Wealth Management's Changing Demographics

Research shows women and Millennials are the top growth prospects for wealth managers.

Wealth is becoming more democratic. Increasingly, it's no longer just Baby Boomers and middle-aged men who control wealth. With women around the world building successful careers, they now have significant influence in the management of family fortunes, in addition to their own finances.

Similarly, Millennials now make significant salaries sooner than previous generations, while also inheriting from their affluent parents. Yet the wealth management industry hasn't yet adapted to these shifting demographics, still focusing its attention on the patriarchs who historically have created and controlled wealth.

With many of the world's wealthy at an age where they need to start handing down their assets, it's time for wealth managers to broaden their approach to clients, harnessing technology to do so. If they don't, they run the risk of losing the fastest-growing market share.

Recent research,* carried out in the summer of 2015, reveals the gap in wealth management propositions. The biggest group in the survey was bank-owned U.S. wealth managers. However, family offices, insurance-owned wealth managers, and registered investment advisors with assets under management averaging $72 billion were also surveyed.

Millennials have more opportunity to accumulate wealth than ever before.

More than half (54%) of these organizations viewed women as poorly served by their industry. Meanwhile, almost all (87%) said the Millennial generation, defined approximately as those born between 1980 and 2000, offered a significant opportunity – suggesting they had yet to address this.

At the same time, wealth managers' core clients are aging. Almost a third (29%) were over 65, with 69% over 50. With the greatest percentage of survey respondents (43%) stating that their clients' average portfolio was $1 million to $5 million, and a third (32%) saying that their biggest clients controlled over $1 billion, the wealth management industry clearly needs to look to those who will inherit, in addition to new burgeoning demographics.

Why change is needed

The research makes a powerful case that the wealth management industry still tends to concentrate too much on the men who have traditionally driven wealth creation and overseen its preservation. For wealth managers to continue to prosper, they need to adapt. To show the magnitude of the challenge, just 7% of wealth managers use technology to segment their clients by age – and none do so by gender. Instead, the highest proportion (38%) continue to do so by current assets – as they've always done.

Wealth demographics are shifting in subtle ways, following on from cultural change. As it has become increasingly normal over the past 30 years for women to start their own businesses, female entrepreneurs are reaping the rewards of their hard work. They're increasingly evident among the ranks of the new wealthy. But women are also wielding more influence within business families, as evidenced by their control over family finances, philanthropy, and governance. Our survey clearly shows women's greater role – the wealth managers taking part expect women to make up 38% of their clients in two years, up from 33% today.

Similarly, Millennials have more opportunity to accumulate wealth than ever before, with concentrations of high-paying jobs in sectors such as technology, financial services, and real estate. This generation also stands to inherit more than any other as Millennials benefit from the Baby Boomers' unprecedented wealth accumulation. Survey participants cited the decision to change wealth managers, made by Millennials after inheriting, as among the more common reasons for losing clients.

Adapting to the new demographics

While female clients plan for the same financial issues as men – selling businesses, getting married, having children, paying for education, planning for retirement – their approach to wealth planning can be markedly different in some areas. For example, they may have different attitudes to risk, longer-term views about investing, and distinct takes on life stages. Women may also make decisions more collaboratively, researching through their networks and online, as opposed to making unilateral decisions. Wealth managers need to adapt to these clients' styles and needs.

Aligning with Millennials' needs may be more difficult. Much has been written about how cultural and social norms are evolving across the generations. But it's clear that wealth managers need to try harder to understand the profound differences between the generation born from 1980–2000 and the ones that preceded it. Perhaps the greatest difficulty with Millennials is that they prefer digital to spoken communication. Recognizing this, 46% of those surveyed see robo advisors as a critical tool for engaging with this generation.

However, as the Millennial generation ages, they will come to value personal contact with relationship managers. As their wealth accumulates and responsibilities multiply, their affairs will inevitably become more complex. At that point, they will need to discuss and plan their affairs in more detail.

Even so, wealth managers are preparing for the coming generation. Throughout the survey the emphasis on upgrading digital capabilities is a constant theme. It is the most important strategic goal cited over the next two years – with the largest number of respondents (16%) identifying it. Similarly, it is the top priority for respondents' technology budgets, with several specific areas highlighted. While just a third (29%) of wealth managers currently collect data through social media, three-quarters (71%) plan to do so in two years. Similarly, it seems that wealth managers look to mimic some of the robo advisors' advantages, with more than half (53%) intending to offer wealth and investment planning tools online, and over a third (39%) by mobile.

