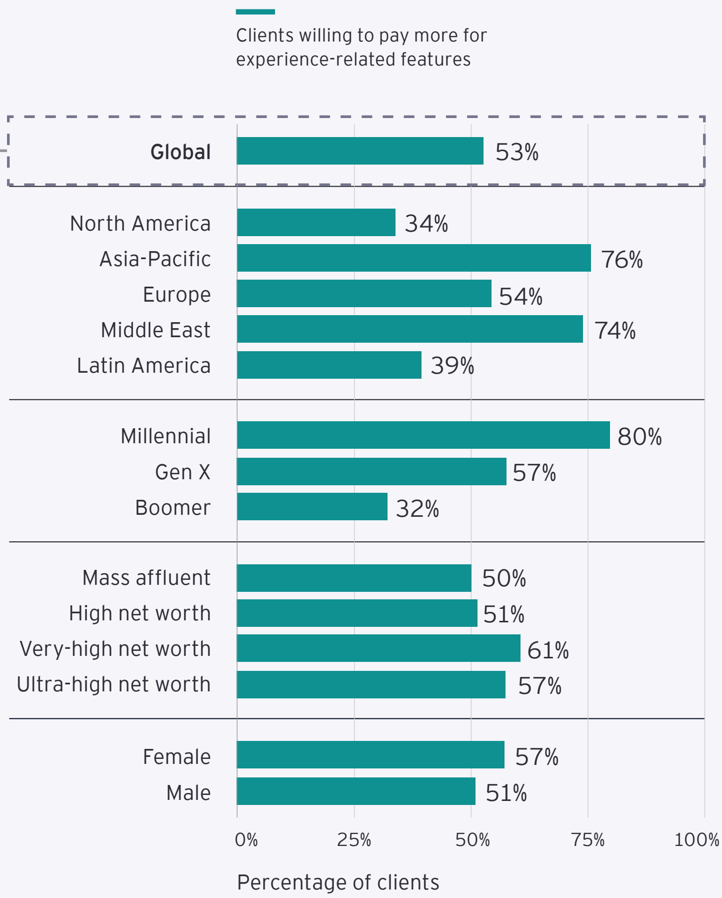
The good news for providers is that while clients are expecting more for free, they are still willing to pay extra for tailored elements of the wealth proposition. For example, 49% of investors would pay more for increasingly personalized and specialized products and services.

There is a particularly strong link between positive experiences and willingness to pay more. Globally, 53% of clients would pay more for a range of experience-related factors. North American clients are less inclined to pay than most, perhaps reflecting the strength of competition in the US market. In contrast, the willingness to pay more for positive experiences rises to 61% among very-high net worth investors, 76% in Asia-Pacific and 80% among millennial clients.



Features that clients would be willing to pay their wealth manager more for

Experience	Better, exclusive and more reliable digital services	✓
Experience	More quality and quantity of contact with your advisor	✓
Experience	Financial training and education tailored to you	✓
Experience	A membership connecting you with other financial or specialist services	✓
Experience	Easily accessible and consolidated view of all your financial products and wealth in one place	✓
Product	More personalized recommendations for specific products and services	•
Product	A larger variety of investment options and product types	•
Product	Access to specialist or alternative investments (e.g., private equity)	•



In short, clients' concepts of value are changing fast. The way firms deliver value must change, too. With basic investment products and services becoming available at very low cost, the ability to deliver tailored experiences is becoming the key driver of pricing in wealth management.

Firms should urgently explore new models of value, establishing that they can deliver genuinely differentiated experiences in areas as varied as advisor engagement, tailored products, customized financial education or membership benefits.

Co-opetition will help to develop richer, tailored services

Global demand for more holistic approaches to wealth management is growing. Our research suggests that three complementary elements will be key to developing wealth services that can increase the financial well-being of clients and their families.

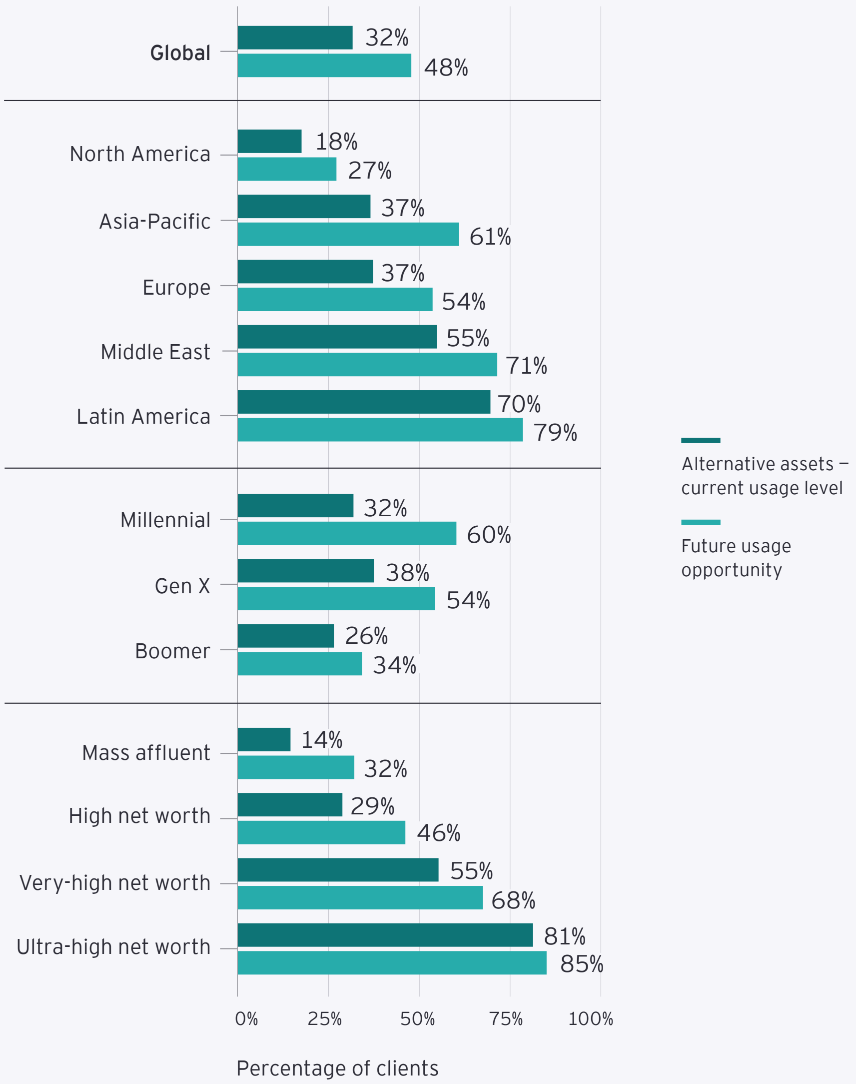
The first of these is diversification. All client groups see growing value from a wide spectrum of products and services, with investors expecting to diversify the financial products they use from an average of 4.1 product types today to 5.5 by 2024. Demand for diversification is strongest in Asia-Pacific, where clients anticipate using an average of 6.1 financial products within three years, and among millennials, who expect to adopt an average of 6.4 product types by the same date.

Most notably, investors expect to make much greater use of alternative investments. Definitions vary between markets, but increasingly include hedge funds, private markets, real estate, infrastructure and commodities, as well as digital assets such as cryptocurrencies. One in three clients invests in alternatives today, but this is projected to reach 48% by 2024. Despite an increasing level of risk aversion among millennials, appetite for alternatives is growing particularly fast among the group, indicating a potential disconnect in the risks associated with alternative investments — those with a high level of investment knowledge, and outside North America, are also showing a higher interest in this asset type. For example, some Swiss and Asian private banks are now offering crypto and digital assets trading and custody ecosystems through their digital exchanges.

One in three

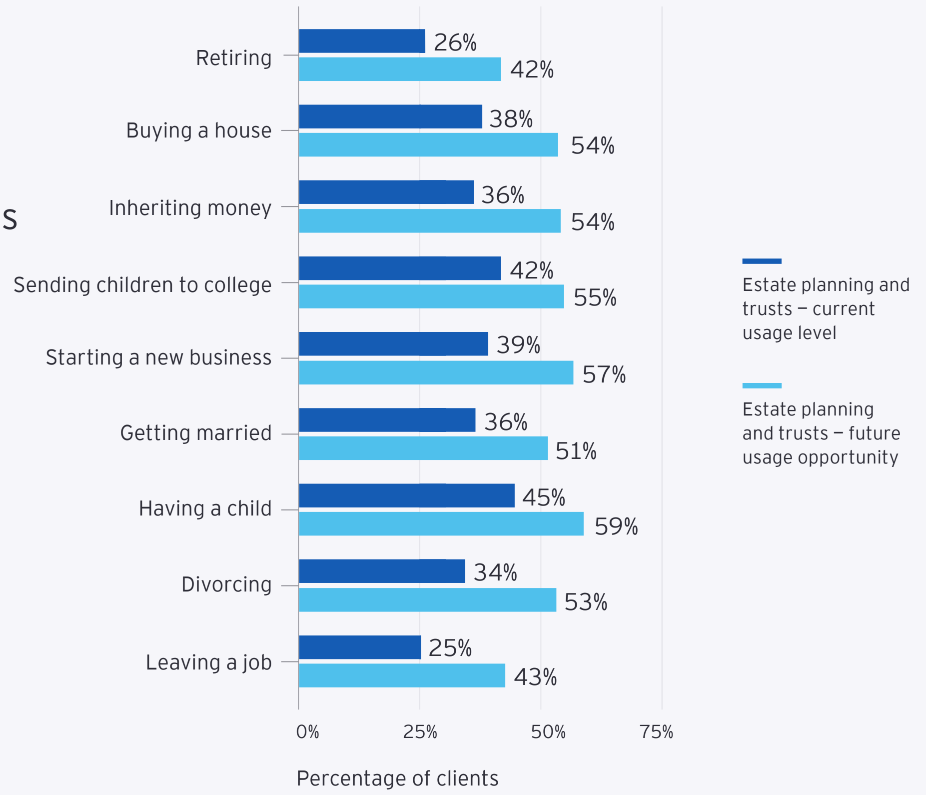
clients invests in alternatives today, but this is projected to reach **48%** by 2024.

Current use of alternative investments, future potential use (including consideration)



The second key element of future wealth services will be more tailored advice. Our research shows increasing demand for planning services, with the proportion of investors using estate and tax planning expected to grow from 30% today to 44% and 45% respectively by 2024. Appetite for personalized financial support is especially strong when the transition between life stages increases clients' personal responsibilities. For example, 45% of investors already seek advice on estate planning when they become parents, and this is expected to rise to 59% over the next three years.

Current use of estate planning and trusts services, future potential use (including consideration) by clients at various life stages



The third leg of next-generation wealth management will be enhanced protection. The COVID-19 pandemic accelerated the wellness agenda, and clients increasingly expect wealth providers to protect their financial, physical and emotional well-being and that of their families. The need to protect clients' interests extends from hedging against market volatility to maintaining personal health. This is illustrated by growing efforts from some life insurers to leverage their networks and capabilities into "health and wealth" propositions.

