# How technology is helping address challenges in the wealth management sector

**A report for Ortec Finance**

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## Introduction

Ortec Finance provides wealth managers and financial advisors with scalable solutions that enable them to manage clients more efficiently and deliver more value to them.

Ortec Finance's OPAL Planning tool supports banks, advisors and wealth management firms to translate their client's financial goals into an optimal investment strategy – providing forward-looking insights into whether clients are on-track regarding their investment objectives.

Together with a fully integrated cash flow planning tool for a holistic view of the client situation, the OPAL Planning tool addresses both income and investment risk.

The risks that the wealth management sector is facing are growing too and that is why Ortec Finance commissioned independent research company Pureprofile to interview 100 wealth managers and financial advisors located in the UK, Canada, Italy, the Netherlands, Germany and Switzerland whose organizations collectively manage around £1.207 trillion.

This is our second report into the global wealth management and financial advisory industry and this time we focused on the challenges as much as the opportunities. The good news is that the future for the sector looks bright – wealth managers and financial advisors expect continuing growth in the number of clients they directly service.

But they admit to a wide array of challenges ranging from the expanding investment horizons of those clients to the increasing focus on ESG in their investment portfolios as well as concerns about the impact of social media on them and their clients.

One of the drivers of growth identified by the research is the increasing investment in technology which is helping wealth managers and financial advisors to address the challenges they face while also being able to support the growing number of clients.

We believe the findings make for interesting reading and provide a range of insights on major issues facing the sector as well as providing grounds for optimism.

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## The regulatory challenge

Our research found evidence of concerning trends in the wealth management industry regarding compliance with regulations and expectations of increased fines for non-compliance.

A significant number of UK wealth managers and financial advisors were worried about meeting the UK's Financial Conduct Authority (FCA) Consumer Duty Board report deadline. Around one in twelve (8%) respondents feared their company would not meet the 31st July 2024 deadline. The FCA has not yet disclosed how many companies failed to meet the deadline.

The primary reasons cited by firms concerned they would not meet the deadline included an inability to provide sufficient evidence of Board engagement with Consumer Duty and incomplete reviews of their approach to vulnerable customers, including assessing whether customer support met vulnerable clients' needs.

Other reasons cited were inadequate reviews of internal governance processes and policies, incomplete staff training, and insufficient evidence of identifying potential consumer harm.

In addition to these compliance challenges, the study also found that wealth managers and financial advisors expect an increase in industry fines for non-compliance over the next three years. Around (78%) of those surveyed anticipate higher fines, while nearly three in four (74%) foresee increased investment in technology to help address regulatory demands. Specifically, 35% expect a dramatic increase in technology investment.

The main reasons for this technological investment are to deliver better client service, develop a better understanding of a wider range of asset classes, improve investment advice, and reduce costs. Addressing the growing focus on regulation is also a significant driver for this increased investment.

## The client challenge

Clients of wealth managers and financial advisors are widening their investment horizons turning to alternative assets as well as building more diversified and international portfolios. That is posing challenges for the sector on how to respond.

More than four out of five (81%) wealth managers and financial advisors questioned in the study say clients have been investing in a wider range of asset classes than normal over the past 12 months.

Almost all (97%) advisors say that clients are building more international and diversified portfolios, with 87% expecting this trend to continue over the next three years.

Alternative assets have been a standout area, with 91% of advisors increasing client allocations. The primary drivers include strong performance (71%) and the availability of more funds (53%). Additionally, 50% point to the attractive returns and low correlation to equities as motivating factors.

The study found private equity and private debt have seen the biggest increases over the past year with other alternative asset classes also seeing growth in allocations, at a cost of real estate. Over the next two years private debt and private equity are likely to see the biggest increases in allocations.

| Asset class | Number increasing allocations in past 12 months | Number staying the same/cutting allocations/don't know in past 12 months | Number increasing allocations in next two years | Number staying the same/cutting allocations/don't know in next two years |
|---|---|---|---|---|
| Private equity | 78% | 22% | 83% | 17% |
| Private debt | 76% | 24% | 85% | 15% |
| Infrastructure | 73% | 27% | 72% | 28% |
| Venture capital | 73% | 27% | 72% | 28% |
| Hedge funds | 50% | 50% | 66% | 34% |
| Real estate | 35% | 65% | 34% | 66% |

## The tracking challenge

Wealth managers and financial advisors need to do more to track the future performance and related uncertainty of key asset classes to properly and more effectively service their clients as they increasingly demand this type of analysis, our research found.