Rising to the challenge

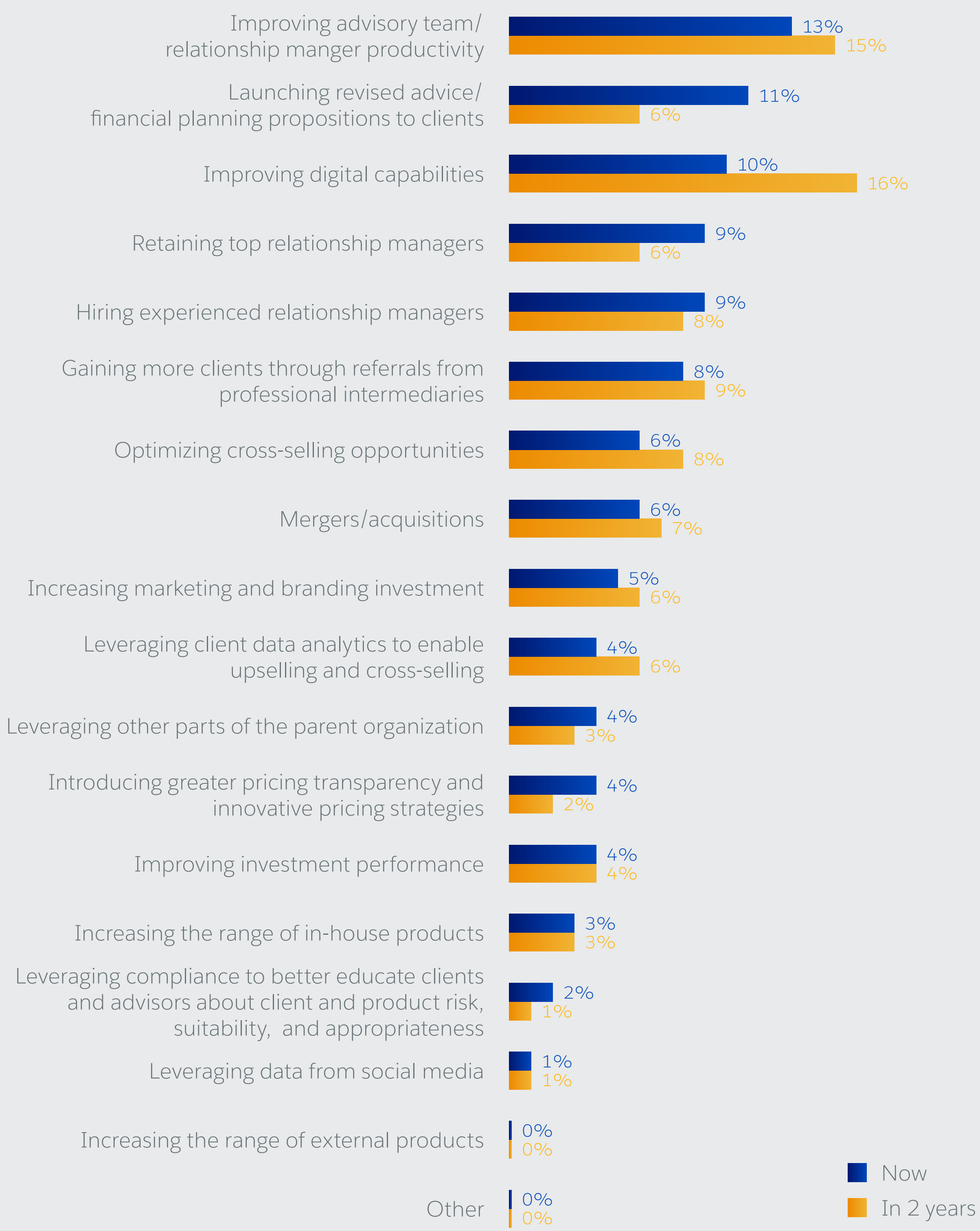
The survey highlights how important it is that wealth managers recognize the increasing percentage of women and younger people in their potential client base. As with any service industry, wealth management advisors must find ways to change their organizations to reflect clients' changing needs and better focus on women and Millennials, who increasingly control a larger proportion of wealth.

Technology can play a big part in this, as it can help wealth managers to segment their clients by age and gender. Doing so would allow advisors to approach these demographics in a more systematic way. In the long term, it should help relationship managers to attract and retain the clients of the future.

