Pureprofile

How technology is driving growth 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.

Their OPAL Planning tool supports banks, advisors and wealth management firms to translate 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 on the client situation, the OPAL Planning tool addresses both income and investment risk. It uses realistic portfolio projections of institutional quality, based on monthly updated economic scenarios for more than 700 asset classes, which can be linked to client financial goals.

However, no one can disagree that the past three years have not tested the concept of realistic data in the investment markets and the wider economy. From the COVID-19 pandemic to the global surge in inflation and the Russian invasion of Ukraine, the existential shocks have come thick and fast, and the industry has had to scramble to adapt.

That in their view makes it a good time to take the temperature of the global wealth management and financial advisory industry which is why they commissioned independent research company PureProfile to interview 100 wealth managers and financial advisors. They spoke to advisors in Canada, the US, the UK, Australia, Germany and Switzerland whose organizations collectively manage around $750 billion worth of assets for clients.

The overwhelming message coming back from their research is that the industry is in good health with most respondents reporting strong growth in the number of clients they look after and confidence that this will continue to grow.

The investment shocks of the past three years have inevitably taken a major toll on clients' investment goals and there have been major shifts in how clients and advisors allocate money and to where.

The PureProfile findings make for interesting reading on a wide range of issues highlighting the challenges and opportunities for the industry. Technology and its growing use and acceptance is central to the expansion of the industry and will become even more so in the future.

The future is bright for the wealth management industry

The number of clients personally serviced by wealth managers, portfolio managers, financial advisors and financial planners has grown significantly during the past five years and will only continue to grow during the next three years, the research found.

A combination of the impact of technology and the growing population of mass affluent individuals is driving strong growth across the industry, respondents said.

Breaking down the growth numbers shows an industry in a growth boom. More than nine in ten (92%) have experienced an increase in the number of clients they've personally serviced during the past five years. Of these, 14% say there has been a significant increase.

More than half (54%) wealth managers and advisors anticipate further client growth of 20% or more over the next three years. Around 46% anticipate the number of clients they look after will grow by up to 20% over the next three years while 8% say the number of clients will grow by between 30% and 50%, and 1% say it will increase by more than 50%.

HOW DO YOU SEE THE NUMBER OF CLIENTS YOU LOOK AFTER CHANGING OVER THE NEXT THREE YEARS?	NUMBER OF ADVISORS AND WEALTH MANAGERS SAYING THIS
Increase by up to 10%	6%
Increase by between 10% and 20%	40%
Increase by between 20% and 30%	46%
Increase by between 30% and 50%	8%

What's driving growth?

A major cause of this anticipated client growth is advancements in technology. More than three quarters (78%) of those surveyed said significant investment in technology means they can service more clients more effectively.

Around two out of five (40%) said investing in technology has improved their value proposition, which is leading to growth for the company and 38% said that technology advancements mean they are empowered to provide a more client-centric approach to more clients, more effectively than ever before.

However, around two thirds (66%) of wealth managers and financial advisors believe this client growth is due to a growing population of mass affluent, high-net-worth individuals, who want to use financial advisors and portfolio managers to assist in the management of their assets.

The increased use of technology and rise in the number of clients and potential clients however brings challenges with it.

Volatility has changed investment goals and risk is back

Clients of wealth managers, portfolio managers, financial advisors and financial planners have already increased their risk appetite or will do so in the next 12 months as their investment goals and objectives have been adversely affected by recent volatile markets, the research found.

Almost all (96%) of survey respondents said their clients have had their investment goals and objectives adversely affected by recent market volatility. One fifth (20%) say this has caused their clients up to a six-month delay in realizing their investment goals, increasing to 58% who say this has caused a delay of between six and nine months.

Under a fifth (18%) say this has caused a delay of between nine and 12 months and 2% estimate it to be between 12 and 18 months.

Clients have not been unrealistic in their investment goals - 96% of wealth managers and financial advisors viewed their clients' investment goals as realistic with 18% saying they were very realistic.

The damage to investment goals has changed attitudes to risk. Around 70% questioned say that the risk profile of their clients' investments has increased in the past 12 months. Around 2% say it has increased dramatically.

The change to risk is not temporary. Around three-quarters (74%) predict clients will further increase the risk profile of their investments in the next 12 months with 14% saying it will increase dramatically.

Can technology help?

