**Nalika Nanayakkara, EY**

As the wealth and asset management US advisory leader at EY, Nalika has worked extensively with many of the top 10 global wealth and asset management firms. She has led projects ranging from strategy to execution, focusing on business, operations and technology operating models. She works with clients to define innovative offerings for the digital age.

# TURNING CLIENT SWITCHING INTO AN OPPORTUNITY

## When wealth management clients want to switch, will you be their first choice?

Nalika Nanayakkara

### Introduction

Shifting client demographics and preferences, as well as a flood of new digital offerings, are driving clients around the world to reconsider their wealth management relationships.

According to our recent global research study of wealth management clients, one-third of clients have switched providers or moved assets in the past three years and another third plan to do so in the next three years. These shifts are happening across client wealth levels and demographic profiles.

Clients are identifying specific providers to fill certain needs, using five different types on average. They are switching for value – most often at critical life moments and as the complexity of their financial lives evolves. Firms who can best create this value will be best-positioned to retain their current clients and acquire competitors' clients who are planning to move.

### Who is switching?

Our research shows that the wealthiest clients are the most likely to change their financial relationships: 39% of Ultra-High-Net-Worth (UHNW) clients say they plan to switch or move money from a wealth management provider in the next three years, compared with just over one-quarter of High-Net-Worth (HNW) and just under a third of mass affluent clients. (see figure 1). This is expected, as UHNW clients are most likely to diversify their assets among a greater number of wealth management providers.

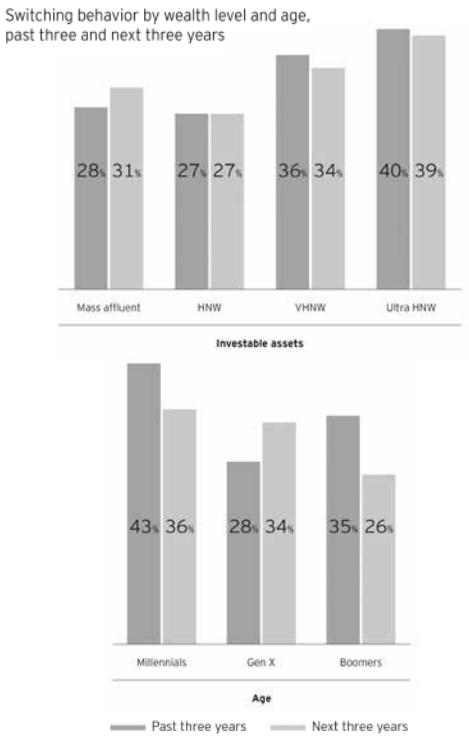
**The most profitable and highest potential clients are the least loyal and most likely to switch**

Firms face increased pressure to demonstrate value to younger generations, who represent the future of their businesses. Though wealth levels generally increase with age, the proportion of clients planning to switch decreases with age: boomers are 29% less likely to switch than millennials.

Wealth management providers have an opportunity to build trust and demonstrate the value of their services by providing education through thought leadership and financial coaching. Our research found that clients who self-identify as having high investment knowl-

edge are significantly less likely to switch over the next three years compared with those with low investment knowledge (only 19% of clients with high investment knowledge plan to switch, compared with 36% of clients with low investment knowledge).

**Figure 1. Switching behaviour by wealth level and age, past three and next three years**




*Source: EY Wealth Management Research*

## Shifting focus

The desire to move assets is varied across regions. Encouraging results in the Americas and Europe show fewer clients planning to switch providers in the next three years than have done so over the last three.

Banking and wealth relationships in Asia-Pacific are in a period of change, particularly in China, where new, emerging digital methods and habits are being driven by fresh digital solutions. The percentage of clients expecting to transfer assets is expected to more than double in this region, from 15% over the last three years to 34% in the next three (see figure 2). The intensified competition among incumbents and new entrants presents clients with a multitude of options for wealth management providers, heightening the pressure on firms to continuously raise the bar for satisfying client demands.

**A renewed focus on retention in the US and EMEA is starting to pay off, but plans to move assets in APAC and Africa are rising**

## Managing transitions

Moving money happens most often during major personal transitions, with approximately half of clients changing providers over the past three years during such life events (see figure 3).