Financial education is also critical to protection, helping to confirm that clients understand the products and services they receive. Appetite for education is highest among millennial investors, and our research shows the value of education peaks around key life events – most notably when would-be entrepreneurs start a business.

The correlation between financial education, financial knowledge and appetite for advice means it is very much in wealth managers' interests to prioritize this area.

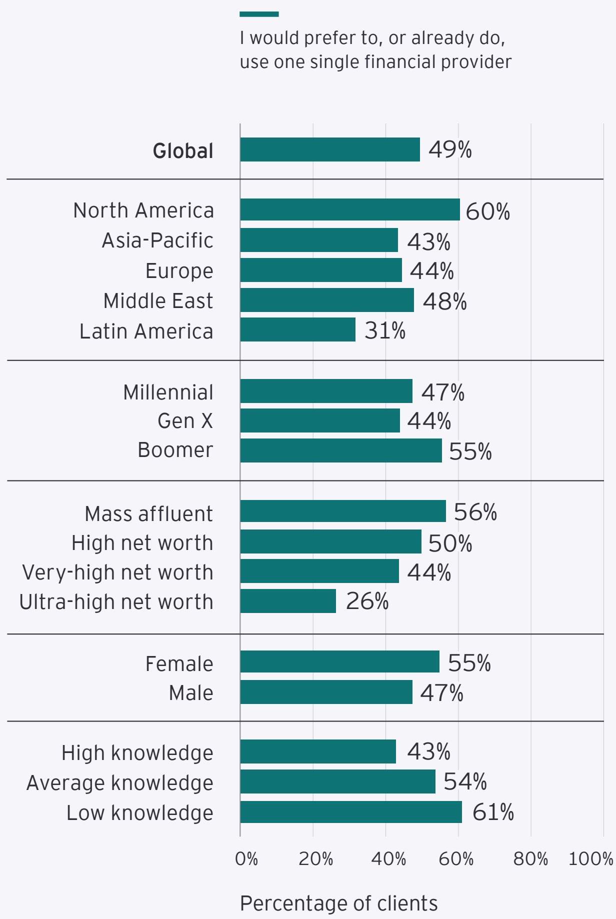
The need to deliver richer, tailored and more holistic services in the future will have profound implications for wealth managers' service models. Many firms will want to enhance their ability to partner with other companies. That includes technology providers and other financial providers, such as alternatives managers or health insurers. Excellent data management, alignment with client goals and the ability to build technology connections will be increasingly vital. In some circumstances, it may even mean collaborating with rivals, using "co-opetition" (collaboration with competitors) to provide clients with niche investments, local expertise or customized protection.

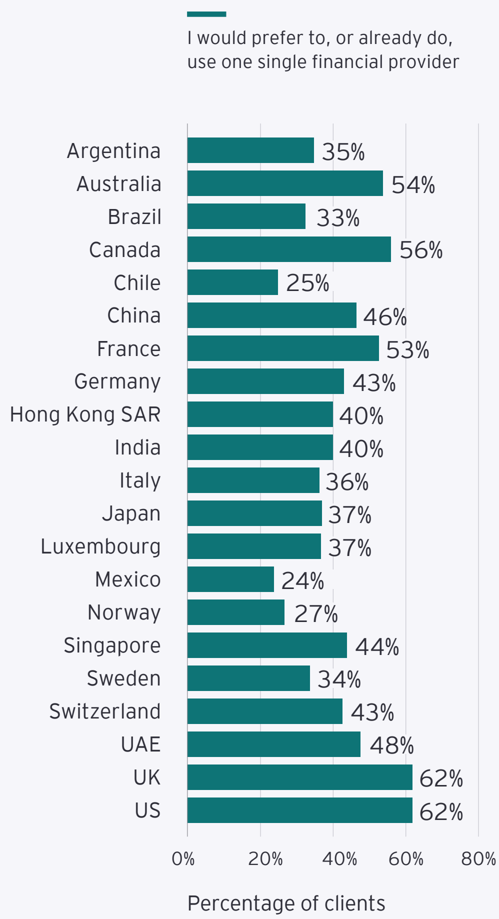
What comes next? Integrated financial relationships

Worldwide, nearly half of investors want to consolidate all their financial activities in one place. More than three-quarters of that group – no fewer than 38% of all clients – have yet to choose a single provider. This is a huge opportunity for wealth firms to integrate a full range of financial services, including banking, insurance, wealth and investments into single client relationships, unlocking major gains in wallet share.

However, appetite for consolidation varies significantly between regions. It is comparatively low in markets such as Brazil and Hong Kong SAR but much higher in markets such as Australia, Canada, the UK and the US where the financial advisor model has a long history. There are also wide variations between investor types. The desire for single financial relationships is twice as strong among the mass affluent as among the most wealthy, higher among women than men, and more marked among clients with lower levels of financial knowledge (61%). These variations suggest that different investor groups see different benefits from integrated relationships. It is likely that a balance needs to be made between delivering the efficiency of a single provider while managing the diversification of risk. In turn, trust as a strategy is important, with wealth managers and advisors relying on their reputation to gain the trust of clients.

The extent clients would prefer to consolidate with one financial provider in the future





Clearly, not all investors are seeking a single financial relationship. But even here there's scope for more firms to act as the primary advisor. Among investors who prefer multiple financial providers, one in four say they would pay more to access a consolidated view of their investment portfolios, whether via a single provider or an aggregated view. This is another valuable insight, given that the desire to retain multiple relationships increases with clients' levels of wealth. Furthermore, growing regulatory pressure for open API infrastructures in Europe, Singapore and Australia should make it easier for wealth managers to deliver consolidated client views of multiple relationships.

If wealth firms are to build on these opportunities, they will need to convince clients that greater integration will allow them to achieve their goals in an easier, more tailored way. The key enabler will be a firm's ability to smoothly integrate a full range of activities for clients seeking a single financial provider, or to provide a clear consolidated overview for those preferring multiple relationships.

For some providers, the answer will be to enhance their ability to function as a one-stop shop. But most firms are likely to face tougher choices, for example between curating a universe of products and services on behalf of clients or becoming a specialist provider focused on a niche investor demographic.

Given the varying attitudes to consolidation among different investor groups, the ability to customize the degree of integration will be essential to success. This re-emphasizes the importance of collaboration with other financial providers to "deliver an ecosystem," and points to the importance of engaging flexibly with clients using multiple channels — as we explore in the next section of the report.

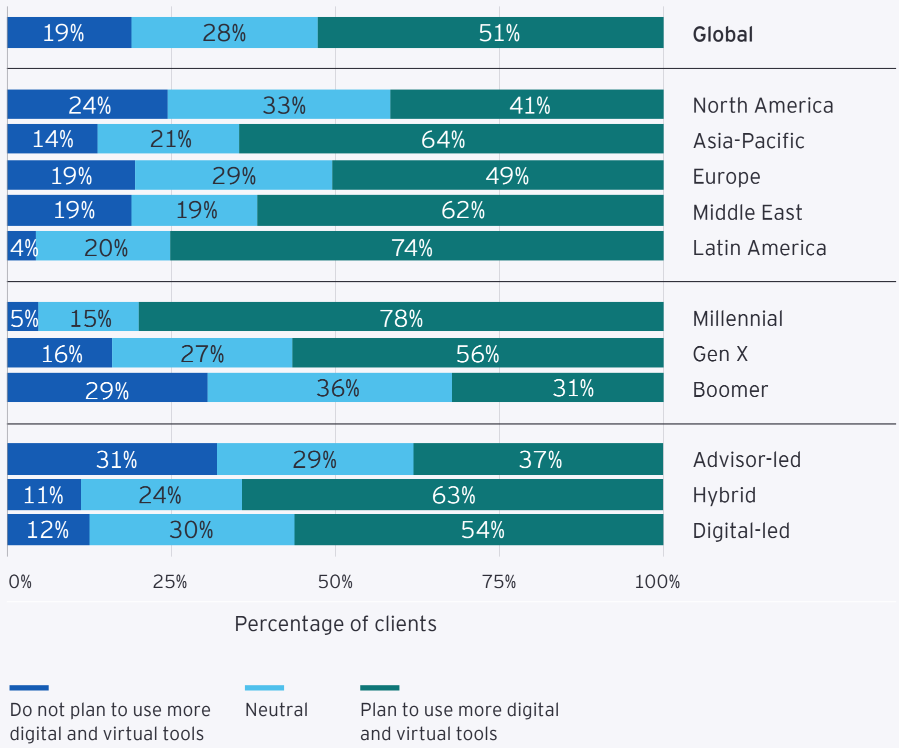
2 Engagement

Virtual doesn't have to be impersonal

The COVID-19 pandemic forced wealth clients to accelerate their use of digital technology and seems certain to lead to permanent changes in the behavior of firms and investors.

Globally, 51% of clients plan to make even greater use of digital tools in the future and the figures are higher among millennials (78%) as well as clients in Latin America (74%) and Asia-Pacific (64%). One in two wealth clients also plans to engage more with their advisor virtually moving forward. Age is a key differentiator here, with millennials twice as keen as baby boomers to receive advice virtually. Growing adoption is even making its mark on advisor-led wealth models. No fewer than 37% of clients who prefer advisor-led relationships plan to use more digital tools in the future.