Wealth managers and financial advisors regularly track and assess clients' financial goals and objectives to ensure they are on track to be achieved. Around 78% of those questioned say the systems they use to do this are effective while 22% say they are average.

Around 44% say they conduct a major review of a client's overall financial goals and objectives every year and 50% say they do this every 12 to 18 months. Just 6% say this happens every 18 to 24 months.

A review of whether their investment goals are on track to be achieved happens more frequently, with 62% saying they do this at least once a month. Just over a third (36%) do this every six months and just 2% do this every year.

HOW OFTEN DO YOU REVIEW CLIENTS' INVESTMENT GOALS TO ENSURE THEY ARE ON TRACK?	NUMBER OF ADVISORS AND WEALTH MANAGERS SAYING THIS
Every week	6%
Once a month	56%
Every six months	36%
Every year	2%

Almost all (94%) of wealth managers and financial advisors say the Know Your Customer (KYC) requirements and regulations in their country helps them to monitor and assess risk in the portfolios they manage with 28% saying these regulations are very good at ensuring this.

Overall, 98% of wealth managers and financial advisors think that the industry is effective at continually monitoring clients' investment goals, objectives and risk profiles. Of these, 26% think they are very effective.

There's a swing to cash and alternatives too

Wealth managers, portfolio managers, financial advisors and financial planners say their clients have significantly increased their allocations to cash and alternatives in the past two years and more plan to invest in alternatives over the next two years.

Around three quarters (72%) have seen clients increase their allocation to cash in the past two years, taking advantage of recent rate rises, with 8% witnessing a dramatic increase. Some 26% say their clients have kept the same allocation to cash and just 2% say their clients have decreased their allocation.

Over the past 12 months, nearly two thirds (62%) of advisors say they've been investing their clients' money into a wider range of asset classes than normal. Almost nine in 10 (86%) have been increasing their clients' overall allocation to alternative asset classes.

Private equity has been the main beneficiary - 82% have increased their allocation to the asset class in the past 12 months, followed by 74% who have invested more in private debt and 72% who have increased their allocation to hedge funds.

How allocations by advisors and wealth managers on behalf of clients to alternatives have changed in the past 12 months

Asset class	Increased dramatically	Increased slightly	Stayed the same	Decreased	Don't know
Private equity	32%	50%	18%	0%	0%
Venture capital	42%	32%	24%	2%	0%
Real estate	34%	36%	26%	0%	4%
Hedge funds	36%	36%	26%	2%	0%
Infrastructure	28%	42%	24%	4%	2%
Private debt	22%	48%	24%	6%	0%

When looking at the next two years, 90% of wealth managers and financial advisors see their clients increasing their allocation to venture capital, followed by 86% who see their clients investing more in private equity and private debt over the next two years

How allocations by advisors and wealth managers on behalf of clients to alternatives will change over the next two years

Asset class	Increase dramatically	Increase slightly	Stay the same	Decrease	Don't know
Private equity	28%	58%	12%	0%	0%
Venture capital	64%	26%	8%	0%	2%
Real estate	36%	20%	38%	4%	2%
Hedge funds	32%	46%	18%	0%	4%
Infrastructure	38%	36%	24%	0%	2%
Private debt	22%	64%	14%	0%	0%

What is driving the change?

The top reasons given by wealth managers and financial advisors as to why they are increasing their clients' allocation to alternatives is that they have performed well in recent years and have developed a more robust track record. That was the view of 64% of survey respondents while 62% say there are more opportunities to invest in these asset classes with 50% saying the reason was the potential for attractive returns, with lower correlation to equities markets.

Contributions from high-net-worth individuals, wealth managers and retail investors currently account for around 5%, or roughly $750 billion of the alternative asset management industry's global AUM.

Given these predicted increases in allocations, over half (54%) of advisors believe this will reach 10% by 2025 or 2026. One in 10 (10%) believe this will be as soon as 2023, and a quarter (24%) believe this will happen in 2024. Around one in eight (12%) believe this will happen sometime between 2027 and 2029.

Diversification is becoming more important

Wealth managers and advisors will increase their clients' exposure to overseas assets in a bid to better diversify portfolios, using specialist solutions to help inform investment analysis and decision-making, the research found.

More than three-quarters (78%) say they are developing more internationally diversified portfolios. More than eight out of 10 (82%) expect the trend to international diversification to increase slightly over the next three years, while 4% say it will increase dramatically. Around one in seven (14%) do not expect a change.

