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FINANCIAL SERVICES

Outlook 2021: Financial firms will embrace digital tactics to advance opportunities

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Businesses need new management models amid the lingering pandemic. Image: Unknown

By ELLEN KELLEHER

The financial sector is expected to change in 2021 with the arrival of President-elect Joseph Biden in the White House, but executives at banks and wealth management firms continue to face separate challenges related to the upheaval brought on by the COVID-19 pandemic.

If interest rates inch up from rock-bottom levels and house prices continue to rise, the mortgage boom banks and other financial services providers have seen could start to fade. If demand for traditional banking and financial services products also slows, profit margins at financial services firms could take a hit this year, leading to possible layoffs across the sector.

"The banking industry will confront a range of challenges in 2021, many ongoing, but also some new obstacles," said Christopher Faile, a spokesman for the financial services group at Deloitte, New York, citing Deloitte's *2021 Banking and Capital Markets Outlook*. "But this should not prevent bank leaders from reimagining the future and making bold bets."

As the pandemic lingers, a number of trends are set to impact the financial sector in 2021.

Difficult decisions lie ahead

In terms of talent, banking industry leaders will be forced to make some touch decisions in 2021. Nearly 35 percent of the 200 senior executives at global financial institutions with revenues of more than $1 billion who were surveyed by Deloitte for its *2021 Banking and Capital Markets Outlook* indicated their firms plan to either lay off staff or cut compensation in a bid to lower costs over the next six to twelve months.

Sustainable investing will stay in vogue

Sustainable investing gained prominence in 2020 as investors grew more aware of environmental and social governance (ESG) issues and wealth management firms rolled out a plethora of sustainable investing offerings (see story).

Looking ahead, the trend is likely to continue given that ESG funds often outperformed broader indexes in 2020, according to French consultancy Capgemini's *Wealth Management Top Trends for 2021* report.

Indeed, 27 percent of high-net-worth individuals polled in Capgemini's World Wealth report this year showed an interest in sustainable investing and plan to allocate 46 percent of their portfolios to socially-minded investments by the end of 2021 due in part to higher returns and lower market risks.

Digital engagement on the agenda
The pandemic is driving wealth management firms to accelerate their migration to a digital approach. This year, as pressure on revenues and margins increases, the focus of many financial services providers will be on how to utilize artificial intelligence and other technologies to improve relationships with clients.

Older American women are attracting more interest from wealth advisers as they grow wealthier. Image credit: UBS

A recent survey by Capgemini reports that 68 percent of wealth management firms polled in July of 2020 are now "organizing their digital activity," which represents a 20 percent increase over 2019.

"Broadly speaking, innovation has focused on digitization," said Helen Brocklebank, chief executive of British luxury group Walpole, London. "McKinsey's latest research says 6 years of digital progress has been compressed into 8 months."

Personalized offerings for clients will grow popular
Wealth managers find themselves in a race against the big tech companies to personalize financial services offerings for wealthy clients. With the help of artificial intelligence and analytics, many firms will offer bespoke risk programs, tailored advice and personalized portfolio construction as a way to connect with clients.

DIY platforms have also become more popular, with clients managing investments themselves but having access to virtual assistants, if needed (see story).

Indeed, the promise of the cloud is that it will allow banks and other wealth managers to reinvent their business models and become more agile as well as transform the experience for its customers, industry watchers say (see story).

Women and the mass affluent are now a target audience
Confronting revenue pressures, wealth managers will pay closer attention to underserved groups such as women and the mass affluent this year. The advance of technology has made it more profitable for companies to engage with individuals who are slightly less wealthy than high-net-worth individuals through tools such as robo-advisory models.

In the U.S. alone, the mass-affluent market holds nearly $9 trillion in assets across more than 20 million households, according to Capgemini. Wealthy women are also gaining more attention as more join the ranks of high-net-worth individuals through wealth creation.

By 2026, a 2019 Accenture report predicts that women will control half of personal wealth in Canada (see story) and by 2025, 60 percent of the UK's wealth will be in women's hands, according to the UK's Centre for Economics and Business Research.

Providing further ground for the argument is the fact that women now control a third of total U.S. household financial assetsor more than $10 trillion, according to McKinsey & Company.

"We expect to see interest in traditional banking products continue, as consumers from all demographics work to get a better handle of their finances and get more support," said Neej Gore, president of the data cloud division at

Zeta Global, San Francisco.