As a result of COVID-19, clients plan to use more digital and virtual tools provided by their wealth manager

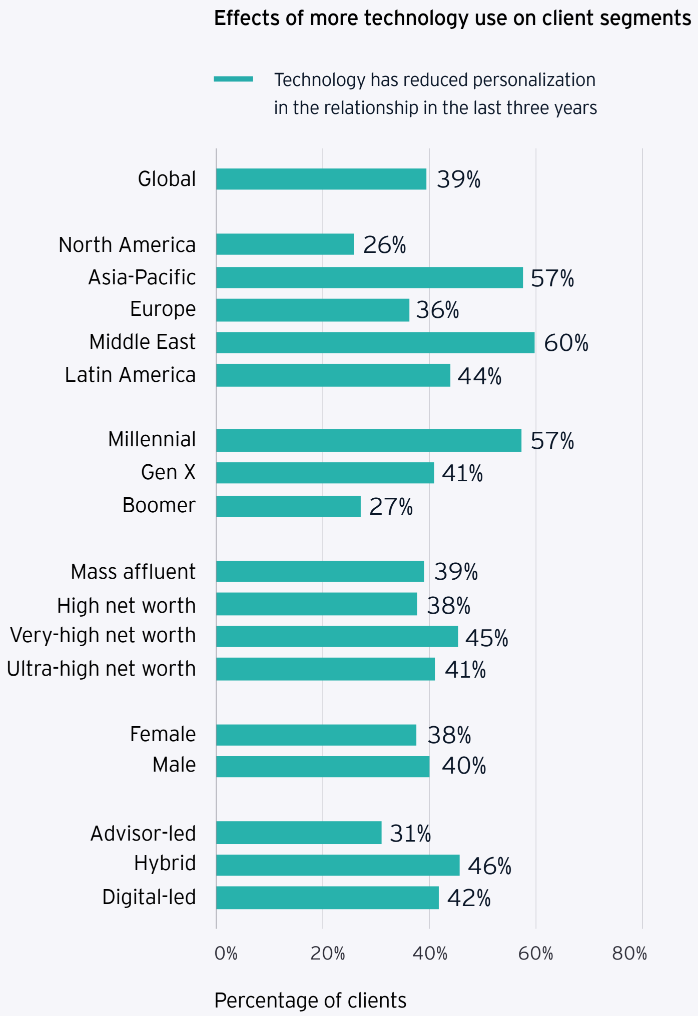


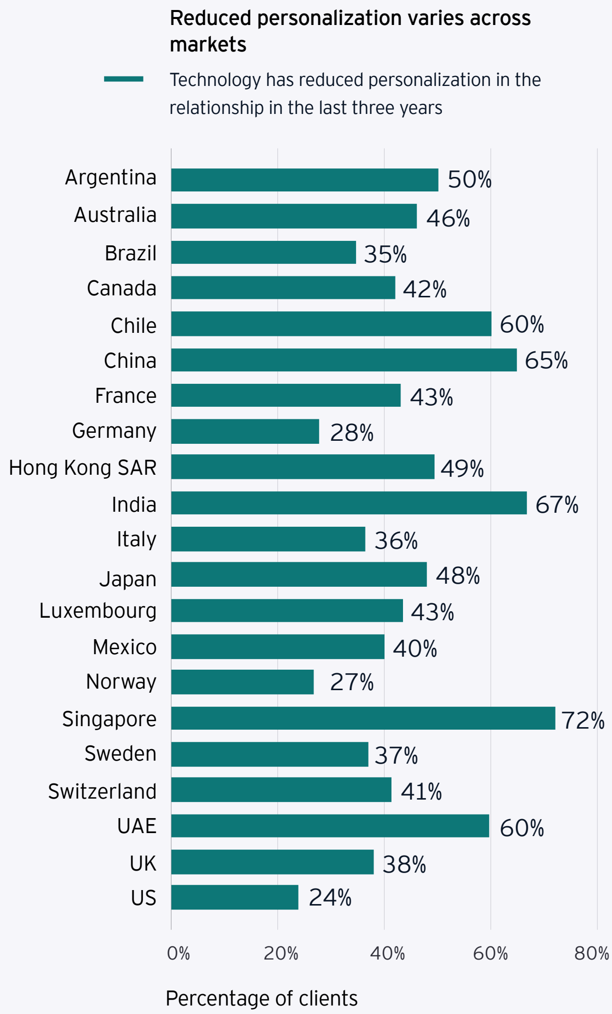
Note: the question was asked on a scale of strongly disagree to strongly agree; data has been grouped; data does not include "I don't know" responses.

On the upside, digital adoption is pushing up self-service, empowering client decision-making and reducing cost-to-serve. But the shift to digital can also have less positive consequences if legacy technology prevents firms from delivering their full offering to clients. For example, it's not uncommon for clients to find that private banks offer less digital interactivity than retail banks or brokers.

Perhaps more importantly, the growing use of digital tools is having a profound effect on how clients view their wealth relationships. More than one in three clients indicate their wealth management relationship has become less personal, and the figure is even higher among millennial clients and those who prefer digital-led or hybrid engagement models. Even a third of clients who prefer advisor-led contact described their relationships as less personal.

Clients indicate the relationship with their wealth manager has become less personal, in terms of the level of personal interaction



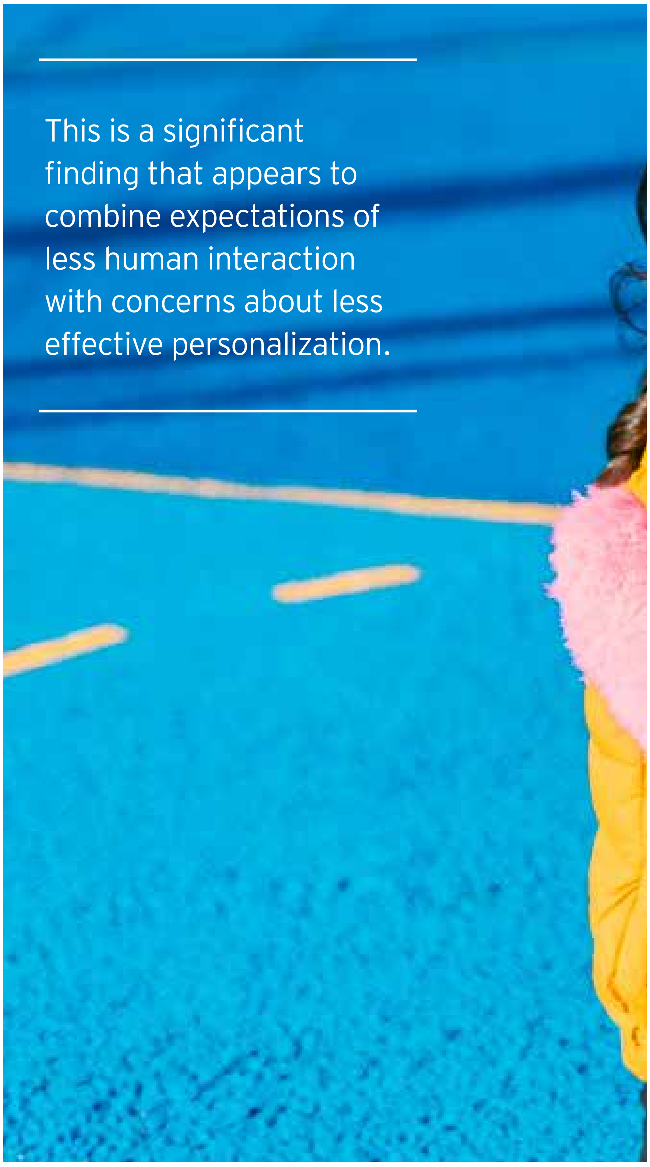


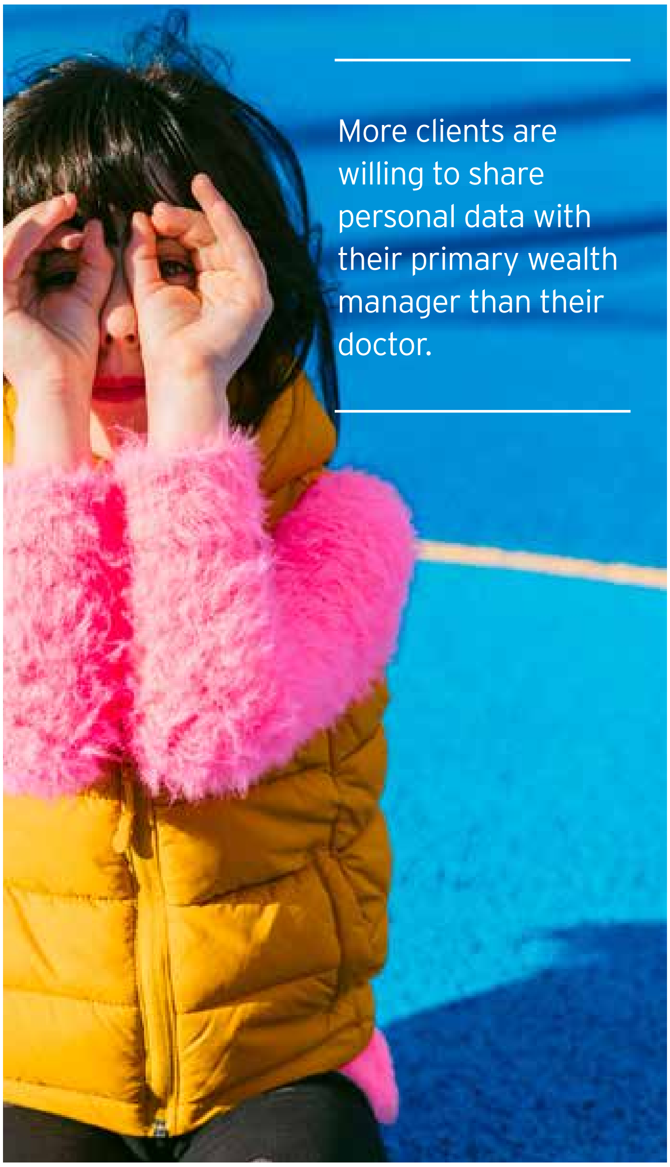
Note: the question was asked on a scale of strongly disagree to strongly agree; data has been grouped; data does not include "I don't know" responses.

This is a significant finding that appears to combine expectations of less human interaction with concerns about less effective personalization. That prospect should galvanize providers to develop high-quality, curated digital experiences. Tactical responses might include improving advisors' virtual visibility, harnessing new tools such as virtual reality or using data-driven insights to customize client interactions. In the longer term, providers should capitalize on the significant amount of data their clients are willing to share and focus on making digital channels even more client-centric.

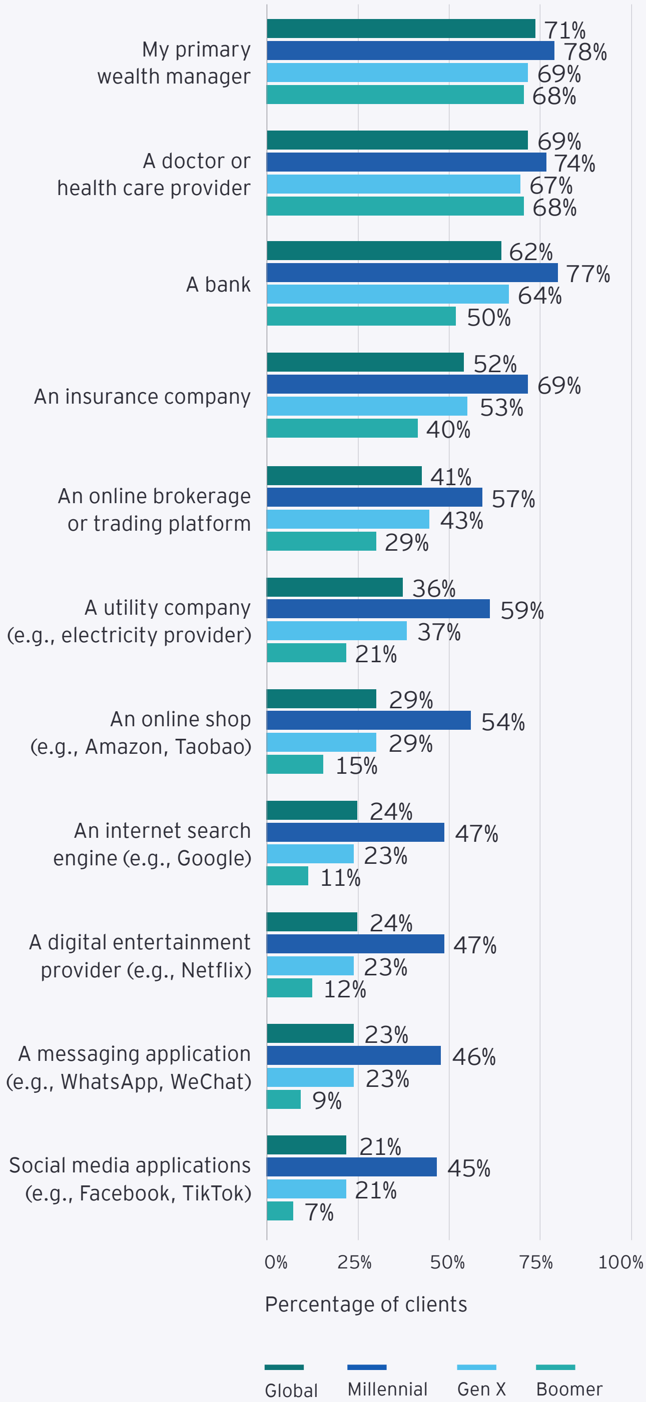
Unlocking the power of data

Clients are far more open to sharing their data than wealth firms realize, especially among younger generations. In fact, they are more willing to share personal data with their primary wealth manager than with their doctor, provided they receive more relevant services and experiences in return. That places wealth managers in a far stronger position of trust than banks, insurers, retailers, technology firms and media platforms.





