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FINANCIAL SERVICES

Millionaires will hold half of global wealth by 2021: BCG

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Affluent consumers saw their assets grow in 2016. Image credit: Michael Kors

By SARAH JONES

Private financial wealth rose 5.3 percent in 2016 to $166.5 trillion, according to new research from Boston Consulting Group.

While the recession is behind affluent consumers, wealth managers are still grappling with heightened client expectations developed during the crisis, which force advisors to do more for their investors for less. While strained by the necessity to cut costs, BCG argues that increased digital investment is necessary to propel these firms into the future.

"Wealth from affluent customers has been growing and is expected to continue to grow in the future, though at lower levels than millionaire household wealth," said Anna Zakrzewski, a partner at BCG and a coauthor of the report, Zurich.

"In terms of changing consumer behavior, wealth managers are already experiencing increased fee pressure from highly demanding and tech-savvy clients who are hoping to increase returns in the current low-yield environment," she said. "We expect the change of expectations to continue over the coming years as price pressure further increases and technology further increases access to investment services."

BCG's "Global Wealth 2017: Transforming the Client Experience" includes market size data and the results of a benchmarking study based on a survey of more than 125 wealth managers. For the purposes of the report, BCG divides clients into four categories: affluent ($250,000 to $1 million); lower high net worth ($1 million to $20 million); upper high net worth ($20 million to $100 million) and ultra high net worth (more than $100 million).

Global growth

Globally and in most regions, the upper high-net-worth consumers saw their wealth increase the most, with an 8 percent growth. Compared to 2015, this past year also saw more millionaire households created.

While those at lower levels of affluence are seeing their assets grow the most, research from UBS and PwC found that the total wealth held by international billionaires was affected by external factors in 2015, decreasing to $5.1

trillion from $5.4 trillion. Factors such as asset transfer within families, the deflation of commodity pricing, such as petrol, and the appreciated value of the United States dollar are responsible for a decline of total wealth (see story).

Private wealth in the Asia-Pacific region, excluding Japan, is growing more rapidly than any other part of the world. With a 9.5 percent increase in private finances during 2016, the region is poised to surpass Western Europe in wealth by the end of the year.

Combined with Japan, Asia-Pacific assets are also set to overtake North American wealth by 2019.

Asian consumers' wealth will soon be greater than North Americans'. Image credit: Berluti

Latin America and the Middle East and Africa saw similarly steep increases of 8 percent and 8.5 percent, respectively. In Latin America, Brazil is poised for economic recovery in the next few years, while better oil prices are helping to drive Middle Eastern assets.

North America appears to have put the financial crisis behind it, with its private wealth rising 4.5 percent this past year. BCG also forecasts that North American finances will grow about 6 percent each year through 2021.

Meanwhile, Western Europe saw slightly less growth, expanding 3.5 percent, as there is still a veil of uncertainty surrounding the outcome of Brexit negotiations.

Affluent individuals frequently turn to offshore investments to growth their wealth, but international accounts saw slower growth than onshore investments in 2016. Asia-Pacific investors are the most apt to offshore their wealth.

Switzerland is the most popular destination for offshore investments, with about a quarter of the market.

Digital divide
Financial managers have been forced to rethink their operational strategy to adjust to the market.

As consumers felt they were being squeezed by the recession, they demanded lower fees and commissions, decreasing their income from clients. To make up for lost revenues and maintain profitability, they had to reduce costs.

"Successful wealth managers will seize the opportunity to respond to new client expectations and shift their focus from cost-reduction to strategic investments," Ms. Zakrzewski said. "But with decreasing return on assets over the last 10 years, wealth managers continue to be faced with profitability pressures.

"Significant challenges are also posed by increased competition from 'innovative' lower-priced investment products and ongoing regulatory pressures from governments, for example transparency, capital requirements and offshore repatriation."

While cost cutting has been effective at saving firms' bottom lines, it has also hampered innovation in wealth management.

BCG advises wealth managers to think beyond the typical siloed transactional digital features that have been rolled out by firms. Reflecting consumers' growing dependence on digital, the consultancy suggests incorporating innovations into all aspects of the client experience.

If firms roll out what BCG dubs "client journeys 2.0," they could see their revenues grow between 20 and 30 percent.

Wealth management has largely fallen behind banking in digital innovation.

U.S. bank Citi, for instance, recently introduced additions to its iOS application that combine banking, wealth management and money movement capabilities, offering a suite of cutting-edge servicing and authentication features.

Tailored towards clients of Citigold, the bank's property geared towards investment and money management for high-value clients, the app's updates will also include an enhanced design as well as user-friendly language and mobile friendly screen flows. The new mobile features will expand to additional clients and markets over time (see story).

"Wealth managers have been avoiding digitalization in certain instances because they have so far not identified how to mesh technology with the tradition of personalized, high-touch service," Ms. Zakrzewski said. "Some players have also avoided digital transformations to avoid the initial high investment costs given already existing profit pressure.

"To be successful with digital, wealth managers will need to include digital in a holistic manner across their whole business front, middle and back office ensuring their whole organization is moving 'digitally,' not only certain teams and products."