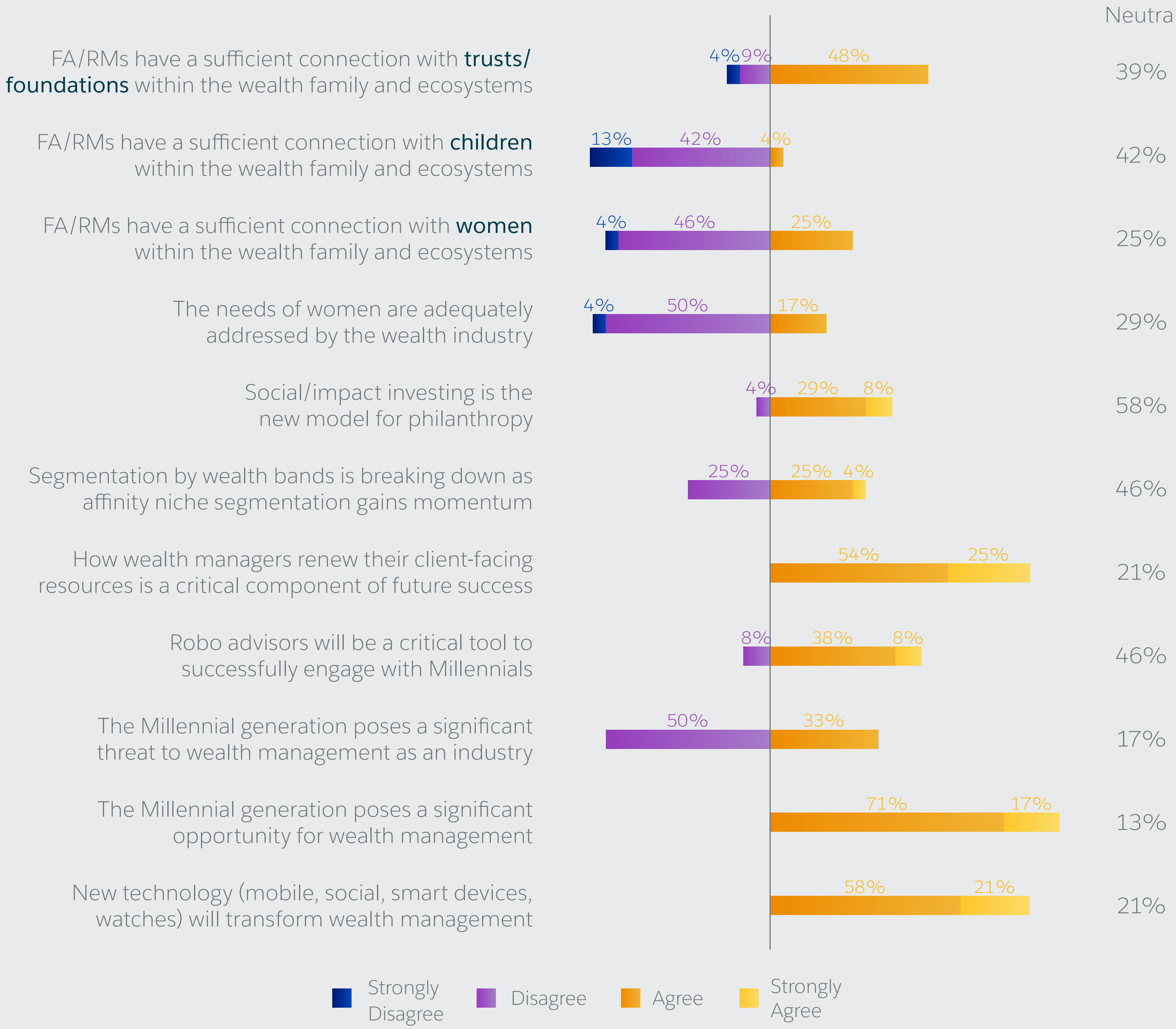
* Research and analysis contained in this material is based on a recent technology infrastructure study undertaken by PricewaterhouseCoopers, LLP and sponsored by salesforce.com, inc., and is limited to certain tabular and chart-related data, which is a part of this survey together with certain other publicly available data and which in all respects is subject to disclaimer and disclosure language contained in the respective study and incorporated herein by reference.

Appendix

Please rank what you consider to be the top 5 most important strategies for your organization to implement in order to grow your business.



Below are some current key industry themes. Please provide your view on the degree to which you agree or disagree with each statement.



What is the average gender distribution of your organization's clients now and what do you expect this to be in 2 years?