To have a more personalized service or user experience, how willing are clients to share their personal data with each of these organizations?

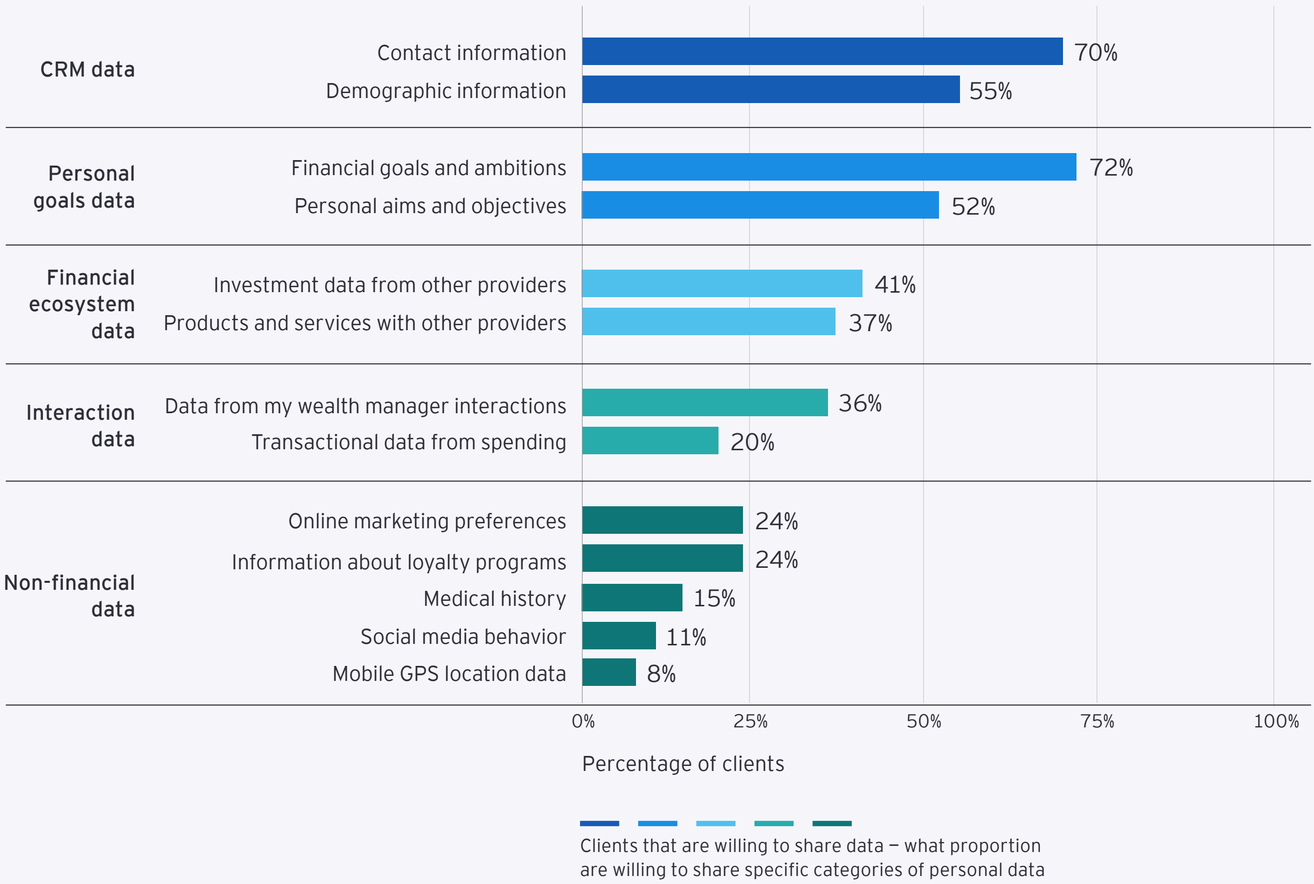


Many wealth clients are clearly ready to go on a data-driven journey with providers. But how far and how fast can this go?

It's notable that, in addition to the 72% of clients willing to share their financial goals and ambitions, more than half are also happy to divulge their personal aims and objectives – information that's key to delivering tailored services and engagement.

In addition, 41% of clients would share investment data from other financial providers, and nearly as many would disclose their interactions with those providers. That gives firms a crucial opening to use open finance protocols to deliver the kind of fully integrated financial relationships discussed in the previous section of the report. Around a quarter of clients are also happy to share details of their personal spending, marketing preferences and loyalty programs.

The types of personal data that clients would be willing to share with their primary wealth manager



Converting a willingness to share data into active disclosure will depend on maintaining clients' current high levels of trust. Wealth providers should demonstrate that they have transparent, best-in-class data security protocols. Clients should be actively engaged, for example, by using in-app consoles to calibrate levels of disclosure, switching elements of their data footprint on and off as desired.

Wealth firms could also do more to extract value from the data they already have. Providers can harness the tidal wave of data being released in the form of documents, downloads, logins, messages and meeting requests. A clear data and analytics strategy will help firms to gather and label this fast-growing data set, to clean and structure it in a single "golden source," and then to interrogate and analyze it.

Leading providers can then use AI and machine learning to optimize the applicability and value of their client data. Firms seeking inspiration could look to their counterparts in technology and online retail, industries that thrive on customer data and are innovating at a staggering pace. The use of neuroeconomics can also help to develop richer client insights. Behavioral profiling questionnaires can help firms to understand clients' preferences and thinking processes, helping to create more accurate risk profiles and more tailored experiences. Firms without in-house expertise in behavioral science or AI may need to seek support from third-party specialists.

Next Best Action (NBA) tools are one way of using innovative technology to tailor client interactions and make advisor recommendations more relevant. NBA tools adapt over time, learning from previous interactions and the personal style of each advisor. They can use AI to predict client attributes and analyze alternative data such as web analytics or shopping habits. Mobile apps can also harness NBA tools to deliver digital "investment nudges" and other micro-interactions.

In the long-term, clients will only be willing to share their data if they believe the process is creating value. That depends on more than just applying data insights in a relevant way. Firms should also overtly demonstrate the links between the sharing of certain data, the identification of more tailored services, and positive resulting outcomes.

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Taking hybrid models to the next level

As digital adoption surges, clients are benefiting from the investments made by wealth managers in recent years. A majority of clients not only think technology has made investing cheaper and more efficient (69%), but also that it has improved their investment decision-making (57%). As might be expected, digital enthusiasm is even higher among younger investors.

Opinions are more divided on automated investment advice. Nearly half of clients believe robo-advice has benefits, but there is a marked generational split between millennials (66%) and boomers (24%). However, views of automated advice are largely unaffected by levels of wealth – in fact, clients with between US$5m and US$30m of assets are the most enthusiastic segment. Automation is clearly not a barrier to advising clients with complex portfolios.

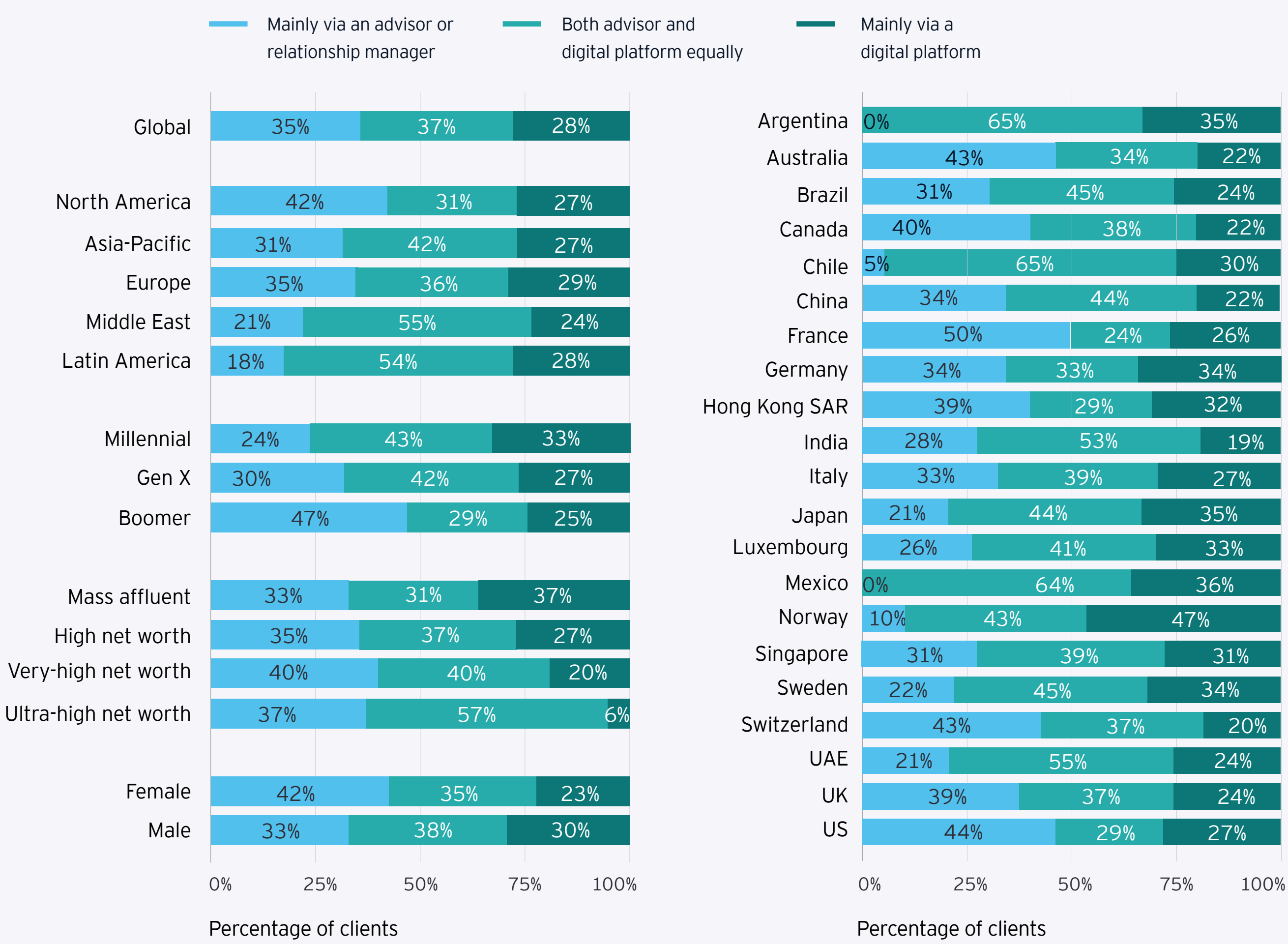
The extent to which a) technology has made investing cheaper and more efficient and b) the digital tools clients now access have improved their investment decision-making in the last three years

Note: the question was asked on a scale of strongly disagree to strongly agree; data has been grouped; data does not include "I don't know" responses.