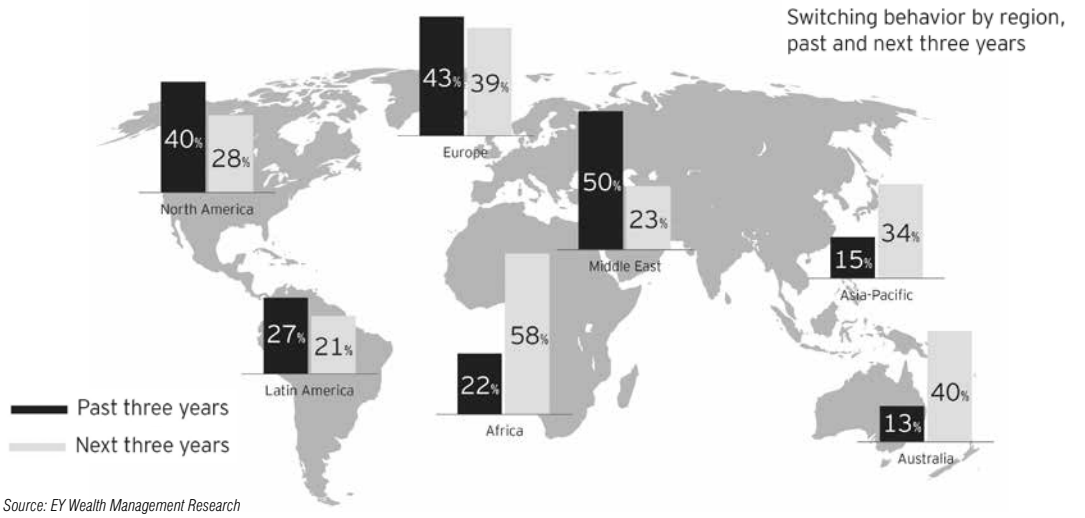
**Clients are more likely to switch during major life transitions**

Wealth management providers are investing heavily in data and analytic capabilities to anticipate these events. They are developing artificial intelligence tools to learn from client data and determine when to address specific

**The quote**

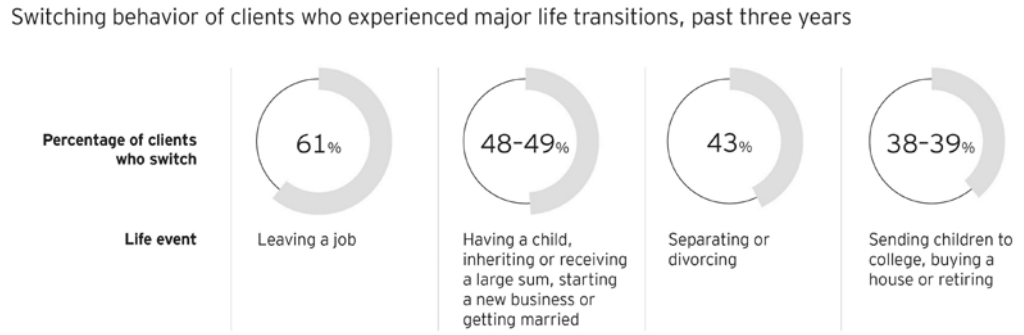
*One-third of clients plan to switch wealth management providers over the next three years. What can firms do about it?*

**Figure 2. Switching behaviour by region, past and next three years**




*Source: EY Wealth Management Research*

**Figure 3: Switching behaviour of clients who experienced major life transitions, past three years**




*Source: EY Wealth Management Research*

needs before their clients look to other providers for help. One key data attribute that providers are often missing in this analysis is their clients' most public data: social media. Providers looking to develop complete profiles must consider this data in their evaluations to pre-empt potential switching.

Another key transition occurs during intergenerational wealth transfer – a crucial inflection point in the wealth management client life cycle. Although wealth managers employ various methods to build relationships with the next generation of beneficiaries, approximately half of clients who have recently received a large wealth transfer, or expect to soon, have moved assets to a new provider in the past three years.

Independent advisors, who are not directly affiliated with a wealth management firm, have done slightly better at managing relationships during life events: clients who currently use an independent advisor are three percentage points less likely than the overall population to switch when inheriting or receiving money.

## Why clients are switching

The increasing digitalisation of wealth management activities and the rise of self-service offerings have made clients more empowered and willing to switch providers or shift assets for value.

To better understand what value clients are switching for, we asked them to identify the most valuable components of the wealth management relationship across six key service attributes: quality, pricing, products, technology, personal attention and advice (see figure 4).

Their responses give guidance on what attributes firms must offer to retain existing clients and attract new ones.

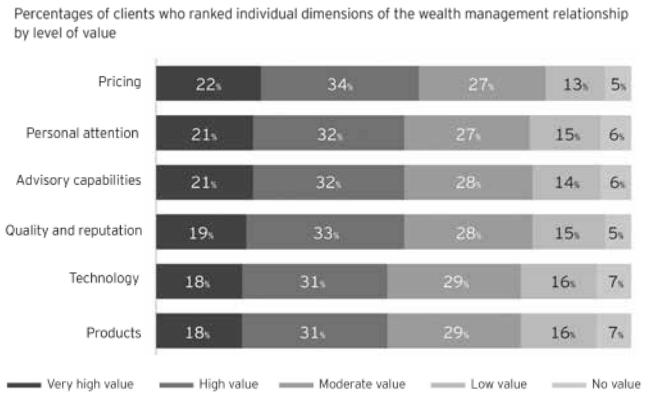
The client-provider relationship consists of an array of dimensions, ranging from activities with tangible value (measured by quantifiable returns or performance) to the intangible (activities such as planning and coaching, whose effects can be more difficult to measure). We found that clients broadly assign value across these dimensions evenly, but with many nuances based on different demographic and psychographic factors.