Only around a third (32%) said their organisation is currently 'excellent' at tracking future potential performance of asset classes. A further four in ten (42%) say they are 'good' and one in four (25%) admit their organisation is 'average' at tracking future potential performance of key asset classes.

The majority are looking to invest further in tools and solutions to improve. More than eight in ten (84%) say their company will increase how much they invest over the next three years in solutions to help advisors with good estimates of key asset classes' future performance.

Around 11% think investment levels here will increase dramatically. Only 15% say the level they invest in these solutions will stay the same over the next three years compared to now.

This need to invest is being driven by clients. The main reason for investing in more tools and solutions is wealth managers' need to service clients properly and more effectively. The second most popular reason given is because clients are increasingly demanding this type of analysis. This is followed by it being key to business growth and client retention, followed by the belief it will help to reduce costs and improve efficiency levels.

## The social media challenge

Wealth managers and financial advisors are increasingly influenced by social media activity around the stock market and stocks and that is making it harder for them to give professional advice to clients, our research found.

Almost all (95%) questioned in the study said they are influenced by social media activity around the stock market and stocks. Of these, more than eight in ten (82%) say they are becoming more influenced by it, and more than one in ten (13%) are very influenced by it.

Just 4% say they are not particularly influenced by social media activity around the stock market and stocks and only 1% say they aren't at all influenced by it.

More than nine in ten (93%) wealth managers and financial advisors believe that social media noise around the stock market and specific stocks makes it harder for them to give professional advice to clients because of how clients react to this noise or the impact it has on advisors and wealth managers.

## The ESG challenge

Our research found that clients are increasingly focusing on the ESG credentials of their investment portfolios but many wealth managers and financial advisors do not have the tools and systems needed to effectively track and manage ESG and climate risks, our research found.

Around 90% questioned in the study said they are seeing more clients focusing on the ESG credentials of their investment portfolios, with 12% reporting a dramatic increase.

This is set to increase further still, with almost nine in ten (85%) agreeing that the focus from clients on the ESG credentials of their investment portfolios will increase over the next 24 months. Only 14% believe this focus will stay the same over the next 24 months as it is today.

Nine in ten (93%) of those surveyed say they are seeing more clients who want to avoid funds and stocks that invest in companies and sectors that are harming the environment or contributing to climate change. Around eight in ten (83%) of those surveyed say they are seeing more clients focusing on the climate risk their investment portfolios are potentially exposed to, with 38% of these saying they are seeing a dramatic increase.

Just 1% of those surveyed say they have ‘very effective’ systems and tools to review the ESG or climate risk of clients’ funds, stocks or portfolios despite the client focus on the ESG elements of their portfolio. A further 71% say their tools and systems are ‘quite effective’ and over one in four (27%) only rate their tools and systems to review and monitor ESG and climate risk for clients as ‘average’.

Almost all (94%) of those surveyed agreed that the wealth and portfolio management industry needs to invest heavily in new technology and systems to help improve their understanding of the ESG and climate risk factors posed to the investment portfolios of their clients, as well as to funds and stocks in general.

## But the future is bright

Wealth managers and financial advisors are clear about the challenges they face and clear that the industry will continue to grow.

Nearly two out of three (64%) questioned expect growth of 20% or more over the next three years in the number of clients they service, the study found. A combination of investment in technology and the growing numbers of mass affluent and high net worth clients is fueling the growth.

Around three out of four (75%) say there is growing demand from the increasing numbers of mass affluent, high net worth and ultra-high net worth individuals for their services while 55% say investing in technology to improve their proposition is boosting growth.

Around half (46%) say investment in technology is improving efficiency while 29% say technology is enabling them to provide more client-centric service. The study found 59% said they have seen growth in the number of clients they personally serve in the past five years with just 5% reporting a drop in the clients they serve and 36% seeing no change.