Of course, belief in the value of digital tools does not mean that all clients want purely virtual relationships. Clients divide fairly evenly into those preferring advisor-led engagement (35%), those favoring a digital-led model (28%) and those seeking an equal mix of both (37%).

At first glance, these groups break down along predictable lines. Appetite for digital-led engagement declines from 37% of mass affluent clients to just 6% among the ultra-wealthy, and baby boomers are twice as likely as millennials to prefer advisor-led relationships. But there are unexpected insights, too. For example, one in four high net worth and one in five very-high net worth clients see digital tools as their first choice for engagement.

Clients' preferred overall method of engagement in future: advisor-hybrid-digital



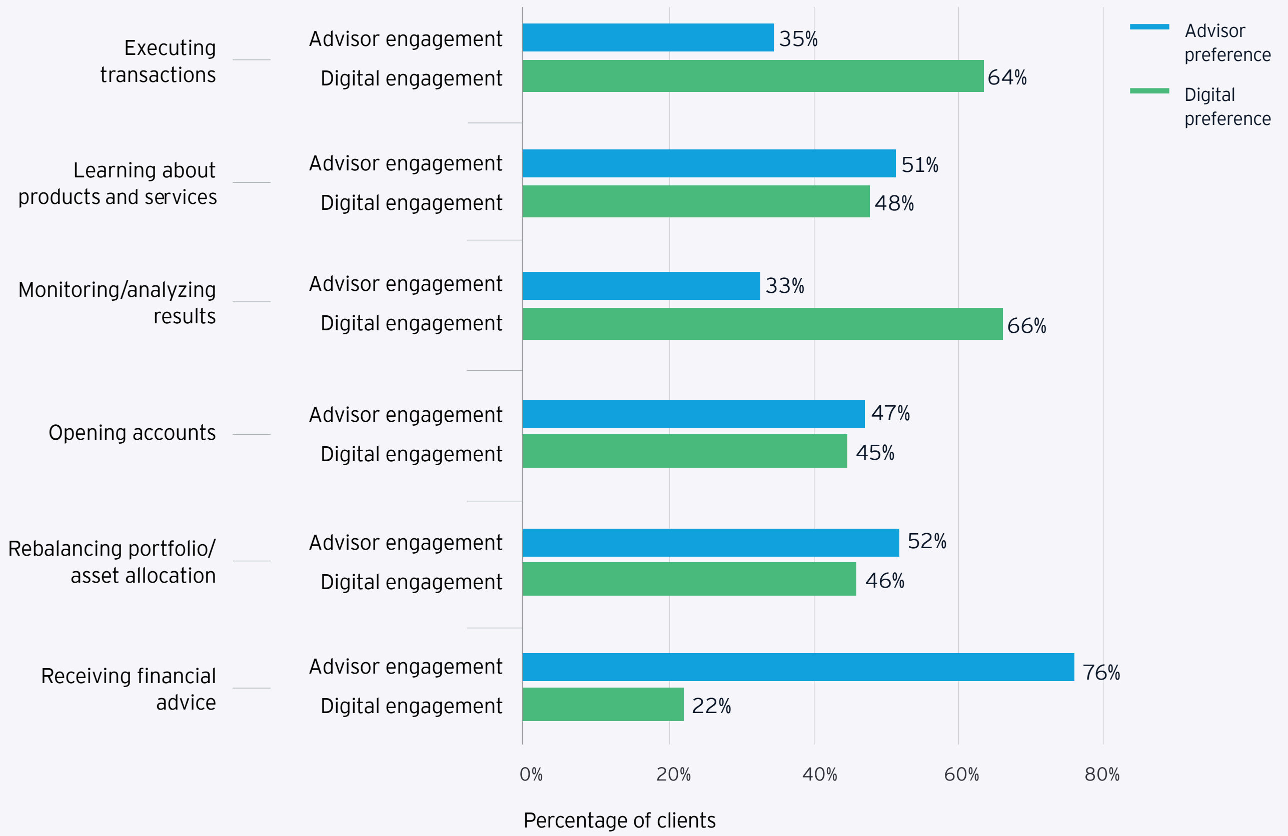
These nuances mean that focusing uniquely on advisor-led or digital-led models risks overlooking a lucrative middle ground. It's the hybrid model that's most popular, including in markets as diverse as India, Japan, Luxembourg, Mexico, Singapore and Sweden. A mixture of advisor and digital interactions is also preferred by the majority of the ultra-wealthy and by almost half of clients interested in moving between providers.

The importance of offering "the best of both worlds" is underlined by the way that specific interactions can trigger a change in preferences. For example, 76% of clients who generally favor hybrid interactions would prefer to receive customized financial advice directly from their advisor, whether via phone, video or face-to-face — more than three times as many as those who would opt for digital engagement.

Appetite for face-to-face engagement also continues to exceed the desire for digital interactions when clients receive financial advice on key life events, such as reaching retirement or making a career change, that call for financial tailoring around personal circumstances.

Key activities that clients, who prefer to use hybrid engagement models, wish to use in the future

This data relates only to clients that prefer a hybrid engagement model



Note: the chart does not show clients who indicated "not applicable."

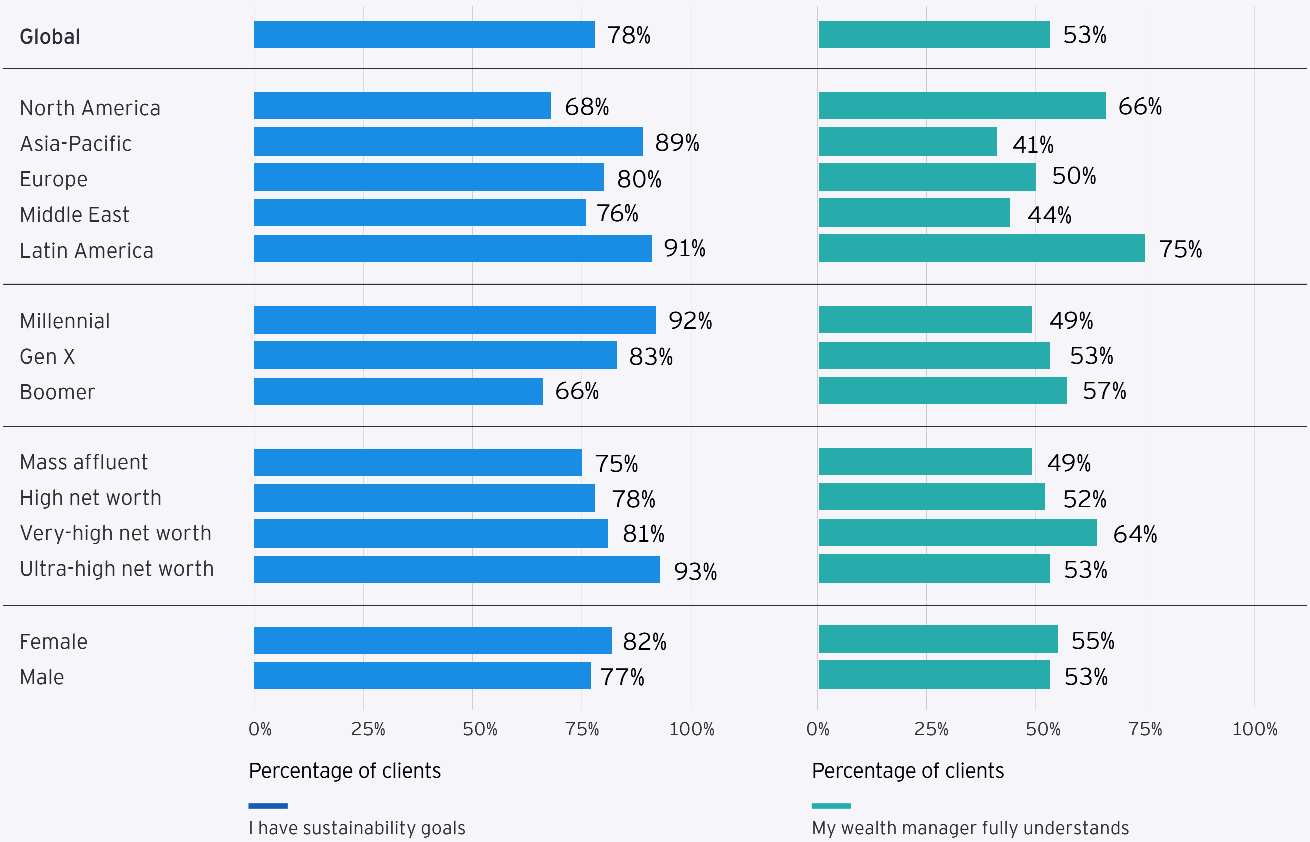
3 Purpose

Client beliefs are changing fast. Can firms adapt?

Clients are now investing for purpose and looking beyond return on investment. For clients, purpose underpins the reasons why they invest – including their desire to do-good and to create a meaningful personal legacy. Worldwide, 78% of wealth clients now have goals related to sustainability in their lives, while 62% of clients, regardless of age or gender, have goals related to generating a legacy. Each of these two aspects – sustainability and legacy – are important when considering a client's overall purpose and how it is changing.

When it comes to sustainability goals, wealth providers' understanding is failing to keep up with clients' beliefs. True, half of clients believe wealth managers understand their goals, but 41% feel their provider could understand those goals better and 5% think firms don't understand them at all. Wealth providers should note that 35% of clients who have sustainability goals are looking to switch wealth managers in the next three years, over twice as many as among clients without sustainability goals (15%). It's also striking that a quarter of millennial clients see sustainable investment propositions as the most important factor when selecting a new wealth manager.