**One in five clients is likely to switch for one of the below reasons, with about half of all clients seeing high value in each dimension**

Our research indicates that the clients who typically see the highest value are the wealthiest individuals, as well as those with more knowledge and understanding of their finances.

Those with more "in-depth knowledge" and awareness are more than twice as likely to realise the high value wealth managers provide than those with low knowledge, with three out of five clients self-identifying as having high investment knowledge seeing such value.

**Figure 4. Percentages of clients who ranked individual dimensions of the wealth management relationship by level of value**




*Source: EY Wealth Management Research*

There is much incentive to educating clients on the value of financial advice to achieve greater retention – just 20% of clients with "in-depth knowledge" would consider moving their assets elsewhere in the next three years, compared with 40% of clients with low levels of investment knowledge.

## Where clients are going

Often client needs are not met by a single provider: our research indicates that clients currently use on average five different types of wealth management providers (not including multiple relationships with the same provider), which was largely consistent across regions. In looking out over the next three years, clients indicate maintaining this

same number of relationships, suggesting that providers are not yet providing the breadth of solutions needed to drive asset consolidation.

While traditional wealth institutions – including commercial banks, asset management firms, online trading platforms and private banks – will remain a prevailing market force, our findings show their use by clients may start to peak and, in some cases, even fall.

**FinTechs and independent advisors/firms are expected to see the largest client growth**

## Rise of independents

The use of independent financial advisors is expected to rise rapidly, with an 18% increase in clients globally who expect to use independent advisors in the next three years, and a 14% increase for independent advisory firms – fuelled by above average growth in Asia-Pacific.

Historically, the wealthiest clients have made greater use of the independent advisory channel; however, the expected growth over the next three years will be highest in the mass affluent (34% today to 42% expecting to use) and HNW segments (34% today to 40% expecting to use).

Unconstrained by the terms set by large brokerages, independent advisors may have more flexibility to adapt solutions based on what their clients value, as well as how they charge their clients. Many major wealth management firms have introduced new independent channels or are considering creating a new independent distribution channel to stem the tide of their financial advisors going independent.

## Growth in Fintechs

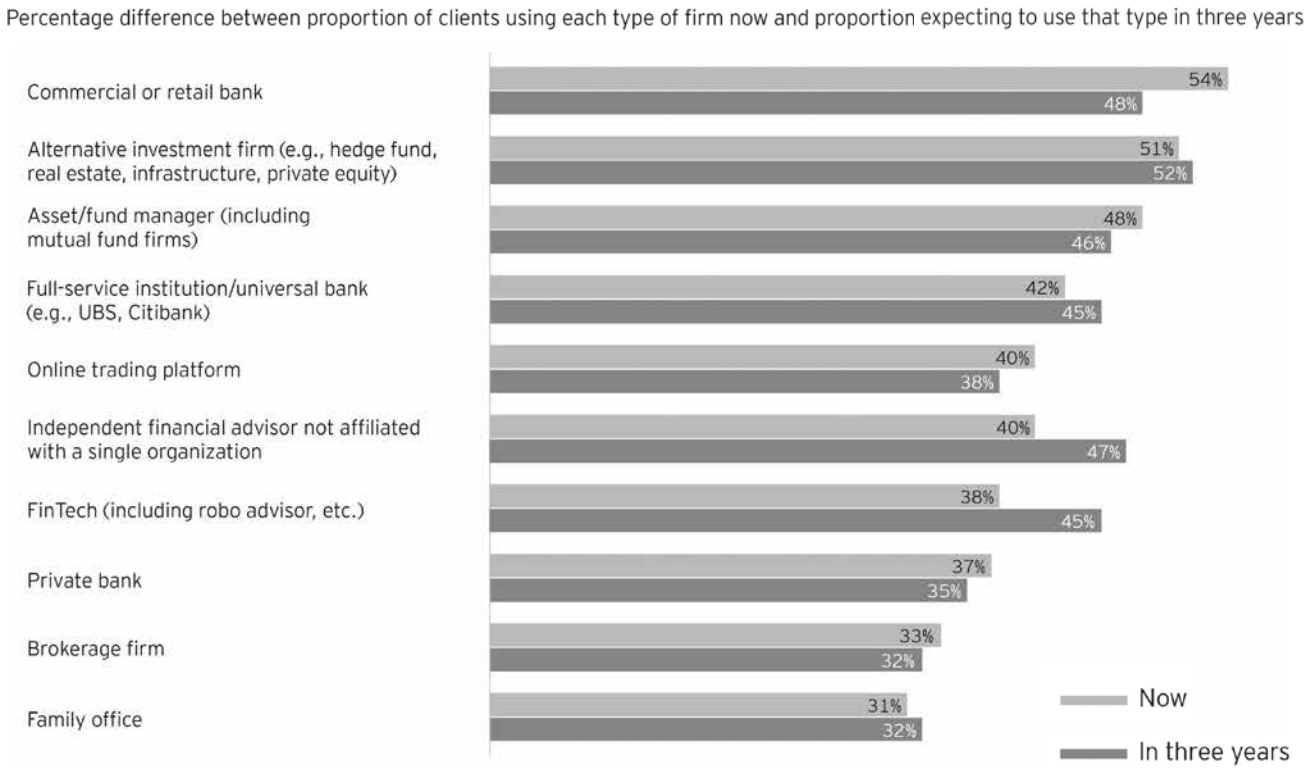
FinTechs (including robo advice and personal financial management tools) will also see an inflow of clients, even though the asset flow may not be as large as for independents. Although these new entrants still have relatively low amounts of assets under management, the percentage of clients using FinTechs is on a par with usage of long-established wealth institutions, such as universal banks, independent wealth advisors and mutual fund companies.