However almost all (98%) said they expect the number of clients they look after to increase over the next three years as the table below shows.

| **How do you see the number of clients you look after changing in the next three years?** | **Number of wealth managers and financial advisors saying this** |
|---|---|
| Increase by up to 10% | 1% |
| Increase by between 10% and 20% | 33% |
| Increase by between 20% and 30% | 48% |
| Increase by between 30% and 50% | 16% |
| No change/don't know | 2% |

## Conclusion

Rising numbers of mass affluent, high net worth and ultra-high net worth individuals wanting support from wealth managers and financial advisors is driving global growth in the sector.

However, in this digital age, investment in customer-centric advice technology by firms is an important enabler of client growth with firms able to improve their propositions in general while also being able to enhance service to clients and work more effectively.

Investment is vital as our research shows the sector is facing a series of challenges. Regulatory issues are a concern with many UK wealth managers and advisors, for example, are worried that they face fines over failing to meet the Consumer Duty Board report deadline.

As wealth managers and advisors foresee a rise in fines due to heightened compliance issues, many are turning to technology to better navigate these regulatory requirements. Investing in the right tools and systems is crucial for protecting both the firms and their clients.
Wealth managers and financial advisors are adapting to a much wider range of investments as clients' investment opportunities broaden. The shift to more diversified portfolios including more alternatives and international portfolios demand expanded expertise from wealth managers and advisors. It is a positive trend because it enables clients to benefit from a better risk-return equation to increase the probability of reaching their goals.

But while wealth managers and financial advisors already invest in tools and solutions to track the future potential performance of key asset classes, clients are increasingly expecting and demanding this analysis. Again, it is positive that most wealth managers are set to increase the level of investment in these areas to enhance their insight of this over the next three years.

Wealth managers and financial advisors must also be equipped with the right tools and systems to effectively analyse and fully understand the extent to which their clients are exposed to ESG and climate-related risks, particularly as this is an area which clients are only planning on focusing more on in the next few years.

Our research shows that many advisors across the sector feel that they do not have the right tools, systems and resources to do this so it is vital that organizations invest to equip themselves and their clients to make the most informed investment decisions.

Social media is another issue - despite the many benefits it brings, our research shows that the noise around it is a hindrance to many financial advisors and wealth managers. With particularly the younger generation increasingly turning to social media as their source of information for everything from politics to DIY, they're also using it as a source of financial advice.

However, our research shows that social media is having a negative impact on many financial advisers and wealth managers themselves as well as hampering their ability to give sound professional advice to clients.

Ortec Finance has long been supporting the industry with scalable solutions with its Goals-Based Investing approach that enables them to manage clients' investments more efficiently and deliver more value to those clients, particularly on ESG issues.

Addressing all these issues and challenges means advisors having the right technology and systems. If wealth managers and advisors are using the Goals-Based Investing approach aiming to truly help clients and ensure they meet their expectations, they should seriously consider investing in reliable systems and models to help make better investment decisions.

The future is bright for the wealth management sector with growing demand as increasing numbers of mass-affluent and high net worth individuals look for support. Technology is vital for ensuring they can source the help they need.

## About the research

- Ortec Finance commissioned independent research company Pureprofile to interview 100 wealth managers and financial advisors located in the UK, Canada, Italy, the Netherlands, Germany and Switzerland whose organizations collectively manage around £1.207 trillion worth of assets for clients. The survey was conducted during April 2024.

## About Ortec Finance

Ortec Finance is the leading provider of technology and solutions for risk and return management. It is Ortec Finance's purpose to enable people to manage the complexity of investment decisions. This is accomplished via the delivery of leading technologies and solutions for investment decision-making to financial and real estate institutions around the world.

Ortec Finance's strength lies in an effective combination of advanced models, innovative technology, and in-depth market knowledge. This combination of skills and expertise supports investment professionals in achieving a better risk-return ratio and thus better results.

Headquartered in Rotterdam, The Netherlands, Ortec Finance has offices in Amsterdam, London, Zurich, New York, Toronto, Singapore, and Melbourne. Ortec Finance helps 600+ clients manage their $15 trillion assets under management.