The proportion of clients who indicated they have sustainability goals, and whether their wealth manager can do more to understand those sustainability goals



Note: the question was asked on a scale of fully understands to does not understand at all; data has been grouped

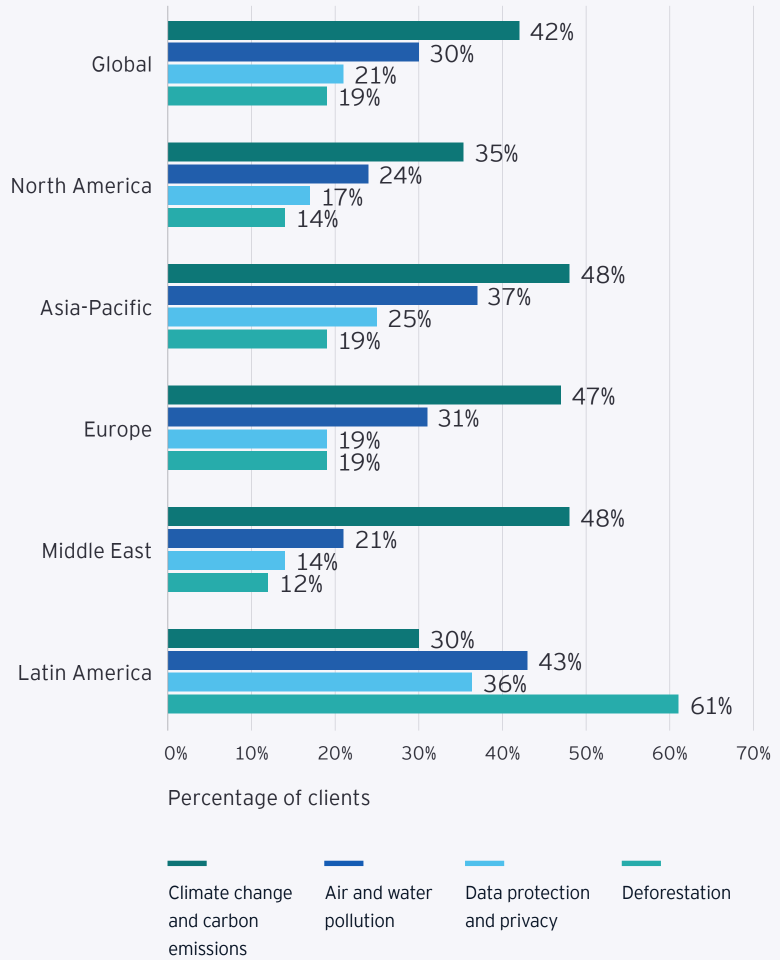
This deficit in understanding is concerning, given the vital importance of delivering tailored, differentiated experiences to clients. The gap is especially stark in some key Asia-Pacific markets. For example, 97% of clients based in China have sustainability goals, but three in five feel their provider does not understand these well enough. In Japan, 86% of clients have sustainability goals, but three-quarters believe wealth firms could do more to understand their priorities.

It's equally striking that ESG concerns are growing fastest among the industry's wealthiest clients. For example, just in the last 12 months, climate change has not only climbed the agenda of 24% of the mass affluent population but also among 46% of ultra-high net worth clients.

A major reallocation of investments is clearly in the cards, with 76% of clients believing it is important to integrate ESG parameters into their portfolios. Some issues, such as climate change, are a major concern in every region. Others are more localized; for example, deforestation is a concern for 61% of Latin American clients but just 19% for those in Asia-Pacific. On the social front, clients are most focused on diversity and inclusion, data protection and human rights.

The research shows that ESG is personal to each individual — some care more about certain environmental issues, others more about social issues. This will make it even more challenging in the future for wealth providers to understand every client's unique needs, and to deliver against them.

A selection of Environmental, Social and Corporate Governance issues that clients indicate are important to have considered into future investments (clients selected their top three choices)

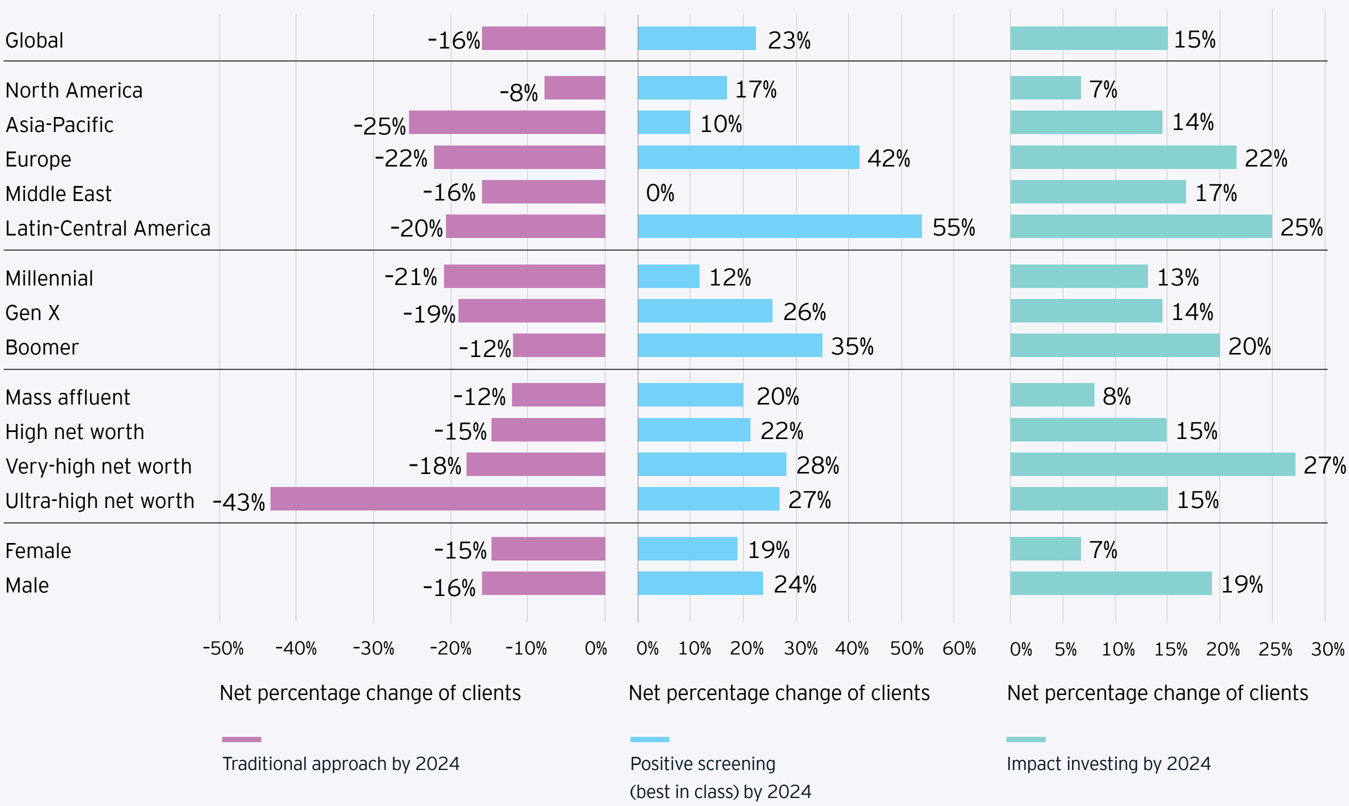


But understanding clients' sustainability beliefs is only half the story. Clients also want to change the investing techniques they use, and just 36% globally expect to rely primarily on traditional investing approaches by 2024. That's a fall of 16% and the decline will be even faster in Europe (–22%), in Asia-Pacific (–25%) and among the ultra-wealthy (–43%).

In the next three years, we will see a strong pickup in the use of sustainable investing strategies. Positive screening – "best in class" selection – is expected to grow by 23%, thematic investing by 7% and outright philanthropy by 15%. On average, interest in these techniques is higher in Europe, Asia-Pacific and Latin America than in North America, and stronger among younger and wealthier clients.

Above all, impact investing – investments made to generate specific social or environmental impact alongside financial returns – is expected to grow an eye-catching 15% by 2024, reaching an average adoption level of 35%. Adoption rates among some groups will be even higher, exceeding 50% among ultra-wealthy investors, millennials and Asia-Pacific clients.

The changing role of sustainability in a client's personal wealth management: primary adopted investment approaches and how this is expected to change by 2024

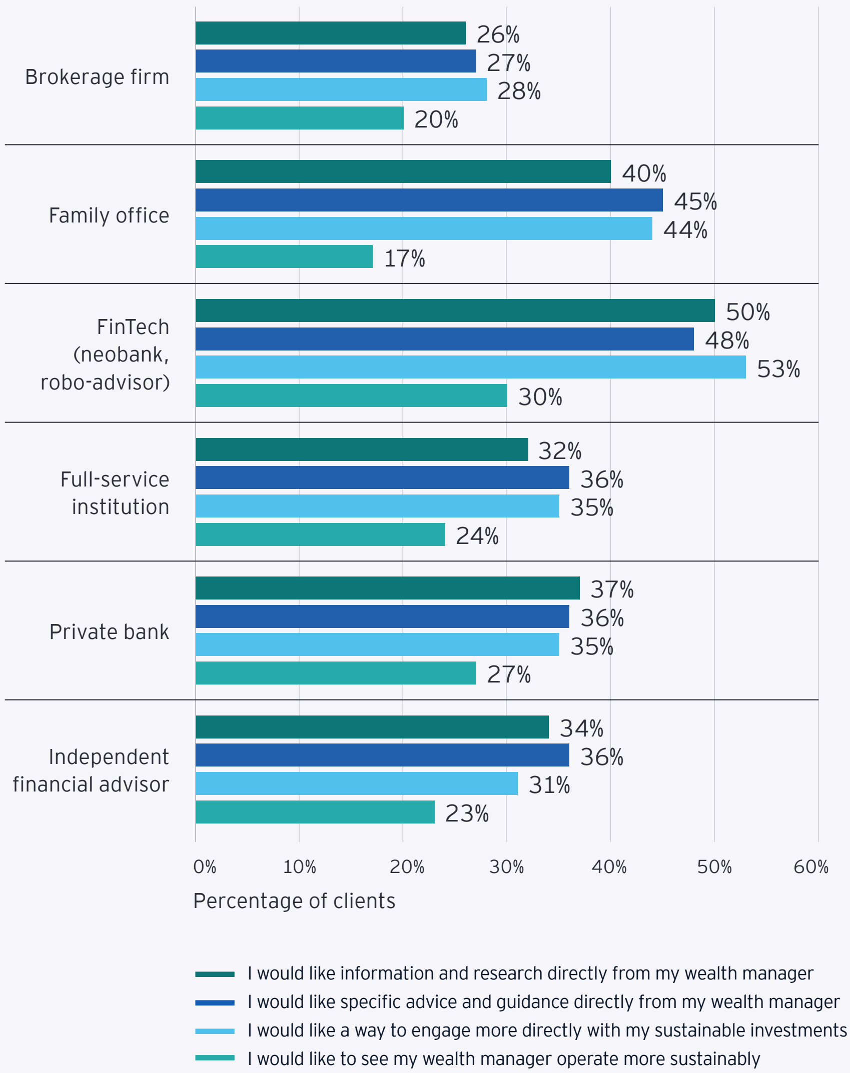


Clients' fast-evolving expectations raise challenging questions for wealth providers. For example, our research shows that clients with sustainability goals are twice as likely to use alternative investments, forcing providers to offer asset types that they may not have a proven expertise or track record with, creating a potential need for new and innovative partnerships with specialist providers.