The percentage of clients expecting to use FinTech solutions will increase from 38% today to 45% in the next three years (see figure 5).

Expected FinTech use over the next three years is expected to increase with each client wealth segment, with 35% growth expected among mass affluent clients (28% today to 38% expecting to use) and 41% growth among HNW clients (29% today to 41% expecting to use).

No single FinTech has been able to acquire a large enough client base to threaten the incumbent dominance yet – though total clients are growing, they still do not typically commit significant assets. The FinTech playbook has typically been to acquire clients with a niche offering, then expand to broader bundles and solutions once they own a critical mass of clients. However, this strategy will bring FinTechs closer and closer to incumbents as their offerings mature and they partner with traditional wealth management firms and/or established technology players.

**Figure 5. Percentage difference between proportion of clients using each type of firm now and proportion expecting to use that type in three years.**



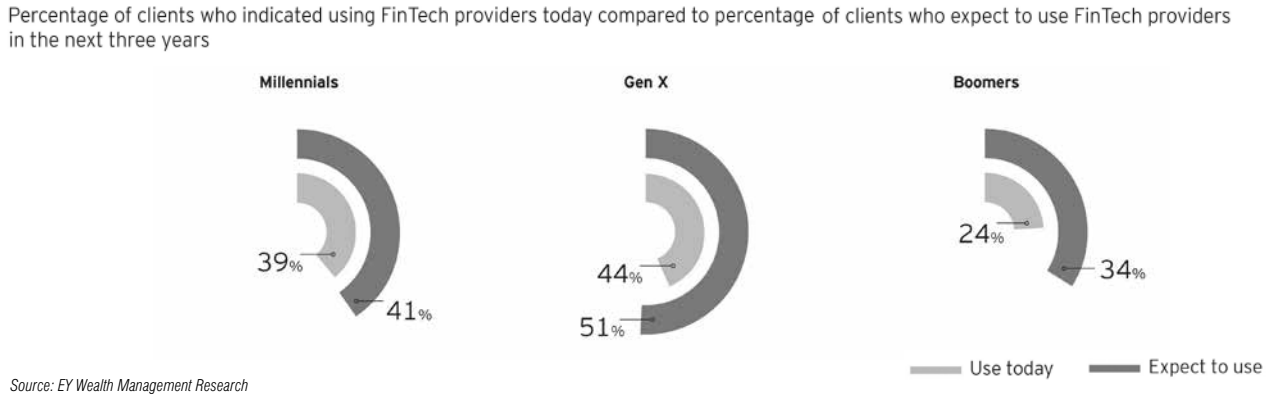

*Source: EY Wealth Management Research*

While younger clients will remain the stronger users of digital solutions, expected growth is highest among boomers. Gen X clients are the most likely to use FinTechs, and even more expect to use the offerings in the future (see figure 6).

**Older generations are expected to grow their use of FinTechs the most, narrowing the gap with the younger groups**

These switching trends present both threats and opportunities for incumbents and disruptors, with independents and FinTechs poised to gain the most. To stem this tide and retain the most profitable and highest potential clients, traditional wealth institutions need to not only deliver on the dimensions their clients value (particularly at critical life events), but also clearly communicate the value delivered. **FS**

**Figure 6. Percentage of clients who indicated using FinTech providers today compared to percentage of clients who expect to use FinTech providers in the next three years**




*Source: EY Wealth Management Research*