Despite high levels of confidence in their ability to track future asset class performance, advisors and wealth managers say they will invest more in solutions to improve their investment analysis.

Around one in seven (14%) of respondents say they are excellent at forecasting how asset classes will behave, while 68% describe their ability as good. Just 18% say they are average.

However, 74% of wealth managers and advisors say they will slightly increase investment in solutions to help them understand asset calls performance in the future, while nearly a fifth (18%) will make dramatic increases. Only 8% will keep expenditure the same.

Wealth managers and advisors say the biggest motivator for increasing investments in tools that improve investment analysis, is the need to service clients more efficiently, with 58% marking this as the top priority.

Other top drivers to investments in analytical tools include increasing client demand for analysis; to secure business growth and client retention; and to reduce costs and improve efficiency levels.

The growing influence of ESG on portfolios

Environmental, social and governance (ESG) issues are at the forefront of investors' considerations when looking at their portfolios, the research found.

Almost all (96%) of the wealth managers, portfolio managers, financial advisors and financial planners questioned said they had seen an increase in clients scrutinizing their sustainability credentials. Around three-quarters (74%) said they had seen a slight increase while 22% reported a dramatic increase.

The attention to ESG factors will only intensify, the research found. Over the next 24 months four out of five (82%) of respondents expect slight increases in client focus on ESG while 8% predict dramatic increases.

Climate change and investment specifically is attracting more focus. Around 34% of advisers and wealth managers say they have seen a dramatic increase in client focus while 62% say they have seen a slight increase in focus.

That focus is translating into action – almost all (96%) wealth managers and advisors say investors are avoiding companies that have a harmful impact on the environment or that contribute to climate change.

Respondents believe the systems and tools they use to review the ESG and climate risks of the funds and stocks that make up their clients' portfolios perform relatively well. However just 20% say the systems and tools are very effective while 78% say they are quite effective.

However, 90% agree that the wealth management and portfolio management industry needs to invest heavily in new technology to help improve their understanding of those risks.

Conclusion

Canadian wealth managers and financial advisors are expecting the strong growth in the number of clients achieved over the past five years to be sustained into the future.

While this is extremely encouraging for the industry, it also brings new challenges in terms of having the right skills, experience and technology in place to provide more clients with the best possible service. Next to that regulations around suitability are also evolving.

Investing in appropriate, scalable technology is vitally important to ensure that advisors can effectively manage more clients in line with regulations and deliver more value by using a Goals-Based Investing approach – and ultimately benefit from the expected future rise in the number of clients looking to use their services.

Recent volatile markets have had a significant negative impact on the clients of wealth managers and financial advisors, with the vast majority of clients experiencing significant delays to realizing their investment goals of up to a year or more.

For these clients it is important to be supported on how to get back on track again with the right investment strategy.

It's positive to see the regularity with which most wealth managers and financial advisors track and review their clients' investment goals. This is vitally important but can take up a significant amount of time so again investing in the best, scalable technology is essential, to enable advisors to effectively manage more clients and deliver more value.

There are major issues to address – the research shows a significant move into cash and alternatives over recent years, with more clients set to increase their allocations into alternatives in the near future.

This is quite a significant shift in clients' investment strategies so it's essential that advisors have the right tools in place to effectively review investments to ensure they are on track to achieve their personal goals.

Advisors need to address diversification. It is critical to ensuring investors spread risk and limit impacts of market volatility, and investing across different geographies opens new opportunities and further enables diversification.

Private investment is critical to ensuring the world is able to meet its commitment to net zero carbon emissions by 2050 and avert a climate crisis. It is encouraging that so many investors are increasing their focus on ESG issues and actively avoiding companies that contribute to climate change.

Ortec Finance has long been supporting the industry with scalable solutions with the 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 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.

Find out more about Ortec Finance’s OPAL Planning at https://www.ortecfinance.com/en/insights/product/opal

About the research

- Ortec Finance commissioned independent research company Pureprofile to interview 50 wealth managers and financial advisors located in Canada whose organizations collectively manage around $370 billion worth of assets for clients. The survey was conducted during June 2023.
- Data on the global AUM of alternative asset classes was sourced from Preqin

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 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, Toronto, Zurich, Melbourne, and New York. www.ortecfinance.com