The good news is that ESG investing also creates opportunities for firms that can harness superior client insights to build enhanced offerings. For example, providers could use account openings and portfolio reviews to capture and clarify clients' ESG investing profiles and then integrate ESG investing experiences into their wider sustainability strategies. In Europe, for instance, it has become a wealth manager's fiduciary duty to implement sustainability factors and risks within a client's investment portfolio.

Clients' growing interest in sustainable investing could also open the door to more tailored approaches to financial education. Our research shows that 53% of FinTech and robo-advisor clients would like to engage more directly with sustainable investing, while nearly half of family office clients would welcome more guidance in this area. This is a vivid illustration of the importance of financial education as an intangible source of value.

What specific financial providers can do to improve the sustainable investment experience for their clients



For wealth managers, the challenges and opportunities posed by sustainable investing only underline the importance of using data-driven understanding to deliver differentiated, tailored experiences — including via partnerships. Clear accountability is key, too. The EY Future Consumer Index[1] shows that consumers around the world want to work with companies that share their values, and our research shows that one in five clients want their wealth firms to behave more sustainably.

The industry's ultimate goal should be to deliver end-to-end investing journeys underpinned by a wide choice of ESG investing options, tailored advice, flexible education and supplemental research.

Our research shows that

53%

of FinTech and robo-advisor clients would like to engage more directly with sustainable investing.

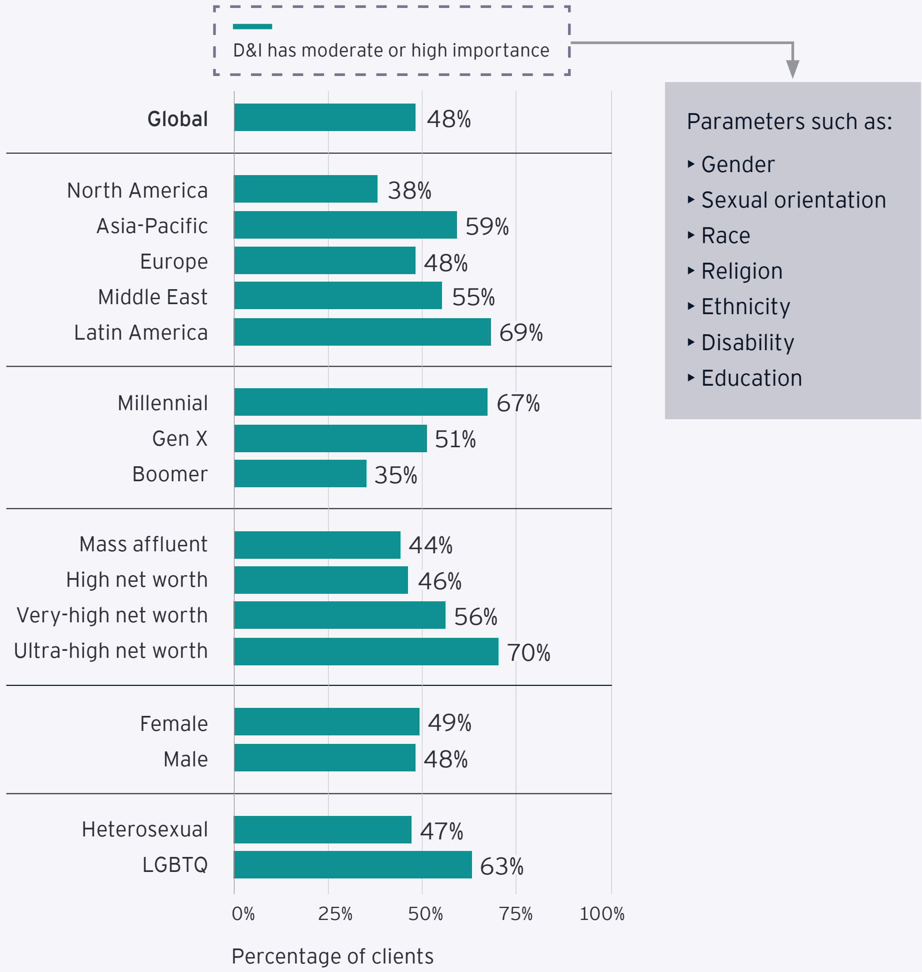
[1] EY Future Consumer Index, EY — Global, EY UK.

D&I is key to engagement, retention, performance and purpose

Diversity and inclusion (D&I) is finally moving to the forefront of the wealth industry's strategic thinking. Clients increasingly view D&I not just as a goal for firms to aim for, but as a key driver of their provider choice and crucial to building a meaningful sense of shared purpose with advisors.

D&I has attracted increased interest from 61% of clients over the past year, and half of all clients want to see wealth firms demonstrate an active commitment to D&I in their operations. Globally, one in two clients see D&I efforts as important when evaluating a wealth manager and this rises to seven out of ten among millennials, the ultra-wealthy and in markets as diverse as China, India, Italy and Norway.

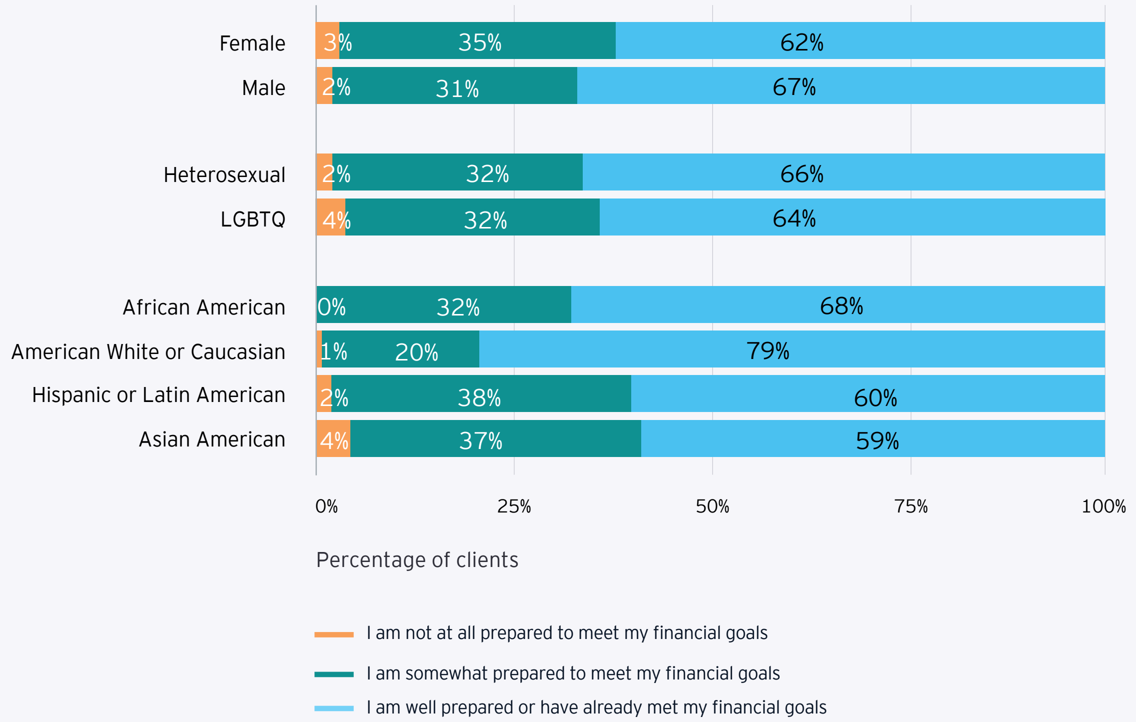
A wealth manager's diversity and inclusion efforts matter to clients when evaluating a firm



Given this picture, it's vital for wealth providers to effectively serve the full diversity of their client base. There are positives for the industry here. When it comes to value for money, cost transparency and fiduciary standards, LGBTQ and many ethnic minority clients' views of their providers are comparable with those of their heterosexual and white counterparts. Our survey confirms that these minority client segments see their wealth managers as providing similar positive day-to-day experiences to those of the wider client base.

However, our research also identifies opportunities for providers to enhance their understanding and support of minority groups. One example is that 20% of LGBTQ clients believe that a diverse team of advisors is important when selecting a wealth manager, compared with just 12% of heterosexual clients. Another example is that while only 21% of white North Americans feel ill-prepared to meet their financial goals, this figure rises to 40% among Hispanic North Americans and 41% of Asian-Americans.

How prepared are different client groups to meet their overall financial goals?



Firms that can better identify and understand the preferences of under-represented clients will strengthen engagement and retention among those groups. One improvement could be to replace segmentation models based on wealth or age with a nuanced, multilayered approach that takes into account of a broader range of demographic and personal data. After all, while many clients may share similar aims, each one will achieve those goals via a unique journey. A layered approach to segmentation takes client behaviors, beliefs and personal circumstances into account alongside demographics and financial data. Combining all these elements to achieve micro-segmentation can uplift client experiences and create a stronger sense of purpose.

In contrast, firms that fail to demonstrate empathy risk losing a significant proportion of their clients. The wealth of women and other under-represented groups is growing, and our survey shows that minority groups are more likely than average to be looking for a new wealth manager. For example, 35% of Asian-Americans are actively looking to move firms, more than twice the number of white North Americans.

Finally, wealth providers need to improve their own D&I performance — partly because D&I is an increasingly important driver of attraction and retention for clients and staff, and partly because growing evidence suggests that diverse teams are better at detecting blind spots, enhancing innovation and identifying investment opportunities. Progress toward true D&I must be visible to clients, especially among advisor teams and at board and executive levels. Minority clients are more likely to feel a shared sense of purpose with providers when they see firms making active efforts to promote and champion a culture of equality and representation.

Combining all these elements to achieve micro-segmentation can uplift client experiences and create a stronger sense of purpose.

