



Executive Summary White Paper

The Future of Wealth Management

Harvesting the Power of Data and Technology

Wealth management is considered one of the most important business areas in the Swiss financial industry with trillions of Swiss francs in private assets managed by resident banks. However, as with other areas of finance, the wealth management industry is facing a number of challenges, especially with regard to technology and handling data.

Combined with clear trends such as digital transformation, changing client needs, dynamic regulatory frameworks and the rise of new competitors, this creates uncertainties around the future shape of the Swiss wealth management business and potentially significant changes to its operating model and the value chain. Hence the key question is how the Swiss wealth management industry should position itself and adapt to this increasingly data- and technology-driven world to sustain its competitiveness in the future.

The white paper „Future of Wealth Management: Harvesting the Power of Data and Technology“, which emerged from a joint project of SIX and the Lucerne University of Applied Sciences and Arts (HSLU), is intended to provide input into answering this question and can thus serve the industry in helping to explore the undergoing changes and enrich its understanding relating to potential implications for the future of wealth management.

The study is divided into three parts. The first part provides an overview of the current state of Swiss wealth management by describing the size of the industry, the current business model and value chain, as well as discussing the current challenges and pain points. The second part highlights current

global trends and value drivers relevant to wealth management going forward, whereby special attention is devoted to data- and technology-driven drivers such as *open financial ecosystems*, *data & analytics*, and *sustainability*. The third part aims to synthesize the insights gained in the first two parts and derive practical implications. The findings obtained for each of the three parts are summarized below.

Part 1: Current State of Swiss Wealth Management

At the end of 2019, Swiss banks managed a total of CHF 3.7 trillion in private assets, with 62 percent, or CHF 2.3 trillion in absolute terms, originating from foreign clients. This makes Switzerland the globally leading center for cross-border wealth. Despite this preeminent role, there are various challenges and pain points in the industry. For the wealth management value chain, there is a discrepancy between the strategic relevance of asset and client relationship management and the existing competencies in these areas, which could potentially impede the future success of the industry. In addition, challenges in the area of technology and data are particularly apparent. These include the lack of IT skills, the existence of data graveyards and insufficient data quantity and/or quality. Furthermore, declining profitability, labor costs, regulatory requirements and limited customer access, also pose some additional difficulties for the industry.

Part 2: Key Developments in Swiss Wealth Management

There are a variety of social, technological, economic and political macro trends that are expected to influence the operating model and the value chain of wealth management. In our view, these trends can be consolidated into three main value drivers that will decisively shape wealth management. Open financial ecosystems represent the first value driver, as they facilitate interaction and exchange between a variety of players in the wealth management industry, thus enabling new business models. In doing so, they can serve as a catalyst for the second value driver, namely the increased generation of value through data and its analysis. In particular, the sophisticated use of data can lead to efficiently tailor wealth management solutions to specific customer needs. Data and analytics will also be increasingly in demand in the area of sustainability, the third value driver, as this becomes another pillar in the investment process alongside customer risk aversion, return expectations, and liquidity constraints.

Part 3: Implications for Swiss Wealth Management

Based on the current status of Swiss wealth management as well as observable developments, four main implications for the industry can be derived, which consistently revolve around technology and data. These are:



1. Increasing Importance of Data & Analytics

While the use of data and corresponding analytics is widely used in processing, it is not currently widespread in some other areas like client relationship management. It will become a key resource for competitive future wealth management, as it allows for new business models and new ways to generate added value. In particular, the consideration of external (non-)financial information opens up the potential for truly holistic wealth management services that incorporate the customer's entire life situation. However, this requires the availability of high-quality data and a robust infrastructure, which is not yet in place for most wealth management providers. Moreover, data security is also a critical factor for harvesting the power of data. This particularly includes protecting data when calculations involving different parties are to be performed. Privacy-enhancing technologies can help to remedy this issue, but again require corresponding IT skills.



2. Open Financial Ecosystems for Operations

The exchange of data and services not only within the wealth management industry but also with other external providers will increasingly break up the traditionally holistic wealth management value chain into different segments with specialized offerings. Such a demand-driven „as-a-service“ operating model can serve not only to obtain missing resources and competencies externally, but also to reduce high personnel costs, one of the biggest challenges in the industry. Open ecosystems built as a platform represent an efficient solution and are already being used successfully in other industries. For wealth management, open financial ecosystems could help source methodological and conceptual services, for example, regarding AI or big data techniques for data-driven client segmentation, recommender systems or potential analysis, as these are often not available internally. However, for the future success of ecosystem-oriented Swiss wealth management, the use of the best competencies in the field of IT interfaces is crucial.



3. Sustainability as the New Normal

The importance of sustainability in wealth management will continue to grow steadily driven by changing client needs and regulatory requirements. ESG criteria must be part of the investment process to provide holistic wealth management services. However, the availability of high-quality ESG data as the basis for making sound and good investment decisions remains a major challenge for the industry. Reasons for this include the fact that most ESG data is self-reported by companies, the lack of comparability between different ESG data providers, and difficulties in linking ESG data to sustainable development goals in a meaningful way. One driver for promoting more consistent and accurate ESG data is the evolving regulatory requirements for companies, alongside innovative technology-based approaches by FinTech companies.

4. Regulation as a Driver of Innovation

Although regulatory pressures on wealth management will remain high, particularly in the area of data and its use, alongside sustainability,

the relevant regulations provide an opportunity for further business model innovation in the industry. Therefore, data specialists and third-party vendors will play a critical role as the industry evolves.

Summary

Swiss wealth management is under pressure to change, prompting the industry to adapt its business model and value chain. In particular, the industry must proactively embrace developments toward data-driven value creation via open financial ecosystems and internalize the increasing importance of sustainability. If this succeeds, Switzerland can continue to operate as one of the leading locations for wealth management.

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