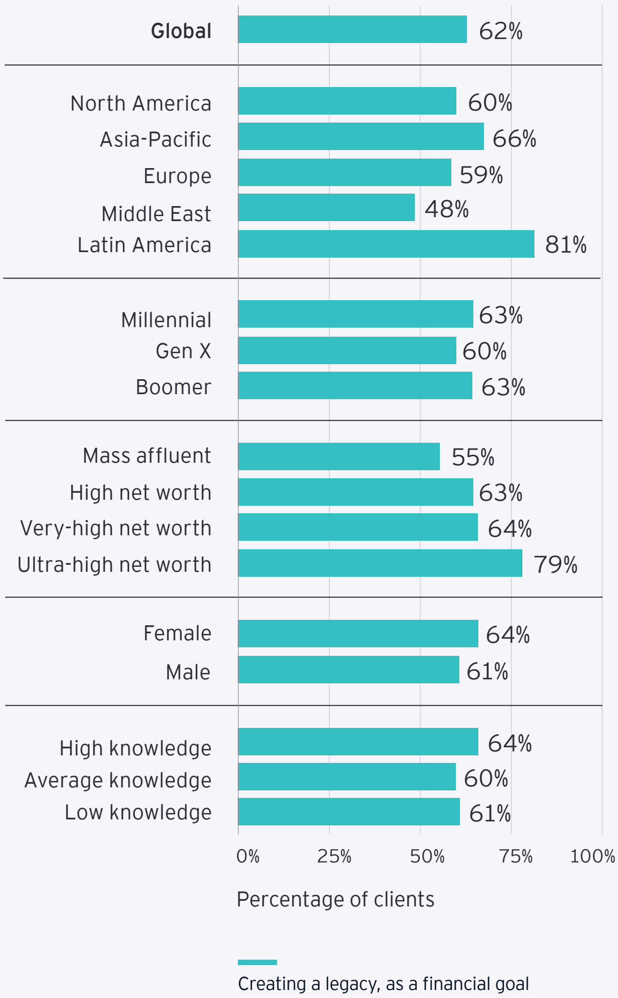
Personal legacies are the ultimate expressions of purpose

The COVID-19 pandemic has strengthened clients' focus on their own health and well-being and that of their families and communities. Clients of all ages and levels of wealth want to look beyond purely financial outcomes to build purposeful investment portfolios and relationships.

To differentiate their capabilities in this area, wealth managers should aspire to build purposeful, personalized client legacies. Our research shows that nearly two-thirds of clients aim to protect their wealth in the long-term or plan to hand it down to children, family or charity. These clients are seeking to create a personal legacy. This is not just about retirement or inheritance. Individuals are increasingly keen to create a positive legacy through their investments at every stage of their lives. Firms should understand that it's never too soon to understand clients' goals and to help them build meaningful living legacies.

Our research shows that nearly two-thirds of clients aim to protect their wealth in the long-term.

Clients that indicated their financial goal is to either protect their wealth long-term and/or combine this with achieving safe transition of wealth to their children, family or charity



Delivering personal legacies for clients will depend on providers' ability to understand client's views and beliefs in detail, including specific investment preferences; to build client offerings that incorporate sustainability goals into every product and service; to equip advisors with the tools they need to identify client goals and link them to appropriate investments; to track and report on outcomes, demonstrating accountability; and to enhance the sustainability of their own operations, including the diversity of their workforce.

Firms should also remember that purpose begins at home. Many organizations are making public commitments around their own sustainability as well as setting societal goals. The challenge now is to align operational reality with these ambitious goals – and to show clients that firms are following through by adjusting their behavior, products and services in line with their stated aims. Firms must take purpose from the top of the house and operationalize it throughout the entire firm. Firms should train employees on sustainable products and goals and have various demographics represented to prove to clients the difference they have manifested.

In the final analysis, however, purpose is about more than implementation. The better that providers understand the full richness of their clients' goals and beliefs, the easier they will find it to personalize their offerings, strengthen their relationships and drive enhanced financial and non-financial performance for the benefit of all stakeholders. Complementing a strategic focus on service and engagement with an emphasis on client purpose holds the key to defending and demonstrating the long-term value of wealth management.

Conclusion

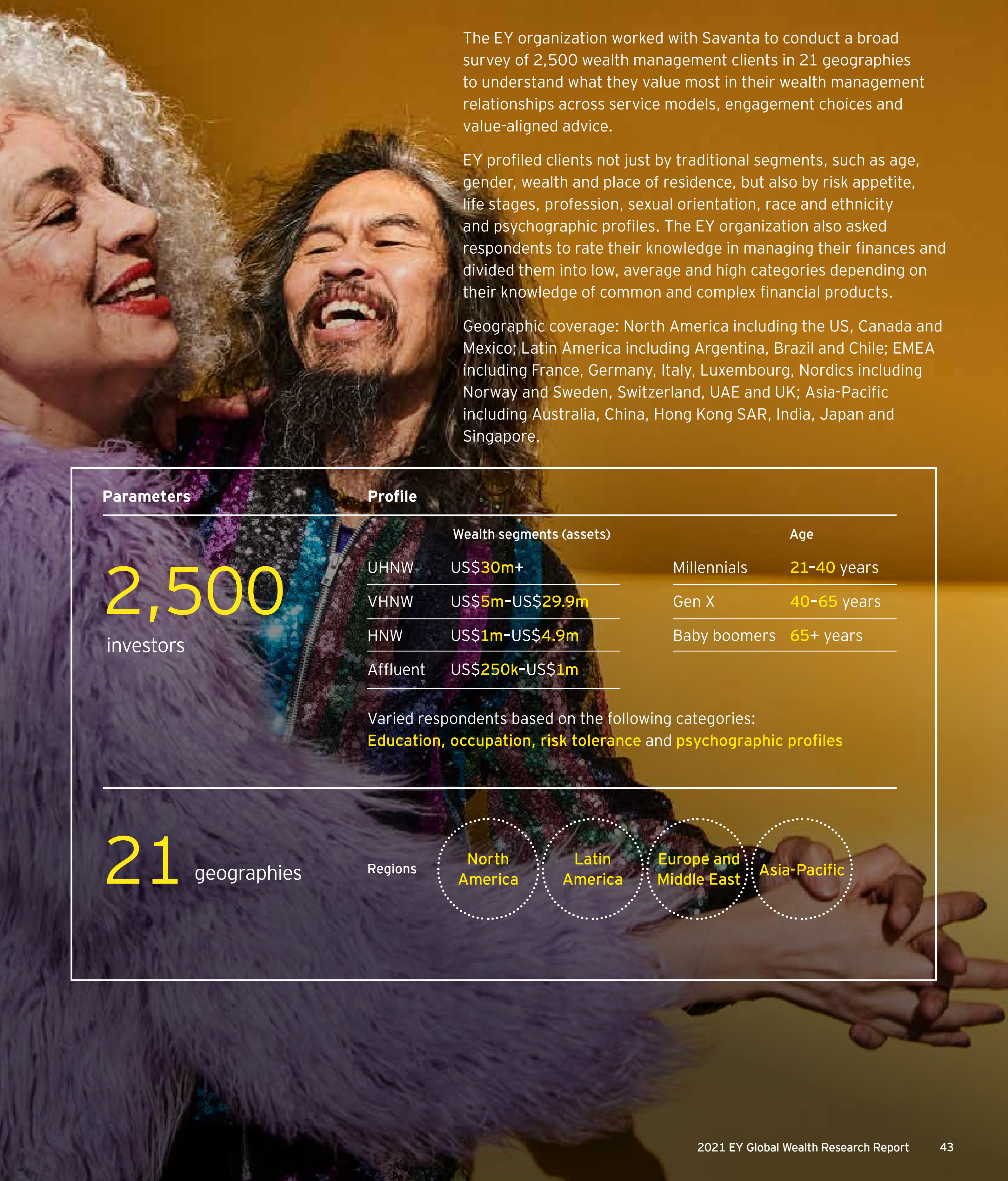
The uncertainty and disruption of the past year have brought about profound changes in clients' values. Those shifts are apparent in altered financial and personal goals, in revised views and beliefs, and in the increasing appetite and appreciation for digital tools. Taken together, these changes are having a tangible impact on clients' behavior, expectations and perceptions of value.

The good news for wealth providers is that clients are open to sharing more personal data, are interested in consolidating their relationships, and are willing to pay more for holistic, individualized and meaningful experiences. Set against that, clients' growing demands for tailoring, diversification, protection, education, sustainability and flexible interactions also pose significant challenges.

In response, we believe wealth managers should integrate a deeper understanding of client beliefs into their services and interactions. That will elevate client experiences, build trust and create strong, lasting relationships based on a shared sense of purpose. As they implement changes to their propositions, we expect firms to find the following areas of activity especially valuable:

1. **Customer service modernization** – addressing evolving client preferences for wealth management or private banking, to provide intuitive and deeply integrated, highly individualized service.
2. **Distribution and sales optimization** – managing channel strategies to effectively acquire new clients, increase share of client assets, and better distribute their wealth products in the marketplace.
3. **Marketing transformation** – leveraging the fundamental shifts in wealth management, transforming marketing from brand advertising to an activity that fosters trust, builds relationships and provides a catalyst for long-term revenue growth.
4. **Sustainable investing** – understanding the implications of ESG considerations for strategy, advice, risk, products, technology and compliance, and integrating sustainability into operations in partnership with leading ESG specialists.
5. **Strategic cost transformation** – addressing the industry's inflection point around declining operating margins, using strategic, structural and tactical initiatives to reduce expenses while increasing the flexibility and scalability of the cost base.
6. **Tech-enabled transformation** – harnessing the power of technology to simplify, rationalize and centralize wealth management operations, clearing the way to enhance capabilities that attract new clients and inflows while improving operational efficiency.
7. **Data transformation** – identifying the innovative data strategies that help firms better extract value from their client data, strengthen analytics throughout the value chain, improve data quality and deliver the next generation of data platforms.

Methodology



The EY organization worked with Savanta to conduct a broad survey of 2,500 wealth management clients in 21 geographies to understand what they value most in their wealth management relationships across service models, engagement choices and value-aligned advice.

EY profiled clients not just by traditional segments, such as age, gender, wealth and place of residence, but also by risk appetite, life stages, profession, sexual orientation, race and ethnicity and psychographic profiles. The EY organization also asked respondents to rate their knowledge in managing their finances and divided them into low, average and high categories depending on their knowledge of common and complex financial products.

Geographic coverage: North America including the US, Canada and Mexico; Latin America including Argentina, Brazil and Chile; EMEA including France, Germany, Italy, Luxembourg, Nordics including Norway and Sweden, Switzerland, UAE and UK; Asia-Pacific including Australia, China, Hong Kong SAR, India, Japan and Singapore.

Parameters

2,500 investors

Profile

	Wealth segments (assets)
UHNW	US$30m+
VHNW	US$5m-US$29.9m
HNW	US$1m-US$4.9m
Affluent	US$250k-US$1m

	Age
Millennials	21–40 years
Gen X	40–65 years
Baby boomers	65+ years

Varied respondents based on the following categories:
Education, occupation, risk tolerance and psychographic profiles

21 geographies

Regions

- North America
- Latin America
- Europe and Middle East
- Asia-Pacific

Key contacts

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